Workshop 2: “Managing Knowledge to Build Trust in Government”

Session One Paper

“Ideology, Vulnerability and Regulation in the Privatized State”

by

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Ideology, Vulnerability and Regulation in the Privatized State

Neo-liberalism and globalization constitute an “ideological” attack on the legitimacy and efficacy of sovereign, national governments-democratic or otherwise. The absence, even the destruction, of trust is central to economically-driven prescriptions Managerialism/New Public Management provide for solutions to putative government dysfunction.

Building trust in lean agencies/organizations with resilient and often transient workforces is complex. Within Knowledge Management (KM) sensitivities, this paper examines issues of trust in “lean” organizations; vulnerability and regulation in outsourcing and partnerships; and some un-debated issues of the Digital Divide (DD) before outlining some capacities for a “smart” and re-regulating state.

Introduction: The Ideologized Governance Environment

There are now more “democratic” governments than ever before and there is more political disillusionment with “democracy” than ever before. Kakabadse et al (2006: 191) note the World Economic Forum 2002 Global Survey which revealed that ‘two-thirds of whom live in a “democracy” do not believe that their country is “governed by the will of the people”‘(WEF, 2002). This result reveals a ‘dramatic lack of trust in democratic institutions, global and large, national companies as well as NGOs, trade unions and media organizations around the world’. Kakabadse et al (2006: 191) specifically argue that, 'low trust in democratic processes is due to the globalization, or liberalization of markets, which emerges as antagonistic to domestic systems' (Friedman, 1999; Franklin, 2003). Further,

Liberalization of trade though GATT/WTO, with Neo-liberal recipes pushed by the World Bank and the IMF, have empowered and engaged trans-national corporations (Corpocracy) and weakened governments to the point where national economic policies can no longer be decided by elected officials alone but must take into account, if not favour, the interests of huge corporations (Kakabadse et al, 2006: 191).

The Economist (2005:11-12), for example, recently argued for more and other forms of “openness” in the face of emerging “tiredness with Globalization” and trade liberalization – obfuscating the issue of the declining or expanding role of government and regulation in Neo-liberal economies.

Then, also in 2005, Saul, the Canadian critic of globalization, argued the collapse of globalization had begun – that the re-invention of the “world” was occurring. After 35 years of Economic Rationalism (ER), New Public Administration (NPM) and Neo-Liberalism (NL), this was a startling claim and demands some serious consideration.

According to (Saul, 2005:55-56), six shocks led to the emergence of the G7:
President Richard Nixon’s handling of US financial problems by destroying the Bretton Woods monetary system in 1971 – the US dollar was floated.
- The raising of American tariffs.
- The 1973 Yom Kippur war leading to the oil embargo and steep oil price rises.
- The 1974 Indian explosion of a nuclear weapon.
- The spread of communist parties in Europe.

These 6 factors, together with others, led to a view that the post-war system had broken down; US power was shrinking; and the “Southern Gradient” (Faux, 2001: 16) was developing in new ways. In the “Northern Gradient”, inflation and depression combined into stagflation and elite powerlessness: a policy vacuum, maybe, an ideological shift, almost certainly.

Globalism was not only the result of the failure of Keynesianism or a reaction to the crises of the 1970s. As implied by Saul (2005), but made explicit by some others, including Kouzmin and Dixon (2006), globalization, from 1971, involved a full-scale ideological and policy “attack” on the legitimacy, sovereignty and capabilities of government by Neo-classical economics and conservative Libertarians – markets could, and should, do much, much better than the state! – a position leading to a collective “amnesia” about the failure of Capitalism in the late 1920s and the possibility of more corporate crises and market failures - for example, the corporate governance crises in the US and the UK over the last decade.

According to Saul (2005:67-87), the emerging Neo-liberal, ideological “fantasies” saw the emergence of a “Crucifixion Economics”:

- De-regulation being seen as a form of libertarian freedom.
- Privatization was equated with entrepreneurship and innovation, rather than patronage.
- “Rent seeking” and money markets were deemed as being new, “real trade.”
- Size was all that mattered - mergers and takeovers, not competition or “knowledge”.
- Global corporatism and the “utopia” of unlimited consumption prevail.
- The putative morality of balanced budgets and the “ideologized evil” of public debt carry the day.
- Corporate bankruptcy legally suspends lender and employment rights in favour of re-structuring – thus, violating contract law.
- The 1995 creation of the World Trade Organization (WTO).
- The use of children and cheap labour escalates.
- Markets were de-linked from competition, value and need – for example, Wal-mart and Nike.
- Society and the “public domain” were viewed only through the prism of economics.
Saul (2005: 196) put the ideological positioning of the economic over the social/political more succinctly:

Globalization, as an ideology, declared itself as a market force for Capitalism and risk. It was spoken for by tenured professors of Economics, and Management, whilst being led by technocrats – private sector bureaucrats, working in joint-stock companies rarely owned by active shareholders – working to reduce competition.

Freidman’s free market assumptions were transposed into a global movement of “Crucifixion economics” as a tool to weaken government, discourage taxes, force de-regulation and entrench private monopolies (Saul, 2005:33) – privatize, privatize became the public-policy mantra! .

