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**TOWARD A DISCURSIVE COMPARATIVE PUBLIC
MANAGEMENT: STUDY OF PRIVATIZATION IN THE
US, UK AND RUSSIA**

By Vatche Gabrielian

A Dissertation Submitted to the

Graduate School--Newark

Rutgers, the State University of New Jersey

in partial fulfillment of requirements

for the degree of

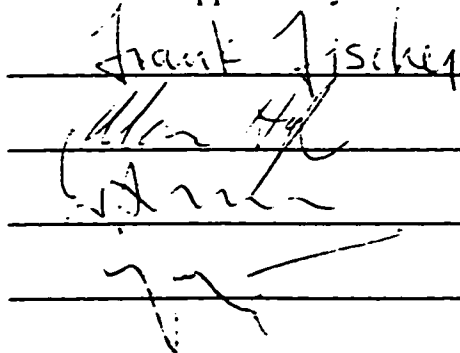
Doctor of Philosophy

Graduate Program in Public Administration

Written under the direction of

Professor Frank Fischer

and approved by

The image shows four horizontal lines, each with a handwritten signature written across it. The signatures are in cursive and appear to be of different individuals. The first signature is the most legible, appearing to read 'Frank Fischer'. The other three signatures are more stylized and difficult to decipher.

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ABSTRACT OF THE THESIS

**Toward A Discursive Comparative Public Management:
Study of Privatization in the US, UK And Russia**

By Vatche Gabrielian

Thesis director: Professor Frank Fischer

This dissertation discusses the methodology of comparative public management and argues for a discursive approach in the study of comparative and development public administration. As an application of methodological discussion, a discursive approach is employed to study the prevalence of different mechanisms of privatization in the US, UK and Russia. Based on the results of the study, a theory explaining why different countries choose different strategies of privatization is outlined.

To achieve a relatively thorough analysis of the conceptual foundations of the field, the study explores the development of comparative and 'non-comparative' public administration and parallels between the two, as well as influences of other social science disciplines such as policy analysis, organization studies, business management, and economics. The dissertation also discusses in detail the comparative method, and methods of reconciling different narratives and frameworks in the study of public management. Based on insights drawn from these sources, a research methodology adapting Fischer's logic of policy deliberation is suggested for comparative public management.

After discussing a theory of privatization in the light of the proposed methodology, privatization in three countries--the US, UK and Russia--is examined in detail. Based on this analysis, the dissertation concludes that the choice of a particular privatization mechanism is usually decided by the priority of the privatization goal that such an option does maximize. This goal, in turn, is determined by the dominant discourse in which the topic of privatization is debated in society. The dissertation argues that methodological lessons from the discursive comparative analysis of privatization should be extended to cover a much wider scope both in comparative and 'non-comparative' public management and administration.

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INTRODUCTION

While public administration is a subject of human inquiry with ancient roots, the study and systematic development of public administration in America is scarcely a century-old phenomenon. Comparative public administration, together with its sister subfield--development administration--is even younger. Although there were always isolated attempts at studying and adapting (at least arguing for adoption) European "administrative principles" on behalf of American scholars (e.g., Wilson, 1887), the subdiscipline of comparative administration emerged only after World War II.¹

After its heyday in the 1960s, and subsequent "retrenchment and reappraisal" in the 1970s and 1980s (Heady, 1996), comparative public administration is alive again. This is partly due to some generic factors: globalization (Garcia-Zamor and Khator, 1994; OECD, 1996b); the world-wide drive for privatization and competition in public service provision (e.g., Dunleavy and Hood, 1994; Hood 1991; Osborne and Gaebler, 1992); the fall of communism and the need for new administrative mechanisms in post-communist countries (e.g., Newland, 1996; Szablowski and Derlien, 1993); and, in part, the "maturing" of the discipline (e.g., Pierre, 1995). There have been series of publications (including newer editions of established textbooks in the field, such as Heady 1996; Peters 1995), the majority of which are cooperative efforts (i.e., edited volumes or conference proceedings) that try to bring together and systematize (to the

¹ Throughout the work, when speaking about public administration in global terms, I always have in mind the American conception of this practical and scientific enterprise. With communist notions of party-guided administration now bankrupt, and pre-modern or theocratic models of administration lacking coherence, normative power, and codified structure, one can argue that, essentially, there exist two models for conceptualizing the term—the law-based continental European tradition, and the management-based American tradition. Whatever the drawbacks of American conception of the field (discipline, profession), it has two basic advantages. First and foremost, as I will show later, continental European administration, along with, and influenced by, American public administration and policy sciences, is more and more often being couched in terms of public management. Second, public administration, as a management- and policy-based discipline, is better suited for comparative social science studies, than law-based disciplines are.

extent it is possible to do for an edited volume) public administration research and practice throughout the world (Dwivedi and Henderson, 1990; Farazmand, 1991; 1994; Pierre, 1995; Eliassen and Kooiman, 1993; Bekke, Perry and Toonen, 1996; Asmerom and Reis, 1996; Asmerom, Jain and Hoppe, 1992; Rowat, 1988; Garcia-Zamor and Khator, 1994; Baker, 1992; Baker, 1994; Subramaniam, 1990; Kickert and Stillman, 1996). There is an increasing number of journal articles on "comparative subjects" published in "mainstream" journals such as *Public Administration Review*, *Public Productivity and Management Review* (US), and *Public Administration, Public Money and Management*, *Public Administration and Development* (UK), and *International Journal of Public Administration*, *International Review of Administrative Sciences*, and *Governance* (international).

Despite the surge in the significant amount of scholarship, comparative public administration still lacks a unified methodology, and covers an extraordinarily wide scope of issues and problems (Guess, 1997; Farazmand, 1996). I argue that a policy analysis-informed, discursive approach to the discipline may alleviate many of the problems the discipline is facing today. While not limiting either the scope or the diversity of the enterprise, the proposed multi-methodological framework promises a more comprehensive and coherent analytical perspective that will help to address traditional issues in a more holistic manner, as well as pose and answer newer questions. Before moving to the analysis and critique of the discipline, let us briefly discuss two underlying and often interrelated factors of recent interest in comparative public administration--globalization and the collapse of communism, as well as outline a fruitful avenue for research in such a situation.

Globalization

Globalization made the students of public administration realize that the world is interconnected, and that in an interconnected world foreign experience may be very valuable. Perhaps global change is one of the most common catchphrases of today. The concept of global change is like "common sense": everyone is aware of it, but everybody sees it in a very distinct light. The metaphor of the "global village" is increasing in popularity, and as every metaphor, it is put to various uses, and different conclusions are drawn. The beauty of the metaphor is that everybody can use it, without actually defining it.

For some, global change is strictly environmental, and social sciences are concerned only with human response (individual, state-level, or, best of all--through international or supranational organization) to changing conditions of what is often labeled *Spaceship Earth*. For others, it is first of all globalization of certain human constructions-- technology and communications move tremendous amounts of electronic money from one corner of the world to another, where structures (trade regimes, blocs, etc.) are changing rapidly, becoming more and more liberal with every day. For a different group, global change is a New World Order, where the East-West axis has been substituted for the North-South axis and liberal capitalism triumphs everywhere. Still another view sees global change as a catalyst for exposing weaknesses of such outmoded structures as nation-states (or states in general), which are under attack both from above and below (as well as from the sides). Some see global change as something that definitely encompasses the whole planet, while other will call global anything that is above the nation-state level.

The conclusions from realizing or accepting global change are also different. Some see it as an opportunity to reassess themselves and fix internal problems (e.g. make

America more competitive), while others see an imperative for collective international decision-making for responding to global threats (natural or societal), and urge the internationalization of efforts.²

Perhaps, it can be suggested that global change is all of the above. Being a social construct in our increasingly complex and interdependent world, global change is context- and situation-specific. Different aspects of our understanding of world evolution bear impact on our construction (definition) of the complex environment of the problem at hand, and respectively require different conceptual apparatus in our efforts to cast the problem in terms of global historical trends and forces. As a field of applied, interdisciplinary inquiry, public administration reflects global change in a "global" manner--i.e., different aspects of global change will come into play in implementing programs, be it the changing nature of the work or new actors in the process. Perhaps, we can conceptualize the global change as follows:

Global change is a set of inter-related, ongoing natural and social phenomena that are not controlled by a state or a group of states and have physical and social impact on the world or a region of the world and, as a result, affect capacities, structures and mechanisms of governance.