Saul’s (2005), as well as others, saw evidence of a post-1995 decline in an enthusiasm for globalization:

- The collapse of the Mexican and Latin-American economies.
- The re-emergence of nationalism and the re-assertion of public authority.
- Asian family versus Anglo-American corporate speculation.
- Currency control in Malaysia being vindicated.
- IMF and World Bank policy failures in Asian and Latin American crises.
- The emergence of private monopoly and oligopoly - Jarvis Plc in the UK and Halliburton in the US.
- Convergence being seen as equivalent to vertical integration.
- Abuse of intellectual property/copyright – now extended to 95 years – and the elimination of competition.
- The privatization of public-funded R and D – for example, pharmaceuticals.
- Poor contract management/outsourcing/privatization being, in effect, the distribution of public monies to private profiteering – no reciprocal “re-skilling of agencies” as a strategic offset.
- The debacle of New Zealand’s international sell offs and increasing foreign debt.
- The NZ Finance Minister proselytizing NPM to African economies.
- UK water utilities using public debt for infrastructure renewal.
- The UK Railway debacle, public bailouts and Public-Private Partnership (PPP) failures.
- Global outsourcing of industrial and service-sector jobs – India/China in a global economy.

Adding to this list, Thirlwell (2006:21) argued that the role of the IMF was being undermined by a declining interest in the ‘inter-locking ties of cross-border flows of goods, services and capital’. Further, Thirlwell (2006) argued the importance of other factors:

- A new wave of protectionism (quotas) from developed economies stemming from consequences of economic globalization.
- The future of WTO was being questioned after failures in trade negotiations.
• Emerging barriers to foreign investment – for example, China’s state-owned oil company trying to purchase US UNACOL and Dubai Ports’ attempt to acquire UK’s P and O.
• European governments re-affirming national interest in blocking cross-border mergers.
• The prevalence of rich-country “hypocrisy” in international policy.
• Globalization angst about threatening “successes” of economic globalization. For example, China’s growth rate was 9.0% and India’s was 7.0%

All of these questions/issues raise policy questions, and under-pinning ideological positions, for scrutiny and debate; especially within UN forums focusing on any possible renewed interest in the role of regulation within national economies.

Such policy questions might include:

• Has the time for re-regulation actually come?
• Has “national interest” re-emerged as a policy mandate?
• Why is the public sector in the UK analysed only in Business Schools?
• Is the "public domain” reversing its decline over the decades of Neo-liberalism?
• Is “inclusion” replacing “exclusion” as an economic idiom in the “North/South Gradient”?
• Is the “democratic deficit” beginning to reduce?
• What is the true role of public debt?
• Is private money a corrupting force in the provision of public services?
• Are outsourcing and consultancies out of control?
• Are proponents of globalization now baulking at competition from China and India? – seeking to establish new, protective tariffs?

In any context of managing KM to “(re)build” trust in government, the transitions in governance capacities that have taken place over the last 30 years need outlining and recording as there are many elements of history repeating itself with regard to the claims “market fundamentalists” have been making over this period of time. Questions will be asked about the circumstances under which such a collective “amnesia” about de-regulated, “free markets” have been allowed to prevail.

“Reduced”, “de-skilled”, “hollowed-out” states have emerged. Governments have been restricted in taxing and regulatory capacities at the same time of rising demand for public goods. ‘The former “citizen”, turned “consumer” over [these 35 years] of de-regulation and privatization, is less deferential to the reduced capacities of governments but, never the less, surrenders to Neo-liberal cyber-netizen (Kouzmin and Jarman, 1999) anxieties’ (Kouzmin, 2002: 25) – “shopping” replaces “voting” (Hertz, 2001:8) as the community experience. As Hertz (2001: 12) puts it, ‘until the state reclaims its citizens, the citizens will not reclaim the state’.
The Destruction of Trust

Due to economic pressure (permanent unemployment; permanent under-employment; and decline of middle class); changing business needs (shift from products to services; shift to human-based services; focus on core business; cost reduction; and customer focus); demographic changes (female-dominated workforce; ageing workforce; and decline in youth population); organizational dynamics (globalization; minimalist/line organizations; externalized work; demise of traditional organization; and the demise of traditional management); social change (increased affluence; post-materialistic values; and emerging leisure society); and technology change (invisible collaboration; virtual companies/teams; global communication/interaction; personal corporate infrastructure; mobility and opaque work domains), the nature of the social contract [has fundamentally changed (Korac-Kakabadse, Korac-Kakabadse and Kouzmin, 1998: 140).

Whether there is any increasing or decreasing enthusiasm for Neo-liberalism/globalization and de-regulation, the current dynamic in society and in agencies/public organizations, beside some perceived, putative increase in efficiency, carries the serious erosion of the social contract, “public domains” and trust. Especially because of streamlining/downsizing/re-engineering processes, the erosion of trust in the externalized workforce is more visible, as loyalty to organizations disappears and, with the erosion of loyalty, there occurs a further erosion of trust.

As Korac-Kakabadse, Kouzmin and Korac-Kakabadse 1999:11) point out, many social scientists agree on the importance of trust in the conduct of human affairs (Weber, 1922; Blau, 1964: 99; Bok, 1978: 26; Lewis and Weigert, 1985: 968; Zucker, 1986: 56). Golembiewski and McConkie (1975:131) assert that ‘there is no single variable which so thoroughly influences inter-personal and group behaviour as does trust,’ while Hirsch (1978: 78) states that trust is a ‘public good, necessary for the success of economic transactions.’ According to Misztal (1996:1), ‘in modern society, with its complex division of labour, there is a need to economize on trust in persons and confide instead on institutions.’

Although there is widespread agreement in the literature on the importance of trust, there is no universal definition of the concept of trust (Korac-Kakabadse et al, 1999:11). Notwithstanding, scholars from a wide range of disciplines and contexts have arrived at a number of similar conclusions on the concept of trust. ‘All these perspectives have in common the moral value of denial of self-interested benefits to constituents’ (Korac-Kakabadse et al, 1999: 12) – a complete rejection of the egoistical, maximizing assumptions so embedded in Economics. Butler and Cantrell (1984) proposed five dimensions of trust: four moral values – integrity; consistency; loyalty; and openness – and competence, with each dimension being mediated by the position of the actor and context.
How do these moral values configure in any capacity for remorse, regret or the need for restitution within a KM agenda? The moral dimensions of trust in the management literature are focused on leadership/follower or superior/subordinate relationships and the personal characteristics of specific individuals within those relationships.

However, the Neo-conservative ideology of Neo-classical welfare economics under-scores the linking of public agency efficiency to managerial (in)ability, authority and accountability by the adoption of Managerialist, private sector practices (such as strategic planning; re-engineering; customer service; quality assurance; performance management; risk management and, even, accrual accounting), creating what Adams and Ingersoll (1990: 285) described as the “managerial meta-myth”.

Under the influence of this ideology, the lack of institutional integrity and trust is paramount. Trust is replaced by contracts and sanctions. In the economic literature, distrust in management includes managing “principal/agent” relationships; transaction costs; and attributing “rent-seeking” to the personal characteristics of generalized behaviour of others.

According to Kouzmin, Dixon and Korac-Kakabadse (2001:14), Neo-liberal economics has acquired the distinctive distaste for the public sector, which is constantly under suspicion of being inefficient, wasteful and, thus, not giving value for money, because the absence of any automatic “disciplining mechanism” permits “rent-seeking” behaviour (Tullock and Eller, 1994) by bureaucrats, their clients and, even, the politicians who govern them.

The result from this ideologized lack of trust is that public officials/bureaucrats are viewed as deceitful, even dishonest, because of the distortion of information communicated upward so as to promote their own self-interest; making decisions consistent with their own self-interest; and implementing policy decisions in such a way as to promote their own self interest (Downs, 1967: 77-78).

In essence, Managerialim/NPM expects public managers to improve organizational efficiency, so as to reduce costs, while, at the same time, enhancing organizational performance by meeting competing needs of a variety of stakeholders, within a politico-administrative environment that eschews trust, punishes mistakes and rewards risk-averse behaviour, regardless of the costs and effort involved in avoiding unacceptable outcomes.

By condemning public bureaucracies as the cause of inefficiency and rent-seeking, governments are set along destructive paths of action which reduce state capacity and open up traditional government activities to private sector “capture”. The real challenge is to change this culture of risk aversion at all levels, so as to permit some organizational and management trust and innovation to take place.

**Knowledge Management and “Yes Minister”**

In KM terms, just as startling is to understand the origins of the iconic TV series “Yes Minister” (Borins, 1988: pp.12-26). The ideological agenda has
now been revealed. The TV script co-author, Anthony Jay (interviewed, and telephone conversations, in late 1987), admitted that:

- No one who had interviewed him before recognized Public Choice Theory (PCT) in his thinking.
- PCT clarifies what motivates Minister Jim Hacker and Secretary Sir Humphrey Appleby.
- Appleby is the ultimate “rent seeker” — increasing departmental size; seeking autonomy from interference; increasing a personal power base; maximizing income and “perks”; and seeking out honours and retirement sinecures.
- Anthony Jay has been a devotee of Friedman’s market fundamentalism and has been a vocal “Thatcherite”.
- The cult of “Yes Minister” has undermined respect for the public service and government.

Further, “invisible” and ideological assumptions underlying “Yes Minister” constitute the propaganda coup, by the TV series, for ER/ NPM agendas played and re-played year in, year out. This propaganda victory of the late 20th century is paradigmatic in nature and a calamity for “public domains”, social capital and “trust” in government.

This on-going propaganda involves the following KM-relevant elements:

- PCT is the application of the behaviourally-dubious “Pareto Optima” outside of deductive economics and within the analysis of government, even voting within democracies.
- Egoistic, maximizing assumptions are applied to voters, politicians and bureaucrats.
- Pessimism about the public-sector, fundamentally, involves the “rent seeking” slur.
- Origins of private-sector “rent seeking” (Berle and Means,1932/1991) is disguised or forgotten.
- Economistic agendas of balanced budgets and “lean and mean” governments are propagated.
- “North/South gradients” and the norm of 46% of GDP devoted to public-sector expenditure ignored in globalization debates about “convergence”.
- 1986 Nobel Prize in Economic Science went to James Buchanan/PCT not to Anthony Downs — voting does not reflect public interest but utility.
- Political Economy is based on self-interested, utility maximizers.
- A belief in market fundamentalism — political markets and bureaucratic markets.
- Ideologies are “marketing” techniques.
- A Hobbesian view of competition for votes and power in a democracy.
- In a rent-seeking society, politicians sanction, then share, the “rents.”
- Budget maximization, plus rent seeking, leads to collusion and big government.
Thus, highly controversial assumptions are the basis upon which a remarkable edifice of small, impotent, and “de-skilled” governance has been “invented”. The “un-governability thesis” is an effective way of linking both an economic and a libertarian wish to reduce the government’s role. "Rent-seeking" assertions under-pinning privatization and out-sourcing rationales continue to ignore the pressing questions about the structure of organization and the pathologies of managerial prerogatives (Johnston and Kouzmin, 1998). Finally, this ignorance severely distorts organizational, and inter-agent, partnership complexities confronting the requirements of “smart” regulatory and governance imperatives in globalizing and vulnerable economies (Kouzmin and Jarman, 2002).