Generally, when discussing global change from a public administration perspective, one can identify two broad patterns of inquiry. The first has to do with the change of governance mechanisms, administrative structures and capacities and decision situations in states as a result of globalization and global change. The second is concerned with conditions and circumstances of successful international (multilateral and unilateral) efforts aimed at curing different ills (famine, war, development, global warming, etc.).³

² For a detailed discussion of different perspectives on global change, see Appendix 1.

³ The second direction can be further distinguished along two lines--bringing about the change, and creating capacity for dealing with it. This follows the logic of Riggs's (1971) definition of development

These directions are not exclusive--the researcher should have a clear understanding of one while dealing with the other. Today traditionally "domestic" institutions of nation-states more and more frequently engage in international and transnational relationships, and international administration clearly has to be aware of the domestic institutional context it operates in during course of a program management within a certain country.⁴

Perhaps the most controversial implications of global change are those pertaining to state sovereignty, which raise concerns of "democratic deficit" and risks to national security. The nation-state has been under attack from political science (mostly International Relations) theorists for a long time. Despite being as claimed dead some forty years ago (Herz, 1957), the state continues to reincarnate (Herz, 1968; Skocpol, 1982; Tilly, 1992). Attacks earlier were mostly from a methodological perspective (e.g., Easton could not find it empirically), and often grounded in modernism. Attacks in recent years argue that in a new, postmodern and global world, the nation-state as a concept (a sign or symbol of sovereignty) is only a part of reality, not necessarily the central one (Ferguson and Mansbach, 1996; Mansbach, et al. 1976; Rosenau, 1991). Nation state, or state, is "only one of many group symbols with which persons [who have multiple identities and loyalties] identify, and it is a profound error to overestimate the extent to which the loyalty to the state, anywhere, always comes first" (Ferguson, 1995a). Loyalties are an exchange phenomenon, and people choose what loyalties to retain and what to get rid of. And it is certainly not a given that the history has ended and everything has come to a liberal equilibrium (Fukuyama, 1992), because while some states are being demolished, some age-old memories are being resurrected and reconstructed around the

administration -- administration of local development and development of local administration (administrative capacity).

⁴This is analogous to, but not identical to classical level-of-analysis problem in IR discussed by Singer (1961). One cannot speak about a world system in public administration context and refer to it as a macro-level. The United Nations have extensive apparatus, but even together with all other international organizations, one cannot speak about the UN as the international administrative system.

world. One of these constructs is nationality (ethnicity),⁵ which often proves to claim much stronger loyalty than the state. The world is also full of non-governmental organizations that are engaged in transnational politics, and are having considerable impact on developments of international relations.⁶ Instead of states, some scholars offer new conceptual tools for analysis. Yale H. Ferguson and Richard W. Mansbach, for example, propose the concept of polity as a basis for analysis of a wide range of inter- and trans-national political problems. Polity, according to them, is "a political authority with a distinct identity; with a capacity for mobilizing persons and their resources for political purposes (i.e., value satisfaction); and a degree of institutionalization and hierarchy (leaders and constituents)" (Ferguson and Mansbach, 1996, p. 34).

Thus, the new paradigm for the world is not state-centric, but it is complemented by another, multi-centric world (Rosenau, 1991). This multi-centric world has hundreds of thousand of actors, exists in the form of many ad-hoc, temporary coalitions, is controlled only to a degree, and is susceptible to change. Global communications, increased interaction between different type of actors with the state, is partly responsible for this situation. Realization of multi-centric perspectives and increased interaction of people across nations and states often brings us to an approach of sociology that, along with a world-system approach, contains other, micro-sociological tenets as well. Categories like trust are coming into play as societal variables (Fukuyama, 1996); citizens "become" consumers and give rise to region-states (Ohmae, 1996); civil society is gaining increasing attention and importance (Diamond, 1994; Putnam 1995); the non-profit sector is gaining more and more importance (Salalmon, 1995). Non-governmental, interpersonal norms also globalize, and often shape, transnational developments (Matvey, 1994; 1995; Meyer, 1996). Globalization also challenges the monopoly of foreign affairs

⁵On ethnicity, see, e.g., Hutchinson and Smith (1994).

⁶For classification, see Mansbach et al. 1976.

ministries over external affairs and brings about "internal management of external relations" (OECD, 1996b).

Public administration literature in the US does not address global change in systematic manner. Often this is claimed to be a result of parochialism and ethnocentrism of American public administration that results in neglect of comparative administration (Riggs, 1994; Caiden, 1994). There are few exceptions (Heady, 1996; Luke and Caiden, 1989; Henderson, 1990), with the most notable one being the volume *Public Administration in the Global Village*, edited by Jean-Claude Garcia-Zamor and Renu Khator. Taking global change as a point to depart from, rather than a concept that should be proven, the authors of the volume discuss implications of global change for public administration. Garcia-Zamor and Khator, propose four levels of analysis for public administration: 1) global system; 2) social system; 3) political system; and 4) administrative system. The suggested approach is integrative, and combines not only many levels, but also many perspectives. For Riggs (1994), Caiden (1994), and Ryan (1994) globalization is an argument for more reflexive assessment of US administrative practices and advancement of a comparative approach

Fred Riggs (1994) points to the limits of exporting US administrative techniques and routines without consideration of comparative political contexts. Riggs maintains that global forces are penetrating individual agencies in the US at every level and to such an extent that the idea of singular foreign policy is misleading. Renu Khator (1994) argues that globalization, with particular reference to environmental policy, means two more types of actors in the process of politics and administration. International epistemic community and non-governmental organizations are brought into the picture to shape policies with government agencies. She sees changes in three areas: 1) administrative context (more and more players in the game); 2) administrative style (administrators will

shift from being regulators to being balancers); and 3) administrative goals (shift from efficiency, productivity and responsiveness to sustainability).

Jean-Claude Garcia-Zamor (1994) calls for new goals in development administration: 1) population control; 2) indigenous democratization; 3) regional alliances; 4) reversal of the brain drain flow.⁷ Margaret F. Reid (1994) distinguishes three arenas of change: 1) institutional framework; 2) exchange mechanisms; and 3) rules of engagement. She also identifies two types of change— isomorphic and metamorphic (transformational)—and describes each type of change in the above mentioned arenas of change.

Ali Farazmand (1994) is more specific: he identifies two main directions of globalization: 1) democratization; and 2) privatization and marketization. This in turn, leads to: 1) readjustment in public and private sector relationships (mostly at the expense of the public sector, but not necessarily for the benefit of the private sector); 2) organizational reconfiguration and redesign (with drive for more flexibility); 3) administrative reform (with emphasis on decentralization). The trends distinguished by Farazmand were greatly facilitated by the fall of Communism, which not only increased the appeal of market economies as more efficient means of industrial and social organization but also brought back issues about the size and responsibilities of the state to the forefront of theoretical debates all over the world.

Keith Henderson (1990) discusses two contradicting trends in comparative public administration—indigenization and internationalization. Indigenization is: 1) characterized by: “plea for self-awareness and rejection of borrowed consciousness”; 2)

⁷For new goals for global world, see also Singer (1995).

advocates “the desirability for alternative perspective on human societies with a view to making social sciences less parochial and enriching them”; 3) “draws attention to historical and cultural specifics and argues for redefinition of focus, with a view to developing dynamic perspectives on national problems”; and 4) “is opposed not only to false universalism, but also to false nationalism” (Henderson, 1990, p. 334). Internationalization of public administration “involves a common core of knowledge about bureaucratic characteristics, familiarity with Western academic ideas, specialized skills that are intelligible to colleagues, and some willingness to share knowledge, skills, and experience. It espouses concern for improved administration, whatever its form; a commitment to social and economic change, and a quest for objective knowledge” (p. 337). Noting that these two contradictory trends may be “an inevitable aspect of endemic North-South conflict” (p. 339), Henderson still concludes that “in summarizing the arguments devoid of nationalistic, anti-colonialist, anti-Western fervor, the case for internationalization seems persuasive” (p. 340). Echoing arguments of Luke and Caiden (1989), he continues, “increased amount of inter-dependence and inter-connectedness in a complex modern world argue strongly for internationalizing” (Ibid.).

The Collapse of Communism and the Worldwide Drive toward Privatization and Market Reforms

With the fall of communism and Eastern European and former Soviet countries' embarkment on the route of market economy and democracy, the reform of mechanisms of governance and, especially, bureaucracy, have become an important concern of public administration scholars and practitioners (Gabrielian and Fischer, 1996; Gabrielian and Holzer, 1998; Newland, 1996; Szablowski and Derlien, 1993). In such conditions, as earlier with development administration, public administration acquired a more normative, prescriptive emphasis (Guess, 1997), and lesson-drawing in public policy and administration (Rose, 1993) once again emerges as an important parameter of research.

The problem of restructuring the incompetent, outmoded bureaucracies of the communist era is now the business of a small industry of professionals, academic and otherwise. How to bring Eastern Europe into the Western liberal-capitalist fold is the basic mission (Pitschas, 1996). The last eight years have witnessed a steady stream of American and Western European consultants (very often working for multilateral organizations such as the IMF and the World Bank Group) traveling to Eastern Europe, as well as large numbers of Eastern European administrators and graduate students enrolled in U.S. management school programs (Eliason, 1995). The formerly communist countries long subjugated under the communist rule have welcomed market economy as the alternative model (setting aside the fact that many often have little real understanding of the model for which they are opting). The fall of communist ideology had a similar impact also on the developing world, where socialist development ceased to be seen as an alternative path of development. On the road to market economy, privatization emerged as one of key elements of transformation (e.g., Savas, 1992b; Crawford, 1995).

Privatization and competition (also commercialization) in the provision of public services, though, are trends that encompass not only the formerly communist countries. As mentioned above, the globalization-induced drive for more competitive, market-based mechanisms of governance is prevalent also in many industrial democracies--particularly in English-speaking countries such as the U.S, the UK, New Zealand, Australia (e.g. Mascarenhas, 1993; Boston et al., 1996; *Journal of Policy Analysis and Management*, 1997; Kouzmin and Dixon, 1994; Dunleavy and Hood, 1994; Hood, 1995, Aucoin, 1990). Initially championed by the Thatcher government in Great Britain after 1979, privatization took hold in most of Western Europe (Vickers and Wright, 1989), as well as Latin America, Africa, North America, Southeast Asia and Australia (Fraser, 1988; Gayle and Goodrich, 1990; Clarke and Pitelis, 1993; Clarke, 1994; Palmer, 1994; The Institute for Saskatchewan, 1990; MacAvoy et al., 1989; Heald, 1990). Privatization and radical

public sector restructuring became an accepted wisdom in international economic and management institutions as well as policy circles (McGowan, 1994). The doctrinal components of the "new public management" (conceptually developed mainly in the UK, New Zealand, and Australia), among others, include a shift to greater competition, stress on private-sector styles of management practice, shift to disaggregation of units in the public sector (Hood 1991, p. 5). *New public management* is also reflecting a global trend of reconceptualizing "traditional" public administration in conditions of non-hierarchical setting, where the line between public and private is fuzzy; where public and private entities both compete and cooperate; where the government is engaged not as much in administering its constituent agencies, but tries to manage the governance in the society where multiple actors interact in networks, markets and hierarchies.

From public administration to public management

Since the 1970s, the doctrine of "classic" public administration has come under increasing criticism. With government expanding dramatically, there was a need for a novel approach to public administration that would evaluate government programs in terms of their impacts and was not confined to firmly institutionalized administrative structures. Models of administration became more systematic and balanced, focusing on effective program management and trying to balance macro- and micro, political and administrative, operational and strategic, structural and human resource management aspects of public administration (Holzer and Gabrielian, 1998). By the 1990s, public administration was being more and more often reformulated as public management.

Drawing from schools of policy analysis and business administration, public management in the 1990s emphasized: 1) both strategy and process; 2) greater orientation toward research and theory in general and prescriptive theory in particular; 3) a broader definition of "publicness" in public administration; 4) orientation toward senior, as well

as middle and upper level public managers; 5) a focus on problem rather than process; 6) attention on contextual and experiential knowledge (Bozeman, 1993, pp. 5, 362). While public management might not separate itself from public administration (Newland, 1994), it is certainly the direction towards which traditional public administration tries to reinvent itself. On the practical side, the "reinventing government" movement and Vice-President Gore's *National Performance Review* are characteristic of this approach. Despite more practical orientation of the new enterprise, public management is also argued to be more theoretical than it sometimes sounds, and is claimed to be firmly grounded in social science in general (Kettl and Milward, 1996).

As mentioned above, the drive for reconceptualization of public administration is not only American phenomenon (e.g., Grey and Jenkins, 1995). Christopher Politt (1990), as well as other British and Australian authors, speak about rise of "managerialism" in the public sector. Jan-Erik Lane (1993, p. 125), drawing from his work for the Committee on Conceptual and Terminological Analysis of the International Social Science Council, explains the history of public management as public administration:

As long as government was small, public management was defined as basically administration, the exercise of public authority in accordance with a fixed system of rules. The emphasis was on administrative action, formal decision-making and implementation according to established procedures. It all revolved around the concept of an administrative issue to be treated in a manner that maximized the goals of predictability and legal justice.

However, once government started to grow with service functions becoming more important than administrative functions, then the relevance of public administration came under strain. How is big government to be managed? Moreover, with public sector expansion and increasing complexity came the critique of public administration, already present to some extent in Herbert Simon's *Administrative Behavior* (1947) and Paul Appleby's *Policy and Administration* (1949).

Interestingly, this trend of reconceptualizing public administration as public management does not yet have a significant impact on comparative public administration. Some aspects of public management--attention to context, prescriptive orientation, focus on problem--were always part of development administration. With the failure of development administration to become the theoretical focus of comparative public administration, the discipline by and large remained concentrated on the macro-study of public administration (i.e., the systemic role of bureaucracy (or government structures) in the overall political system and its impact on political development) or the micro-study of isolated cases, without connecting the two. Though public management as a point of departure would have facilitated the elaboration and testing of "middle-range" theories, the first comparative and explicitly public management-oriented book appeared only in 1994 (Baker, 1994).⁸ Although this may not be the one and only road that comparative public administration should follow, comparative public management certainly emerges as an essential avenue of research in the revitalized discipline, since it has the promise of connecting micro- and macro-, normative and empirical perspectives in more coherent manner. The task now should be that of studying comparative public management from the perspective of a concrete example. In order to do so, we should choose a focus for study, or "segment" the vast body of public management into a structure that can be meaningfully compared.

Privatization as a focus of study for comparative public management

Because public management is more market- than hierarchy-oriented, and because it assumes the boundaries of the public sector to be very often fuzzy and context-specific,

⁸ There were other books earlier, like Esman's *Management Dimensions of Development* (1991), but these books did not treat management as a new paradigm, or something as distinct from public administration. On the other hand, although Baker's *Comparative Public Management* (1994) is explicitly public management-oriented, it does not engage in detailed discussion about how it is different from public administration and what warrants this new approach.

privatization emerges as a most promising focal point for studying public management. Furthermore, because privatization is a ubiquitous process that in some form or another is present in almost every country of the world, and because it lies in the heart of the problem of what are the limits of the public sector and how public services are delivered, the topic of privatization seems to be especially appealing for the study of comparative public management. It has both substantial value for general understanding of public administration/management, and methodological value for comparative analysis. Substantively, it addresses questions that are of conceptual importance to public management practice and philosophy: What are the limits of the public sector? How should it be managed? Methodologically, privatization in one form or another is present across countries, and, despite a multiplicity of forms, is a more or less clearly identifiable phenomenon.

Privatization is very context-specific-- where the type of environment (e.g., whether the privatized object or enterprise faces domestic or foreign competition in particular industry or not; whether the public good in question is scarce or abundant; whether there is a full-fledged institutional basis for regulating competition or it should be created; etc.) plays as important a role as political constituencies and actors and institutions. Privatization is firmly embedded in the political process. To a certain extent all publicly provided services bear costs of government policies that are not primary to their mission (e.g., full employment, controlling the deficit, universal service with redistribution or cross-subsidizing of costs) and changing the existing arrangements for service provision is going to affect not only interest groups involved in a particular issue, but also other parts of government to a greater degree than many other changes in public policy. For example, denationalizing utilities not only generates revenue but also requires elaboration of utility regulations or competition policy in the industry. Despite the enormous amount of literature that treats the subject in the language of cost-benefit

analysis, privatization is not restricted to economics or efficiency only-- it has political dimensions as well.