If PCT is, in fact, the use of the methodology of economics to rationalize the failure of Economics in public policy goals, it is prudent to remember what Keynes, in The General Theory – wrote, ‘mad men in authority, who hear voices in the air, are distilling their frenzy from some academic scribblers of a few years back - they are a slave to some defunct economist’ (Borins, 1988:16-17).

**Vulnerability from “Downsizing”**

In the manifold excesses of current Anglo-American managerial praxis, from short-term time horizons; grossly distorted expressions of managerial prerogatives and remuneration rationales; a calculated brutality far in excess of any "Human Relations" sensitivity; and the need to inflate shareholder perceptions of the “bottom line”, combined, these have led to a managerial “immorality” that staggers many ethical and stakeholders’ boundaries.

Post Enron, Tyco and other market-failure scandals, can much change? Are KM and senior management doomed to the moral/ethical vacuum of the “bottom line”? With remuneration packages deliberately focused around an economic-rationalist “brutality,” what KM and reflective space - what discourse - allows and enables moments of remorse, regret and KM transfer which implicitly accommodate the need for some personal accountability and some possible attempts at restitution?

Is it merely recourse to recalcitrant legal/governance codes that provides for accounting for managerial incompetence and ideologized “greed” or can KM help? Without some capacity for “Knowledge Preservation” – a record of the ontological/epistemological consequences of current praxis - and KM, how will future management and governance discourse remember the current regressive nature of Managerialist/NPM behaviour? How will KM, in full flight with rhetoric about the importance of “tacit knowledge”, deal with such organizational hubris/incompetence?

Regarding “down-sizing/re-engineering”, as part of transferring that tacit knowledge, for example:

> It is only by rumours and half-twisted truths that one finds out when a trusted fellow worker is gone…the deadly tentacles of downsizing mandates reach quietly out to remove one after another… This form of downsizing is like a hidden Gestapo, just waiting to strike. Only
the privileged few know where and when this scourge will strike again and how long it will go on for (Ayling, 1997: 11).

In the future, ‘people training to be managers and leaders will examine the moral and economic bankruptcies caused by downsizing and marvel at the single-mindedness that led down to this erroneous path’ (Ayling, 1997: 104).

As corporations and public agencies begin to recognize and count the long-term damage inflicted by rampant Managerialism/NPM, the question to be raised for KM is:

has the cost/benefit analysis been carried far enough in an age when, arguably, managerial elites participating in the "slash and burn" or, more politely, "increasing share value", regimes might be asked to justify their individual complicity in the economic and psychological destruction experienced by so many under Neo-Liberal, economic dogma (Kouzmin, Dixon and Korac-Kakabadse, 2001:1)?

A KM “audit” of “remorse” and “regret” under regimes of Economic Rationalism/New Public Management (Kouzmin, Hase, Sankaran and Kakabadse, 2005) may help to precipitate and accelerate an appropriate reckoning of the socio-economic exclusion and the loss of trust. A search for managerial governance voices more prone to “reflexivity” (Sankaran and Kouzmin, 2005), and regret, may also help in any exercise of KM of tacit knowledge to (re)build trust in government, let alone the corporate world.

However, as Vickers and Kouzmin (2001: 96) point out,

Management, is seldom specifically researched as a factor contributing to occupational stress (Solondz, 1995: 218) and nowhere in the “seven deadly sins of process improvement” (Popoff and Brache, 1994: 23-26) are listed suggestions as to how one might go about sorting through the personal debris that necessarily accumulates from re-engineering the [agency]/organization.

The “troubled manager” is conspicuously absent in Managerialist/NPM discourse (Giacolone and Greenberg, 1997; Burke and Cooper, 2000). But what of emotionality, remorse and regret – key tacit knowledge issues at senior management level? Can management transcend “reaction formation” (Thompson, 1961), or career aspirations, in coming to terms with their own complicity in managerialist brutality?

Also, the topic of incompetence has been addressed in only a few contexts...‘with professional incompetence - the absence of ability, judgement or morals so total, incurable and potentially damaging that a professional’s right to practice can be terminated’ (Ott and Shafritz, 1994: 370) – is still not applicable to the practice of Managerialism/NPM, nor to the KM discourse.

Some advocate that managers need to “forget” what they know to enable them to learn new knowledge (McGill and Slocum, 1993) – to let go of the prevailing “realities” and learn a new praxis. Within a KM context, such “forgetting” would be a serious issue. But KM can help actors, with high levels
of personal sense of culpability, to develop multiple frames of reference in managerial decision making. The litany of stupidity, failure, “group think”, incompetence, myopia and calculated rationalization in managerial behaviour is long overdue for some serious scrutiny and debate.

Remorse and restitution have been ignored phenomena in managerialist discourse for some time (Kouzmin, Sankaran, Hase and Kakabadse, 2005). Whether virtues of “reflective emotionality” can be extended to wider employment situations, especially driven by so-called inevitable IT imperatives, is certainly problematic but requires KM investigation.

Auditing “Anorexic” Agencies

What economists, accountants and Managerialists/NPM do not understand are the behavioural realities underlaying their “rationalities”. Depleting buffering capacity or “organizational slack” through “re-engineering”, “down-sizing” or “de-layering” produces the “survivor’s syndrome” - low morale, lack of trust and a decline in commitment to the agency/organization amongst “survivors” (Brockner et al, 1993; Cascio, 1993). As a result, the terms of the “psychological contract” in "lean" organizations are fundamentally altered (Cascio, 1993: 103; Kakabadse et al, 1999: 12).

Kakabadse et al (1999: 13) further outline some of the vulnerabilities that flow from downsizing/re-engineering. Worry-laden actors, with low self-esteem, direct their motivation to keeping their jobs, not to achieving inter-organizational goals (Brockner et al, 1993; Hequet, 1995). Left un-attended for a prolonged period of time, actors undergo a changed “world-view” (Erikson, 1994), often leading to a mis-trust of organization and an institutional insensitivity to longer-term organizational requirements which, with time, can lead to "creeping crises" (Kouzmin and Jarman, 1989; Jarman and Kouzmin, 1990; 1993; 1994a; 1994b).

For example, the American Management Association’s survey of downsizing in 1993 found that 80 per cent of surveyed organizations that had down-sized reported decreased employee morale; 13 per cent reported no change in employee morale; and 2 per cent reported increased morale (Fillipowski, 1993). Similarly, an Australian study found that 95 per cent of organizations that had undertaken structural changes through "re-engineering" had not achieved projected benefits (Saker, 1995).

The primary reason downsizing, eventually, fails is that the major, long-term effects are difficult to recover from. According to Ayling (1997: 160-164), downsizing:

- Creates a disjointed organization and creates inefficiencies.
- Retrenching good people hurts the organization beyond any short term gains.
- Results in morale becoming severely depressed.
- Creates a pool of highly-motivated ex-employees competitors or other agencies would be wise to employ.
- Reduces employee loyalty.
- Reduces customer/citizen satisfaction.
- Weakens the organization within.
Furthermore, accomplishing co-ordinated action in “lean” organizations means a more critical role for trust and personal engagement (Kiesler, Siegel and McGuire, 1984), all requiring quality dialogue and increased “face-to-face” interaction (Kakabadse, 1991). Because the extra resources and “slack” that normally insulate the firm or agency in periods of dis-continuous transformation (Galbraith, 1973) are now non-existent, mechanisms and capacity for adaptation and change are not available to “lean” organizations. During change and turbulence (Kakabadse et al, 1999:13), “lean organizations cannot utilize concurrence of design; where both old and new ways of doing things can co-exist, because such processes require additional resources in order to maintain performance, reliability or safety (La Porte, 1994; Perrow, 1994; Sagan, 1994”).

“Lean” organizations, and those with the high employee turn-over, are often unable to maintain established relationships or nurture new relationships with trading partners and customers. Lean and flatter organizations are less able to buffer the core production processes from the uncertainty and variability of the external environment because the middle-level ranks that performed this function have been eliminated which, in turn, damages business or agency capacity. Thus, one of the central roles of networks of social relationships in organizations lies in predicting trust in economic life (Granovetter, 1985). Nurturing these relationships is necessary for organizational growth.

**Vulnerability from “Out-sourcing”**

The second source of strategic risk and vulnerability arising from de-regulated markets and, thus, requiring regulative consideration, is “outsourcing” and the emergence of Public/Private Partnerships (PPPs). ‘Long gone has been the idea that governments, “lean” or otherwise, should lead and should challenge vested interests…[rather] a government should act more as a “concierge”, offering modest assistance …but not intervening. The PPP is perfect for a government committed to non intervention’ (Farrelly, 2005: 27) – refusing to regulate or being in a state of “capture” and being unable to regulate effectively.

Contrary to political and economic rhetoric about the role of public debt, PPPs constitute a more strategic form and process of out-sourcing, demanding that wherever public funding flows, private “rent-seeking” opportunities “must” be created for the private sector. Out-sourcing and PPPs, need to be seen as further reducing public agency mandates. At worst, PPPs should be construed as forms of long-term “capture” of the public sector, both by corporate and by management-consultant interests alike (Johnston and Kouzmin, 1998).

“Conflict of interest” requirements on behalf of politicians and senior bureaucrats apart, partnerships might be construed as asset-stripping—a form of fiscal “corruption” in the hands of oligarchs within the private sector who remain prime beneficiaries of such arrangements and, more disconcertingly, by public sector oligarchies now pressed into the legitimization services for such “corrupt” practices—all in the name of effecting putative efficiencies in globalized, public sectors. Privatization of infrastructure is the current vogue, especially in the former Eastern European economies.
Seen in these terms, managerial elites, public and private, need to understand, and anticipate, conditions under which the state could seek to terminate lucrative, or failing, partnering arrangements in the public interest.

The one-time Australian, New South Wales state, and conservative, Premier (1988-1992), and, unusually, a MBA graduate, Nick Greiner (2006: 22-23), has been most revealing in a recent interview about governance capacities under conditions of privatization.