Privatization is an interesting phenomenon that equally successfully lends itself to analysis both in public policy, public administration, economics and sociology. Perhaps, the fuzzy line between politics (policy) and administration is never more ambiguous than in the case of privatization. Though it may be a major government initiative that is carried out with vigor during a prolonged period of time and be very political with many players influencing it (thus, some would call it a policy), nevertheless it is neither an end by itself (it is not immoral to have public provision of goods and services) nor it is a permanent specific field that requires government policy (e.g., education, health, income distribution). Though it has various degrees and steps of implementation, privatization is theoretically finite--after you sell all the assets and outsource all the remaining services, you cannot carry it out any more as opposed to educational policy or taxation policy which cannot be completed for good (one cannot stop raising revenues or educating children) and where even the lack of certain policy is a policy. Privatization, is rather, a public management option (tool, measure) designed to achieve various ends, ranging from increasing efficiency and revenue generation to building political support (or building a new class) to shrinking the size of the government. It is not the only way of targeting these aims-- each of the above mentioned objectives can be pursued by other means as well (e.g. more investment, eliminating services at all, new taxes, etc.). Privatization has a distinct microeconomic (or micro-level) aspect and can apply to all spheres of economic activity-- from social security (Chile) to defense contracting (US) to management of manufacturing industry (Eastern Europe) and utilities (UK) to social services (US) to privatization of land (Armenia). The task should be methodological refinement and identification of conditions (characteristics) under which privatization in different countries can be compared. This amount of variety of the functionally similar

structure promises to generate ample insights for application of a proposed methodology to comparative public management.

Outline of the Study

The enterprise of *comparative public management* (although new in such a formulation) has rich traditions and a history of several decades of complex and sophisticated scholarship. In order to better understand the conceptual foundations of the field, one ought to examine not only the origins and the development of the (sub)field, but also its relationship with the “mother ship”—the discipline of “ordinary,” “non-comparative” public administration. The first two chapters will trace the development of comparative and non-comparative public administration, and discuss parallels between the two. The third chapter will discuss the comparative method, and based on insights drawn from the previous chapters will elaborate a research methodology for comparative public management. The fourth chapter will discuss the theory of privatization in the light of proposed methodology. Chapters five through seven will examine privatization in three countries--the US, UK and Russia--in detail. Finally, drawing from these case studies, the final chapter will attempt to draw some theoretical conclusions about practice of privatization.

CHAPTER 1

Comparative Public Management: Origins, Scope and Development

History

Comparative public administration was always, although most of the time implicitly, part of the field of public administration in the U.S. Wilson's (1887) essay argued for adapting the legal-rational German model of administration to the U.S., and Willoughby's (1919) text on public administration, was in essence, a comparative government textbook. One should also remember that establishment of merit-based civil service in the United States was heavily influenced by earlier British reforms (Stillman, 1991). Comparative public administration, though, crystallized as a movement and distinct subfield after World War II, when the prospects of non-communist development of the Third World, attention from USAID and generous grants from the Ford Foundation to the Comparative Administration Group (CAG) of ASPA defined the momentum for comparative and development administration (Fried, 1990; Guess, 1997; Loveman, 1976; Heady, 1996; Dwiwedi and Henderson, 1991; Farazmand, 1996). The movement reached its peak in the 1960s and early 1970s, then succumbed into "retrenchment and reappraisal" (Heady, 1996), again showing liveliness in the 1990s.

Most commentators on the subject agree about the history of comparative public administration until 1980. Being formed under the Soviet-containment ideology of the Cold War and influenced by the Marshall Plan, comparative and development administration developed by the 1950s (Waldo, 1968; Farazmand, 1996; Fried, 1990; Heady, 1996). American specialists overseas were encountering new administrative structures and contexts, and the task was to guide them toward non-communist

development. If previously American scholars have looked overseas to study administration (e.g., Wilson, 1887), now they were exporting American administration. The actual “birth” of comparative public administration is difficult to pinpoint. Some authors mention an influential 1952 Conference on Comparative Administration held at Princeton University as “the most identifiable beginning of the subfield” (Balanoff, Van Wart and Pryor, 1998, p. 457), while others mention go back even earlier. Guess (1989), for example, dates comparative public administration back to 1943, and terms two initial periods of the subfield as “postwar relief” (1943-48) and “containment-frontiersmanship” (1949-1960). Most observers agree, though, that until 1960 comparative public administration was more concerned with pragmatic tasks and exploring rather than theorizing.

Soon, there was enough experience to draw upon, and there seemed to be the right methodology—behavioralism, coupled with a systems approach—to build systemic theory of comparative public administration that would transcend national/institutional boundaries. In his influential essay “Trends in Comparative Study of Public Administration,” the leader of the developing comparative administrative movement—Fred Riggs (1962), identified three broad tendencies in the study of comparative public administration. They were: 1) the shift from normative to empirical approaches; 2) the shift from idiographic (i.e., concentrating on unique events) to nomothetic (i.e., seeking generalizations) studies; and 3) shift from non-ecological to ecological approaches. Riggs claimed that the second and third approaches were emerging, that the tendencies were obvious. Since these developments were highly anticipated and seemed within easy reach, there was a hope of creating a truly scientific comprehensive and comparative administrative science (Fried, 1990). Soon the movement was sponsored by the Ford Foundation, and during the 1960s the movement reached its apogee-- trying to build a system-based theory of comparative public administration, and based on accrued

administrative savvy it aimed to foster the development of the third-world countries. As Guess (1997, p. 536) notes, the emphasis was on "whole system transformation: exporting political democracy, building legislatures, and designing planning systems." This was an era of "high-flying ambitions to create Grand Theory on Public Administration" (Pierre, 1995, p. 5). Mostly because of sources of funding, soon the main emphasis of the Comparative Administration Group (CAG) was changed to development administration, though there was not too drastic a shift either in the focus or the methodology of the field. This period is called by Heady (1996) as the "heyday" of comparative public administration, and, based on its development orientation and "interest in intervention for societal reform," "Alliance for Progress" by Guess (1997). The emphasis was on Western technology transfer. It is argued that the approach was elitist in essence (Farazmand, 1996), and top-down and presumptuous (Guess, 1997, p. 537). Despite the truthfulness of this assertion as a general tendency, there were also other reasons for the appeal of the developmental orientation of the field. Waldo (1968), for example, argued for development as the focus in study of comparative public administration because it would "lower the sights" of an ambitious all-encompassing research program to manageable middle-range theories, and would explicitly bring in goals and values, thus guarding both against ethnocentrism and fact-value dichotomy. Despite Waldo's warnings, though, the first phase of comparative public administration development was preoccupied with "grand theorizing," with functionalism serving as the main theoretical thrust of the enterprise. The most elaborate work from this period was Riggs's (1964; 1973) theory of transitions and prismatic society, and, the most comprehensive and methodologically consistent text (which many collections of essays lacked) was Heady's (1996/1966) classic volume. Evaluating the period, Caiden and Caiden (1990, pp. 368-373) distinguish six major CAG shortcomings:

- It was too academic;
- It was insufficiently empirical;

- It was still too culture-bound;
- It was too isolated;
- It had too few academic payoffs; and
- It was too idiosyncratic.

Comparative public administration faced the same challenge as “non-comparative” public administration—the trade-off between relevance and rigor. In comparative public administration this contradiction was reflected in the emergence of two “quite incompatible” strategies—“an essentialist strategy of pure social science” (e.g., Riggs) and an “existential applied social science” (e.g., Esman) (Caiden and Caiden, 1990, p. 373). Ilchman (1971, p. 417, as quoted in Caiden and Caiden, 1990, p. 373) saw these two strategies based on fundamentally different conceptions of human beings: “Briefly put, the antithesis was between those who thought political man would cheat unless he were watched and those who thought that political man was deserving of the public trust.”

It is also generally agreed that the following era was one of “retrenchment and reappraisal” (Heady, 1996). Though, assessments vary on the scope of failures and methodological problems, as well as duration of the period. Guess (1997) is the most precise in his assessment of its start and finish. According to Guess, the second, and final era, of “classical” comparative public administration constituted the “New Directions” period (1973-80). It started with the demise of the Comparative Administration Group and ended with the market-driven radical restructuring reforms of the Thatcher Government in Britain. It was envisioned that under this new perspective, “decentralization, deregulation, and democratic decision-making would be program targets, using such means as small-scale appropriate technology.” And while this approach was “in principle the polar opposite of the Alliance approach,” in practice “programming aid for equity rather than growth or democracy made little difference on

the ground" (Guess, 1997, p. 537). Heady (1996) concurs with the time frame of this period, and extensively discusses the criticisms leveled against comparative public administration from 1973 to 1980. Along with routine criticism, comparative public (and development) administration was dissected in two issues of *Public Administration Review*--in 1976 (scorning the general failure) and in 1980 (discussing failure in Iran). Challenges were raised both on ethical/political (Loveman, 1976), cultural (Siffin, 1976) as well as methodological (Jun, 1976; Jreisat, 1976) grounds. Balanoff, Van Wart and Pryor (1998, p. 458) identify five "substantial strains" of this critique:

- 1) Much like the broader field of public administration, no paradigm or widely accepted model has emerged, research was non-cumulative and lacked focus;
- 2) The macrolevel studies (especially the most prominent of them—Riggs's (1964) prismatic model) were seen as obscure and linguistically confusing;
- 3) The subfield was accused of being underdeveloped in terms of theory building and hypothesis-testing;
- 4) Development administration research was seen as detached from useful application; and
- 5) Ethnocentrism has pervaded the literature.

Together with a significant decrease in funding, this development culminated in smaller-scale, idiographic studies. To Pierre (1995, p. 5) this period was characterized by a "behavioral revolution hitting the comparative study of public administration," when a number of "cross-national studies using a quantitative methodological approach were conducted." During this period, "given the empirical emphasis of the projects, theory development was considered less important than producing a solid, data-based account of different aspects of public bureaucracies."

The following period, starting from the early 1980s, marks further division of the subdiscipline, with no consensus where the discipline is headed. On the one hand, there are the more or less "pure" academics with continuing emphasis on bureaucracy (e.g., Heady, 1996; Peters, 1995; Pierre, 1995; Rowat, 1989; Farazmand, 1996) and methodological concerns for sound, inductive, empirically tested middle-range theories

(e.g., Peters, 1988). On the other hand, there are the development policy experts and "pracademics," who have gained extensive experience consulting on behalf of the World Bank, IMF and USAID, and who often value timeliness of action over methodological perfection (e.g., Guess, 1997; Brickerhoff, 1997). Along with these developments there is also more exposure to European authors, who seem to be less concerned with bureaucracy and development per se and instead concentrate on governance in complex networks (Netherlands) or administrative reform (Germany) or market-type-mechanisms (Britain) (e.g., Kooiman, 1993; Eliassen and Kooiman, 1987, 1993; Stillman and Kickert, 1996). The reasons for this further division of the field are twofold. First, since the fall of communism there is a burgeoning field of consulting that has developed a significant amount of knowledge and expertise. There are more outlets for publication, and more focused dialogue is possible. Second, the notoriously ambiguous and imprecise concept of development, exhausting the possibilities of a political science/public administration-driven concept of modernization, is being appropriated by emerging (or fashionable again) disciplines: policy sciences; development economics; new institutional economics; new political economy; public management; etc. (Heady, 1996; Guess, 1997; Brickerhoff, 1997). As a result, this also leads to further division of the field. Since some of these approaches are backed by mighty institutional support (e.g., Public Policy Schools at major universities), and, on the other hand, the traditional public administration concern with bureaucracy does not seem to vanish in the foreseeable future, this gap is not likely to fade away soon. As I will argue in the next chapter, this tension reflects the divisions and trade-offs that also characterize the "non-comparative" discipline of public administration.

The third era of comparative public administration also gets different appraisals in terms of its maturity as social science (or cumulative knowledge). Heady (1996), Siffin (1991), Peters (1988; 1994), though acknowledging some evident progress, still do not

see a unitary approach to methodology, covered topics and frameworks. Heady (1996), for example, sees several directions along which comparative public administration is evolving: 1) development administration; 2) comparative public policy; and 3) "core" public administration (centered around bureaucracy). Pierre (1995) concurs with Heady (1996), Peters (1994), and Farazmand (1996) about the necessity to concentrate on middle-range theories centered on bureaucracy, and he is also optimistic about the convergence of theory and practice. Comparative public administration, much like comparative politics several decades earlier (Neumann, 1974), passed through the phases of epic macro-generalizations (nomothetic studies) and micro-behavioral studies (ideographic studies) to the current third phase, when the "theory and empirical studies began to connect more clearly than previously" (Pierre, 1995, p. 6). This optimism is partly shared by Guess (1997). He accepts that "the new CPA [Comparative Public Administration] agenda was less interested in theory building than in application and translation of existing theories into practice" and that "new CPA" studies have concentrated on more "traditional areas of public budgeting, public personnel management, and intergovernmental relations" (Guess, 1997, p. 562). Still, in this area, he asserts, "for the first time a concerted effort has been made on several fronts to examine the determinants of organizational efficiency and effectiveness in comparative perspective" (Guess, 1997, p. 542).

The discipline of comparative and development administration, although an American-originated phenomenon in its current form, is not confined to the U.S. only. As a result of European integration, more and more studies appear that try to systematize the Western European experience (e.g., Kooiman, 1993; Elliassen and Kooiman, 1993; Derlien, 1992). Eastern European and Soviet transformation is also very often addressed in research (e.g., Szablowski and Derlien, 1993; Hesse, 1994; Gabrielian and Holzer, 1998). There are always some comparisons between the countries of the British

Commonwealth, with Canada, the UK, New Zealand and Australia constantly monitoring each other's administrative developments (e.g., Zifcak, 1995; Page, 1995). Studies of public administration in developing countries used to pay attention to the Soviet and Chinese administrative systems along with Western systems (e.g., Basu, 1992). Published proceedings of international conferences and several ambitious edited volumes try to be as comprehensive in scope as possible, including many "indigenous" students of public administration writing about their respective countries (Asmerom, Jain and Hoppe, 1992; Asmerom and Reis, 1996; Farazmand, 1991; 1994; Hesse, 1994). Finally, there is the growth of a significant body of literature from international organizations-- OECD, the World Bank Group, the IMF, which, along with producing uniform databases and concrete studies, also periodically generate surveys and overviews of public management practices and innovations (e.g., OECD, 1990; 1995).

Scope

The subject of comparative public administration, or as Farazmand (1996) terms "the bifurcated field of comparative and development administration," was always a problem. It was too broad, covering anything from rural development to policy implementation issues to institutional capacity building to the nature of administrative systems in presumably democratic socio-political systems. Yet in 1969 Keith Henderson (1969) asked "what is not the subject of public administration?" Two content analyses of the field, conducted by Sigelman (1976) and Van Wart and Cayer (1990) found that essentially, "unlike most other fields, comparative public administration tends to mirror rather than narrow the field" and that it is "without clear sense of purpose or identity" (Van Wart and Cayer, 1990, pp. 228, 232). Richard Ryan's (1986) study of 37 comparative and development administration curricula from across the US did not show dominance of certain topics, though the most used textbook (Heady) clearly had bureaucracy as its focus. Some authors argue for centrality of bureaucracy as a concept

that comparative public administration should be based on (Heady, 1996; Peters, 1994; Farazmand, 1996). Others disagree, pointing out that comparative, and especially, development administration should engage in things that are "out of the boundaries of conventional administration" (Siffin, 1991, p. 11). This type of approach essentially advocates an interdisciplinary approach to administrative problems-- a methodological premise shared by public management (Kettl and Milward, 1996), where the emphasis is on performance and organizational boundaries are temporary and unclear, and often programs are better objects of study.

There is an extensive body of scholarship on comparative administration in the 1990s, but it is far from homogenous. There are the exhaustive, comprehensive handbooks discussing public administration and bureaucracy all over the world edited by Ali Farazmand (1991; 1994); handbooks on comparative public management (Baker 1994) and public administration in small countries (Baker, 1991); handbooks on public administration in developed (Rowat 1989) and developing countries (Subramaniam, 1990; Asmerom, Hoppe and Jain, 1992); collections of essays dealing with public administration in a changed socio-economic setting (Garcia-Zamor and Khator, 1994; Dwivedi and Henderson, 1991; Asmerom and Reis, 1996; Pierre, 1995). Though, in most cases, the research seems to be "comparable" rather than "comparative" (Derlien, 1992), i.e., concentrating on case studies covering different countries rather than employing "pure" comparative methodology with multiple cases.¹ There are, of course, exceptions, like the recent edition of Heady's (1996) magisterial review of the field and analysis of bureaucracy in different regimes. Handbooks on comparative public management (Baker

¹ Arguing against distinguishing "comparable" from "comparative," Page (1995, p. 125) writes, "the thrust of his [Derlien's] argument appears to be based upon the novel and theoretically unfounded assertion that multinational studies where the researcher (or preferably, the team of researchers) actually gathers primary data is *comparative*, while research based upon secondary sources is *comparable*. Yet at other times 'comparable' is the adjective applied to individual country studies which may be drawn together by those seeking to make some sort of comparisons."