- [Australia’s] Macquarie Bank fees are too high and more regulation of PPPs is required.
- PPPs are a deliberate instrument of infrastructural projects in NSW/Australia.
- PPPs have recently, because of “failures” (Dixon, Dogan and Kouzmin, 2004), become a political “minefield”.
- Infrastructure tolls are set by government and based on payment of up-front fees by private partners.
- Up-front fees are government revenue generators (de facto taxes).
- The historical model for such fees is the King granting private operators tax-collection franchises.
- [Australia’s] Macquarie Bank is “millionaire factory,” dependant on PPP fees – de facto tax agents.
- Retiring politicians’ “corruption” - ex state Premier, and other ministers, joining Macquarie Bank on a sinecure after retiring from politics.
- High fees, versus government risk undertaking, are key policy issues in the debate about the role of public debt.
- The admiration of the UK Prime Minister, Tony Blair, for establishing a context of the public sector having a myriad of different governance structures.
- The need for more and newer regulatory authorities (eg, US turnpike authorities).

Argy (2003:70), a respected Australian economist, if that is not a “double” oxymoron, has argued that that not all blame for the exclusionary consequences of economics and Neo-liberal agendas are properly located. “Hard” Liberal reform is “value driven”, seeking to change policy goals – it is a political philosophy rather than economic doctrine. Hard Liberalism:

- Promotes individualism and self reliance.
- Propagates “small” government and “win/lose” strategies.
- Is committed to exclusionary, non-egalitarian, commitments.
- Endorses privatization and outsourcing decisions without appropriate cost/benefit analysis.
- Seeks to destroy trade unions.
- Represents an Ideological retreat from arbitration and collective bargaining.
- Manifests an abhorrence of debt. All state labor governments, in Australia, for example, currently eschew debt for financing infrastructure, health, education or future growth.
Minimizes government debt. In Australia, for example, public debt is down from 15%, in the 1970s, to under 3.0% in 2006. The OECD average is 40%.

Defers infrastructure investments, except for PPP arrangements.

Incurs higher amounts of recurrent revenue on infrastructure maintenance.

Over relies on the private sector, even though government can borrow more cheaply.

Creates a “democratic deficits” – constraining the ability of governments to optimise the “public domain.”

Privatizes the future via the theory of “Regulatory Takings” (Epstein, 1985) – the present compensation for loss of future profits and “opportunity costs.”

Eschews the fact that well-informed, competitive markets can improve the aggregate well being.

Ignores the fact that there is no “template” for the size or scope of government and governmental activities.

Ignores the fact that government arbitrates in the distribution of “efficiency gains”.

Ignores the fact that policy can create “win/win” strategies.

Is blind to the fact that government can intensify competition in dys-functional private markets.

Kouzmin and Dixon (2006: 700) argue that over the last [35] years, business communities have happily accepted the wisdoms of the Neo-liberal, Managerialist, meta-myth surrounding public sector reform and its efficiency-oriented agenda of “privatization”, “de-regulation”, “out-sourcing”….. businesses entered tender battles over profitable public services—nationalized railways, public utilities and mandatory pension provision (Dixon and Hyde, 2001; Dixon and Kouzmin, 2001a; 2001b) and health and education services.

Quite predictably, many cases of privatization and/or partnerships have demonstrably under-performed and found that their only safety-net was under the control of politicians, in many cases under increasing public pressure to re-regulate the expanded private sector.

The dilemma that has now emerged both for business, and for government, is that there is a ‘gap between the Managerialist-inspired aspiration for the profitable privatization of public services and the financial and political realities….. This “implementation gap” is a source of frustration to those who see the profit-driven private sector as enhancing the performance of public services’ (Kouzmin and Dixon, 2006: 700).

To Managerialists/NPM, it is axiomatic that the frontiers of the state should be rolled back, so that self-determining individuals have more freedom of choice and more freedom to enter into their preferred contractual relationships; and that social action should be judged by the material value of its consequences. The consequence is the co-optation of the “normative structure” of public administration by Managerialists/NPM. The retirement, or avoidance, of public debt imperative, traditionally cited by governments for privatization and/or
partnerships, obfuscates the fact that for more than 150 years, the “Northern Gradient” developmental experience relied heavily on the strategic use of public debt.

Once a threat to hegemony over the privatized public services becomes evident, ‘business would be particularly disdainful of any argument for the imposition of “community service obligations”…. They would, in essence, deny any causal link between market practices and inadequacy in privatized public services’ (Kouzmin and Dixon, 2006: 704). Further,

The coercive power of the state is, indeed, a double-edged sword; it can ensure both the profitable implementation and the unprofitable termination of any privatization initiative. This power gives rise to an enormous challenge: how to extend the appeal of privatized public services by re-focussing attention on how to achieve a “better” performance, as perceived by shareholders, strategic stakeholders and those with power and influence in the politico-administrative system (Kouzmin and Dixon, 2006: 705).

This has profound implications for corporate governance (Cutting and Kouzmin, 1999; 2000; 2001; 2002; Dixon, 2002; Dixon and Dogan, 2002b) and the issue of the political will to regulate in the privatized state.

**Regulatory Issues in PPP Failures and/or Terminations**

Public services appropriation by the market-place makes imperative the design of socio-political governance mechanisms that require and support the building of corporate structures and capacities (Kouzmin and Dixon, 2006: 706-708).