1994) and civil service (Bekke, Perry and Toonen, 1996) also seem to be more consistent either in topic (Baker) or methodology (Bekke et al.).

An interesting development of the field recently is the addition of quasi-official research on the status of current public administration practices by multi-lateral institutions. Most active on this front has been the Public Management Service (PUMA) of the OECD (1990; 1995; 1996b). While surveying public management tendencies in the OECD countries for several years, in 1995 PUMA came up with an extensive research report, entitled *Governance in Transition*, where argument is made for reconfiguration of governance structures and public service delivery in a new environment, very much along the lines of the British *new public management* and American *reinventing government* initiatives. Criticizing rigid, excessively regulated and excessively regulating inflexible structures that cannot respond to change and place too much emphasis on process instead of results, the report argues for new public management in an era when "large government debts and fiscal imbalances exacerbated by recession... place limits on the size of the state," and consumers are demanding "value for money and are increasingly reluctant to pay higher taxes" (OECD, 1995, p. 7).

The 1996 OECD Ministerial Symposium on the Future of Public Services discussed OECD country responses to mounting pressures on the public sector in recent decades. Alice Rivlin, the Chair of the Symposium, identified seven ways OECD countries have responded to pressures for change in the role and structure of the government:

- decentralization of authority within governmental units and devolution of responsibilities to lower levels of government (i.e., municipalities);
- re-examination of what government should pay for and do, what it should pay for but not do, and what it should neither pay for nor do;
- downsizing the public service and the privatization or corporatization of activities;

- consideration of more cost-effective ways of delivering services, such as contracting out, market-type mechanisms, and user charges;
- customer orientation, including explicit quality standards for public services;
- benchmarking and measuring performance;
- reforms designed to simplify regulation and reduce its costs (OECD, 1996a, p. 8).

This newly emergent paradigm for public management is characterized by:

- A closer focus on results in terms of efficiency, effectiveness, and quality of service;
- The replacement of highly centralized, hierarchical organizational structures by decentralized management environments where decisions on resource allocation and service delivery are made closer to the point of delivery, and which provide scope for feedback from clients and other interest groups;
- The flexibility to explore alternatives to direct public provision and regulation that might yield more cost-effective policy outcomes;
- A greater focus on efficiency in the services provided directly by the public sector, involving the establishment of productivity targets and the creation of competitive environments within and among public service organizations; and
- The strengthening of strategic capacities at the centre to guide the evolution of the state and allow it to respond to external changes and diverse interests automatically, flexibly, and at least cost (OECD, 1995, p. 8).

This new paradigm envisions a public sector that will:

- Be less involved in direct service provision;
- Concentrate more on providing a flexible framework within each economic activity can take place;
- Regulate better, with more complete information about likely impacts;
- Continually evaluate policy effectiveness;
- Develop planning and leadership functions to respond to future economic and social challenges;
- Take a more participative approach to governance (OECD, 1995, p. 10).

In such conditions, the OECD report envisions, an "emerging policy agenda" will be structured to include a broad program of actions along the following lines:

- Government as policy maker;

- Government's performance;
- Government's strategic capacity;
- Government as enabler; and
- Government as reformer (OECD, 1995, p. 11).

This thinking is synchronous not only with an economics-informed hierarchical conceptualization of governance as a set of principal-agent relationships (largely an Anglo-American phenomenon), but also with conceptualization of the public sector as a web of complex interactions between multiple social and political actors where the state should show guidance (largely a Western European phenomenon). While guidance, control and evaluation in the public sector have been in the focus of attention for a while in countries with corporatist traditions, and gained wide exposure after the famous Bielfield project (Kaufman, 1991), now these issues are being recast in the framework of governance.

While there are many approaches to governance,² the OECD definition of governance is the most interesting for our purposes, since OECD ministerial symposium report uses the concept of governance to bring clarity into even fuzzier distinction between public administration and public management. Governance is defined in terms of relationships rather than structures, and “thus includes more than public administration and the institutions, methods and instruments of governing. It also encompasses the set of relationships between governments and citizens, acting as both individuals and as part or through institutions, e.g. political parties, productive enterprises, special interest groups and the media” (OECD, 1996a, p. 11).

According to this definition, *public administration* is the rather mundane task of properly taking care of the organizational side of the government. *Public management*, on

² See Appendix 2 for discussion.

the other hand, is concerned with *managing the governance process*, and “encompasses the broad range of techniques and strategies that are used to carry out the responsibilities assigned to governments” (e.g., managing economic development). “It includes, but goes beyond, the structure and administration of the public service. In contrast, the term “public administration” refers to the techniques by which government policies are carried out” (Ibid). We will discuss the intellectual origins of such developments in more detail in the next chapter.

As opposed to “mainstream” public administration, the concern for non-hierarchical, complex steering of public affairs has long been the focus of attention of comparative public administration. Perceived as such, development administration has always been a facet of comparative public administration. Since the early rise of the comparative administration movement, development administration has been essentially concerned with economic and social development--problems that are essentially outside of governmental organization. For some period the term “development administration” meant administration of programs aimed at development. Riggs (1971) defined the term as *development of administration* (i.e. capacities) and *administration of development*. Development administration was the more practical, action-oriented branch that was dissatisfied with grand theorizing and was looking for more concrete policy recommendations. Soon, though, development administration lost its appeal. Among the causes were the rise and competition from development economics (Heady, 1996), dissatisfaction with vagueness of the term *development* (Gant, 1979), and realization that it applies not only to the Third World (e.g., Reid, 1994). Since the fall of communism, development as a generic term is depreciated even more—one can speak of transforming rather overdeveloped communist bureaucracies, not developing them.

Since development administration was more concerned with actual (and, as a result, more often partial rather than systemic) problems, it encountered the difficulty of top-down conceptualization of public administration and policy implementation early on. Milton J. Esman (1991, pp. 2-3), one of the founders of the subdiscipline, summarizes the story this way. He identifies the following "intellectual premises" that constituted a common departure for early writings on development administration:

1. Because of its pronounced technocratic orientation, mainline U.S. public administration needed strong infusions from politics and the other behavioral sciences, which had flowered in the 1950s, if it was to become relevant to developmental needs and aspirations in a rapidly changing Third World environment.
2. U.S. public administration would have to incorporate cross-cultural insights and analytic methods from such disciplines as cultural anthropology and social communications in order to adapt to the historical and institutional realities of non-Western societies.
3. Public administration is instrumental, indeed essential, to orderly social and economic development, but it must shift its emphasis from the maintenance of law, order and managerial routines to promotion and guidance of far reaching managerial changes.
4. Development is a universal process of modernization and capacity building; its dimensions and methods, including administrative requirements, are reasonably well understood; they can be taught, learned and replicated with modifications from country to country.
5. Development change can be planned, guided and facilitated by purposeful interventions; its principal agents should be modernizing elites of indigenous societies, assisted and supported by experts from industrialized countries.
6. These elites should function mainly through the state, which is the macroinstitution best suited to design, lead, and manage on behalf of society the processes of social and economic development.

Esman (1991, p. 3) mentions that in the late 1970s the second generation of development administration scholars emerged who, while sharing the first three original premises, were skeptical about the last three. He continues that "specifically, they tend to be much more skeptical than their predecessors of the utility of the centralized state as the main motor of development change and much more sensitive to autonomous collective energies within society--to decentralized, participatory, bottom-up rather than top-down strategies and processes. They are more wary of uncertainties and contingencies inherent in induced departmental change, respectful of indigenous values and practices, concerned with the need to adjust interventions by governments and external donors to the

distinctive circumstances of specific publics, and convinced of the importance of learning as a strategy of management. A renewed emphasis on developmental ethics, especially as they affect the obligations of public managers, appears as the theme of many of their writings." Based on his long experience in the field, Esman (1991, p. 6) identifies the following dimensions of development:

1. Economic growth;
2. Equity;
3. Capacity;
4. Authenticity;
5. Empowerment.

Turner and Hulme (1997) discuss how the concept of development has been shaped during the last 30-odd years. How different theoretical perspectives (ranging from neoclassical economics to neomarxists) have interpreted the concept differently. Agreeing with another observer of the field that development is a "two-edged sword that brings benefits, but also produces losses and generates value conflicts" (Turner and Hulme, 1997, p. 10-11), they define development as consisting of:

- An economic component dealing with the creation of wealth and improved conditions of material life, equally distributed;
- A social ingredient measured as well-being in health, education, housing and employment;
- A political dimension including such values as human rights, political freedom, enfranchisement and some form of democracy;
- A cultural dimension in recognition of the fact that cultures confer identity and self-worth to people;
- The full-life paradigm, which refers to meaning systems, symbols and beliefs concerning the ultimate meaning of life and history; and
- A commitment to ecologically sound and sustainable development so that the present generation does not undermine the position of future generations.

This definition, though very useful, is very broad and not precise enough to allow building models and theories. Commenting on the vagueness of the term, Siffin (1991, p. 8) argued that "perhaps the idea of 'development administration' as a distinctive subject

matter is something of an absurdity." An alternative way to impose some order upon this enormity of concerns," he proposed, "would be simply to adopt the Public Policy perspective. Then we could forget about development administration and build an agenda around the "process" framework, which is influential in the non-discipline [sic] of Public Policy. In any case, the eclecticism of that subject-matter area offers a model to think about" (Siffin, 1991, p. 12). This is exactly the direction many of the second-generation students of development administration have taken. Many of them are interested in "implementing policy change," taking the traditional capacity-building approach of development administration one step further—to results and performance--and paying more attention to contexts and different actors.

Derick W. Brinkerhoff (1997) discusses three generations of "policy analysis in support of promoting economic growth and reducing poverty in developing countries," in his overview of "integrating institutional and implementation issues into policy decisions." The first generation policy analysis "consists of the concepts and techniques of neoclassical economics," (Brinkerhoff, 1997, p. 3) with heavy reliance on macroeconomic modeling and cost-benefit analysis on the micro-level. The problem was that very often these "technically 'correct' policies often were not adopted or implemented" (Brinkerhoff, 1997, p. 3), which led to the second generation of policy analysis approaches that pay "explicit attention to political and institutional considerations in devising policy prescriptions to get countries on a path to more sustainable socioeconomic development" (Brinkerhoff, 1991, p. 4). These approaches are heavily influenced by "new political economy" and "new institutionalism," with institutional capacity questions as a common focus. And finally, "building on the previous two generations, third generation techniques reframe policy analysis and design as a process, rather than simply a product" (Brinkerhoff, 1991, p. 6). Policies are seen as "dynamic combinations of purposes, rules, actions, resources, incentives, and behaviors

leading to outcomes that can only imperfectly be predicted or controlled" (Ibid.). Third-generation policy analysis recognizes "the complex interaction among policy statutes, target populations, implementors, and sociopolitical environments," as well as the fact that "the process perspective on policies and programs makes the separation of design and implementation less distinctive" (Ibid.). Instead of identifying an optimal solution a priori, third-generation policy analysis "highlights the importance of iteratively developing 'second-or-third-best' answers that stakeholders can agree on over the life of policy option" (Brinkerhoff, 1991, p. 7). This approach also emphasizes the role of local actors in the process.

The policy analysis approach is very promising not only for development administration, but also for comparative public administration in general. As Robert C. Fried (1990, p. 323) mentions, national administrative systems are harder to study than other political institutions, especially when studying in terms of performance. The outputs are not readily available and quantifiable, the boundaries of administrative systems are fuzzy, and delimiting the sets of actors involved in implementation is extremely difficult. The fact that implementation networks vary by function brings to a situation that the variance within countries is often as great as the variance between countries. Thus, although concentrating on bureaucracy gives very important insights, and promises to give a subject on which the discipline can be anchored, it severely limits the usefulness and practicality of the discipline.

The issue of a central problem for the discipline, and bureaucracy as being the focus of this problem, is an important one. As mentioned above, many distinguished students of the field (Heady, 1996; Farazmand, 1996; Peters, 1994) consider it to be the only concept that can unify and shape the enterprise of comparative public administration. While not denying the importance of studying the concept of bureaucracy

in a comparative perspective, the following concerns should be addressed if such an approach is adopted.

Two implicit assumptions may underlay the argument for bureaucracy being the focus of comparative administration. One is that bureaucracy is the focus of public administration in general, and comparative public administration should not be different. Such a statement will be regarded as too bold by most public administration scholars, especially after the public choice challenge (Ostrom, 1989), with its emphasis on provision of public goods rather than Weberian concept of bureaucracy. Other approaches view government as an assortment of policy and administration tools (Hood, 1986; Salamon, 1989), where public bureaucracies are only one of the means to achieve specific ends. Still others (often labeled as the "communitarians") emphasize citizenship, family values, and civic participation in governance and provision of public services (e.g., Etzioni, 1993). Apart from this, as I will discuss in more detail in the next chapter, public administration now is often being reconceptualized as public management, with less and less emphasis on organization and more attention to managers. Finally, one can wonder, whether it makes sense to concentrate empirically on public bureaucracies, when the number of government employees is being reduced virtually all over the globe, and at a higher rate than public expenditures (thus giving rise to other means of delivering services)?

The second assumption is that public administration is too diverse, and if we want to achieve some results, we better concentrate on a narrower, much better defined portion of the field that can be better studied (specified, quantified, controlled, checked). Such a thinking somewhat reverses Dahl's (1947) concern (repeated by virtually all comparativists) that in order for public administration to become a science, it has to have

a comparative perspective. In this case we may trade one type of parochialism for another. Commenting on this, Edward C. Page (1995, p. 138) writes:

The quest for theoretical focus or purpose for comparative public administration is also, in my view, misplaced. Certainly there is plenty of room for much more sophisticated, broad and falsifiable theorizing in the field. Yet comparison is above all method—appropriate in some contexts and inappropriate in others. To expect comparative public administration to generate as its focus a particular set of questions or theories makes almost as little sense as expecting multiple regression or content analysis to do the same. Comparison is method, and like all methods it is used for different things in different ways by people of different skills and ambitions. In the best comparative studies, discrete theoretical questions lead to the examination of empirical material. We will be waiting a long time if we expect an overall theory to emerge from all of this, or to be forged from the mass of available empirical material by some heroic soul.

It is also interesting to note an odd situation with regard to bureaucracy and development. According to Weber (1946), bureaucracy is the organization suited to legal-rational type of authority--it has more "law and order" distinction to it than "change" characteristic. Change is more characteristic for charismatic authority. Understandably, the two are not different species, and many charismatic authorities eventually become institutionalized. So, the problem for administering change should be not as much bureaucracy, but bureaucratization--i.e. the transformation of charismatic or revolutionary type of authority into a bureaucracy. In this sense, bureaucracies should be studied as a dynamic, rather than static concept. While development administration has addressed this concern by concentrating on capacity building, most often this concern is not addressed in studies of bureaucracy. The policy perspective, due to its multidisciplinary nature and broader (if any) focus, is not limited by these constraints. The policy sciences perspective, though, does not mean that bureaucracy eludes the focus of comparative public administration. A fine example of such an analysis is a study by Rob Hoppe (1992).

Using a theory-driven multiple case design, Hoppe (1992) studies the role of bureaucracies in policy evolution in the Third World. Using Sabatier's (1987) advocacy

coalitions model of policy making in policy subsystems, and Mary Douglas's (Ellis, Thompson and Wildavsky 1990) theory of culture, Hoppe develops a model matching Heady's (1996) regime/bureaucracy typology with four cultural bias types--hierarchist, fatalist, egalitarian (communitarian), and individualist. Hoppe also identifies possible combinations of cultural biases in explaining such phenomena as patron-client networks. Hoppe's analysis is remarkable not only for reconciling the policy perspective with the subject of bureaucracy in a comparative context, but that he systematically employs cultural theory to build a sophisticated model.