- Market providers must be capable of “high-reliability” (La Porte, 1996) performance and, thus, capable of surviving through “inter-generational infinity”.
- Public regulators are obliged to have long-term horizons (Goodman, 1973) [thirty years, or more, for current PPP franchise agreements].
- Providers and regulators must gain learning capacities which enable them to provide corporate sanction and steering that go well beyond the putative market discipline of organizational termination which, effectively, permits the abdication of contractual responsibilities.
- Governments must avoid credit–rating “threats”.
- Regulators need constantly to have a view on who is “Principal” and who is “Agent” in a global economy?
- Rendering government activity “invisible” through the outsourced/off-shored/privatized “commercial-in-confidence” imperatives needs mitigating.

Thus, the key governance and regulatory questions (Kouzmin and Dixon, 2006:706) are:

- What is the best way of creating an enabling market environment which will foster adequately profitable, but
socially and politically acceptable, market provision of public services, both in the distant and the near future?

- What multi-level political, administrative, and regulatory structures, culture, and processes are needed to protect the “public interest” in a privatized, public services environment?
- How should sub-optimal provision by market providers be dealt with in a market environment?

‘Whether “public interest” becomes subservient to “private interests” depends crucially on whether the state is willing and able to design, implement, and administer a set of regulatory arrangements that require market providers to deliver their promised public services outputs when contracted to do so’ (Kouzmin and Dixon, 2006: 706-707).

What administrative and financial constraints should be placed on market providers to permit the effective socio-political governance of (Kouzmin and Dixon, 2006:707):

- **Investment risks**—which relate to contracted market providers’ inability to provide promised benefits because of the achievement of lower rates of return due to downturns in the capital market, management inefficiency, and corporate or management malfeasance.
- **Corporate risks**—which relate to contracted market providers’ inability to provide their promised benefits because of organizational termination resulting from corporate bankruptcy; deliberate boardroom business strategy decisions, such as undertaking a business rationalization because of the emergence of new, more profitable, business opportunities; a hostile corporate take-over or market providers legally abdicating their full contractual obligations because of organizational termination.

Whether “private interests” can subvert the “public interest” depends on the design features of the regulatory regime in situ (its structures, culture, requirements, and processes) which determine the degree of risk of governance failure due to (Kouzmin and Dixon, 2006: 707):

- **Asymmetrical information flows**—when the regulated market providers distort or withhold from regulators the information they need to regulate effectively.
- **Agency capture**—when the regulated market providers manipulate the regulators to achieve their “private interest” ends.
- **Invisibility/Commercial-in-Confidence**: “Principal/Agent” fictions legitimize a massive scale of out-sourcing, off-shoring, partnering and privatization of hitherto public programs and service delivery to private, mostly unaccountable, contractors and other “invisible” parties operating under “commercial-in-confidence” within the privatized state (Shane and Nixon, 2007). The transparency issues of accountability are remarkably undiscussed.
These socio-political governance and regulatory imperatives are central to the building and maintaining of public trust and confidence in mandated market provision of public services. There is, however, little reason to be confident that the state can resist the appropriation of the public interest by the marketplace, for any socio-political governance failure may well encourage the spectre of government subsidization (Johnston and Kouzmin, 1998).

Vulnerabilities in the Digital Divide

It is clear that new vulnerabilities and regulatory questions arise from the tracking developments in the Information Communication Technologies (ICT)/Digital Divide (DD), especially in a KM context (Korac-Kakabadse et al, 2000). Benchmarking E-government is one measure of the DD, but the exclusionary impact of ICT/DD lies in emerging E-society developments within a Neo-liberal agenda of market fundamentalism and ICT/DD strategic competitiveness. The UN is probably one of the very few institutions, rightly, presenting a socially-inclusive governance framework for the ICT/DD.

The “war on terror” will compound the current dilemmas of the ICT/DD and its exclusionary impacts. Government agencies have shut down web-site after website; have re-classified documents previously de-classified; and have now rendered “information” as dangerous within this newer, security/political context. The “securitization” of E-government and KM is not, it seems, adequately addressed. The loss of KM capacities under commercial-in-confidence requirements of privatization/outsourcing does not help either.

The ICT/DD has become a platform of strategic competitiveness. ICT Research and Development has become economic and geo-political warfare – so much so that governments, for example, refuse to accept long-term, Microsoft hegemony. Again, the issue is how to confront the deliberate, exclusionary intent of the ICT/DD with inclusionary policies?

The privatization of the internet is of major concern. The origins, and the first years of protocols, of the Internet were in the “public domain”. The privatization/proprietal issue is under-discussed as are issues of open-source software and the abuses of the internet in proprietal contexts – identity theft; pornography; paedophilia; violence – in other words, a cost/benefit of the “dark-side” of ICT is called for, especially in the vulnerability context of the "North/South Gradient". The “public domain” context of the ICT/DD seems missing in strategic/policy discussions.

There is the need to dis-aggregate the private sector in the question of technology transfer. The role of consultants is a real issue in contrast to those parties interested in effective technological transfer. Can developing societies “leap frog”/technologically-migrate upstream” in the political economy of the ICT/DD? Can there be any “level-playing fields” within the ICT/DD?

There is a convergence assumption about ICT/DD that is not warranted and “Formative Contexts” (Unger, 1987) of nations are devalued. Can convergence be achieved through ICT? Should it? The ICT/DD is a most
divisive policy agenda – it subsumes “culture wars” and many other polarities – the role the English language; gender in ICT use; consumer versus citizen conceptions of participation; “information clubs” etc. Tracking the ICT/DD set of contradictions over the next 20 years will be an important task. The “North/South Gradient” persists, perhaps, even more so through the ICT/DD.

The emergence of new property rights to be enforced in a globalized regime will not help and the “expropriation” of knowledge will become increasingly contentious, especially in an emerging “Knowledge Society” context. The political economy of this “Knowledge Society” is about the emergence of new property rights and their global enforcement. Knowledge is the new “commodity” to be captured and exploited.

The Need for a “Smart/Re-regulating State

If, as one primary example of rent-seeking, ‘privatization robs the state of the chance to be a model employer and increases the power of private capital vis-à-vis the state’ (Kingdom, 1991:469), then the future for a smaller but “smarter” state (Kouzmin and Jarman, 2002), indeed looks grim. However, what ingredients might constitute a “smart state” set of capacities?

• A recognition of the inter-dependency between Politics and Economics (Hirschman, 1970).
• Regarding the role of the state, reading less of Adam Smith and more of Karl Marx or, more importantly, Max Weber.
• A recognition that at least 4 models of markets exist – Libertarian; Social Democratic; “Junta”; and “Tiger” economies.
• An experience of paradigm tensions – uncoupling public policy from simplistic economic notions of equilibrium and recognizing the realities of complexity, chaos and uncertainty.
• Deconstructing “Principal”/“Agent” ambiguities under globalization – what are the roles of “markets” and “contracts” in New Public Management (NPM), domestically and under globalization?
• Remembering the reasons for market failures and the need for historical nationalization initiatives.
• Recognizing that reform and change in public sectors are strategic sources of “rents” for consultants – Micklethwait and Woolridge (1997).
• Understanding that the cult of efficiency is “dangerous” in a “Risk Society” (Beck, 1992) – “running on empty” and intolerance of slack/vulnerability/change imperatives.
• Recognizing that the “Washington Consensus” is, in fact, market fundamentalism.
• Reconciling the libertarian and collectivist imperatives in a global context.
• Reversing the “regressiveness” of management about psychological contracts in the face of the onslaught of contracts and market mechanisms.
• Avoiding 30-80-year project contractual, time horizons and recognizing the conflict between “inter-generational utilities” and “Regulatory Takings.” Avoiding privatizing “futures.”
• Disassociating public expenditure as being an entitlement to private rents.
• Understanding market and PPP Failures.
• Asking the question - does transfer of risk actually occur in situations of public bailouts?
• Linking electoral/business cycles to 30-80-year project contracts.
• Reversing “corporate welfare” flows and demands for regulatory relief.
• Enhancing the ability to regulate and raise taxes as demand for public goods grows.
• Understanding the requirement for a global “New Deal” (Faux, 2001: 16) – a global “North” must protect its social standards and a global “South” must have capital investment for development.
• Understanding the contours of such a “New Deal” (Faux, 2001: 16): social protection; flexible development; social compensation; regulated finance; co-ordinated economic policy and democratic regionalism.
• Understanding the need to manage four “divides” – Capital/Labour (the class question); Economic Nationalism/Internationalism (the nation/state question); Digital Divide (the cognitive skills question); and Individuals/Community (the social/identity question) (Latham, 1998: xxiv).

Conclusion

In the struggle between states and markets, it is not, yet, a foregone conclusion that markets have gained the upper hand. Indeed, if Saul (2005) is correct, it appears that the public domain - the non-tradeable social-goods-sector that exists in every society - is making a “come-back”. However, further questions arise and need addressing before judgement on this putative resurgence of the public domain, and some degree of trust in government, can be made:

• How are states to confront a range of intractable issues flowing from the social/economic exclusionary consequences of globalization (Farazmand, 2002)?
• Is public authority exercising any supervisory role where there is no strong social or political values to combat those of profit and growth, now even more considerably enhanced through the theory of “Regulatory Takings” (Epstein,1985), whereby multi-national corporations sue the taxpayer, under NAFTA, if they believe public regulation has damaged corporate “future” profits? Citizens might wish to debate whether government, acting to protect public interest, should be compelled to pay multi-nationals for limiting or “taking” future profits.
• The market place is currently privatizing “futures” through 30-80 year partnership and franchise agreements, whilst “Informatic Liberalism” (Howe, 2002) involves the rolling back many government-administered policies of regulation to accommodate, and entrench, economic models of action and stressing policy action ideologically independent of governance and/or re-regulation.
• The understood dimensions and regulatory imperatives of the “Risk Society” (Beck, 1992) need further scrutiny in light of complexity and contingency introduced by globalization (MacDonald, 2002).
• How will the devolution of decision making flow from the local significance of globalization? How will governments respond to the “double” regimes of global and domestic regulatory pressures?
• How will governments manage the magnitude of job creation and growing income disparities evident with globalization?
• How will the political issue of maintaining sovereignty in a globalized world be effected?
• What is the optimal size, and architecture, of the state for governance assuming divergent, rather than convergent, development paths?

These are difficult questions – but, then, these are difficult times!

References


*The Economist* (2005), ‘Tired of Globalization?: But Trade Liberalization and Other Forms of Openness are Needed More Than Ever,’ 5 November,pp.11-12.