Culture is a factor that everybody mentions as a worthy factor to be thoroughly studied, but only very few (Wildavsky, 1997; Hoppe, 1992; Dunleavy and Hood, 1995) actually employ mature theoretical concepts to deal with implications of culture in public administration. This is indeed a strange phenomenon, since the "sister" discipline--comparative [business] management or organization studies, since the early 1980s has centered around the concept of national cultures, generally defined quite narrowly as work-related values (Hofstede, 1980; 1991; Redding, 1994; Tayeb, 1994). If one employed this model, based on Hofstede's (1980) groundbreaking work, say, to study the British *New Public Management* (or its intellectual cousins in New Zealand, Australia, USA) in international context, some interesting results would emerge. One could see that most, if not all, countries embracing the pro-market tenets of the NPM share two cultural traits--small "power distance" (i.e., how people handle status inequality) and weak "uncertainty avoidance" (the extent to which people are threatened by uncertainty). Hofstede (1991, p. 141) calls the resulting working culture the "village market" model. On the other hand, countries that face no less severe fiscal stress, and are advanced enough to implement comprehensive reforms, but differ on certain cultural dimensions (e.g., as opposed to the British, the Germans have strong uncertainty avoidance), don't seem to embrace NPM. Obviously, culture is subject to change (and often through state

intervention (Weiss, 1993)), and type of culture does not single-handedly determine whether a country is more or less likely to adopt the tenets of any new program (there are institutions, political actors, rules, etc.). Still, ignoring culture in comparative analysis seems to be a mistake that nobody can afford. Why then, does it happen?

The answer may lie in the age-old problem of politics-administration dichotomy that, while shot at from every possible angle, does not seem to die in the discipline of public administration. In a sense, to speak about a culture from a policy perspective, very often means to assert commitment to certain values. In comparative context, it may mean recognizing that “universal approval of any [management] theory is impossible” (Hofstede, 1996), and also acknowledging that importing or exporting of “best management practices” have limited value (Gabrielian and Fischer, 1996). In the comparative public administration perspective, advising either for tailoring policies to the culture or changing culture to fit the prescribed policies promises inviting blame either for compromising rational policies (and, ultimately, failing) or for cultural imperialism. Also, in academic circles it betrays the ideals of positivist scientific enterprise and invites the possible ridicule of being labeled a “softie.” Noting that while scientific, technical and value-neutral administration may have been possible in the West, Dwivedi and Henderson (1990, p. 14) write that “developmental administrators were in reality, from the day of independence, never free from value-laden decisions...Among the various misapplications of the Weberian concept of bureaucracy in the Third World, the value-free administrative system appears to be one of the most counterproductive myths that has been transplanted.”

Even the policy perspective, which seems to be uniquely situated to address the normative concerns of administration, manages to carefully sidestep the issue. Policy analysis now recognizes the need for addressing the values and cultural norms of

developing societies, but there is no unified methodology to address the issue. Most of the comparative and international policy analysis is being commissioned by institutions such as the IMF and the World Bank Group, which can be fairly accurately described as espousing “economics-based” ideology. Although the World Bank has started to use social assessments on an experimental basis for development projects (Lyle, 1997d), most of the reports and empirical assessments generated in the field are couched within the domain of economic discourse--with implicit assumptions of efficiency and growth as prime values, and with relatively little attention as to how this growth is distributed and what is the non-economic stability of the regime.

In academic writings, the issue of values is circumvented by two means. First, the emphasis on process does not highlight economics-based goals explicitly (e.g., economic growth), but underscores the importance of politics and policy-making and of considering the interests of actors as exogenous (who are the actors, what are the rules that let them to engage in negotiations, enforcing or blocking the policies, how is the information generated and communicated, etc.). Second, when discussing the process, the institutional settings are depicted largely as markets and hierarchies, and power and ideology are relegated to secondary roles. For example, Oakerson and Walker (1997) present one of the most advanced models of neo-institutional policy-making models in Indiana University’s Institutional Analysis and Development (IAD) framework. They discuss the nature of goods or services in question (public, private, toll goods), institutional arrangements for providing the service (markets or hierarchies), patterns of interaction between the two (possible versions include efficient production and “tragedy of commons”), and finally, outcomes. Analysis covers three levels: operational, governance and constitutional. Constitutional rules deal with the nature and extent of collective authority structures governing society. This version of neoinstitutionalism clearly rests on public (rational) choice theory, and does differ from “historical” neoinstitutionalism (e.g.,

March and Olsen, 1989) in that it neglects the autonomy of the state and takes political systems as neutral, where “external interests” compete (Scott 1995, p. 27; Steinmo, Thelen, and Longstreth, 1992.). In such a framework, there are elaborate models for rules, but preferences and values are reserved only for individuals (actors) (e.g., E. Ostrom, 1991). Such an approach, although analytically very advanced, still fails to address the concern based on which Waldo (1968) was encouraging development administration as a focus for comparative public administration--namely, overcoming the politics-administration, fact-value dichotomy. Some authors, though, don't see too much of a difference between the two branches of neoinstitutionalism and argue that in reality they are not contradictory but complementary (E. Ostrom, 1995).

One of the most interesting corollaries of the rise of public choice-inspired policy analysis gave rise to the concept of management as opposed to administration. Milton Esman (1991, p. 15), one of the founders of the field, describes the situation like this:

To the founders of the development administration movement in the late 1950s, public administration for development or development administration included the higher-level tasks of senior public officials--shaping policy, taking decisions, and supervising the implementation of government activities oriented not to normal routines, but to the promotion of social and economic development. Management, by inference, was a more limited concept involving the details of government procedures and the routines of program implementation. Beginning in the 1980s, and for arcane reasons that have eluded this author, the connotation of these two terms have switched. ‘Management’ is on the top, while ‘administration’ implies subordinate, instrumental routines.”

As we have seen from the above-mentioned conceptualization of public management by OECD, such a situation is not unique for development administration. The advancement of public choice theory, compounded with the rise of policy sciences in the 1970s, has had a similar impact on “mainstream” (i.e., non-comparative) public administration in the 1980s. The result was the rise of public management as the new concept for public administration, which will be explored in more detail below.

CHAPTER 2

From Public Administration to Public Management? A New Spin on the Old Tale

Public administration, perhaps more than any other field of social science, is in a constant process of reviving old ideas from its past and borrowing new ones from other social sciences. As Richard J. Stillman (1991) shows, since World War II, the POSDCORB foundations of American public administration have considerably changed, both reflecting changed realities in the world and successfully incorporating concepts, methods and approaches from other social sciences. Public administration has moved from “orthodoxy to heterodoxy,” with specialization thriving both in educational processes and subdisciplines. Stillman identifies the following theoretical “imports”:

1. “New political realism” and “policy sciences” from political science;
2. “Bureaucracy,” “systems theory,” and “organization theory” from sociology;
3. “Case studies” from history;
4. “Decision sciences,” “management process” and “computer technologies” from business;
5. Public finance, budgeting and fiscal policy from economics;
6. The “internal group,” “the individual in organizations,” and “human relations skills” from social psychology disciplines.

Such an infusion from other social sciences has brought more than one perspective into the field, with approaches coming into vogue and then fading, with only part of their initial claims being incorporated in the broader body of the discipline. Five great ideas (or sets of ideas) of American public administration can be identified based on their focus (internal or external, which can be also interpreted as administrative or political) and epistemological understanding of the problem (subjective or objective, and often based on this, prescribing either flexibility or control) (Holzer and Gabrielian, 1998).

Theoretical concerns cast in more pragmatic terms (e.g., control vs. flexibility) were able to capture not only the attention of scholars of public administration but the imagination of the public (and practitioners) as well, and thus form a discourse that sets the tone for further development. Instead of seeing each successive school displacing its predecessor based on the "correct" core idea of an emerging new school, "public administration might more clearly be described as a series of continuing and overlapping insights, *none* of which have been completely supplanted" (Holzer and Gabrielian 1998, p. 58). This results in the current (although not completely new) practice of conceptualizing the field as one with competing values, where one has to balance contradictory pressures, rather than pursue "one best" research strategy or concept that may generate only partial perspectives.¹

In a similar vein, the idea of *public management* developed in the direction of accommodating and synthesis, rather than complete rejection of earlier schools, to an extent that critics question the novelty of the approach at all (Newland, 1994). One can argue that the advent of public management was an answer to certain pressures that included:

- the necessity to emphasize results and performance (Kettl and Milward, 1996);
- bridging the macro- and micro gap in the public administration theory (Holzer and Gabrielian, 1998);
- overcoming the gap between "cognitive and analytical" and "organizational and procedural" aspects of public policy (deLeon and Overman, 1998);
- being more prescriptive (Bozeman, 1993); and
- being more multi- or inter-disciplinary (Kettl and Milward, 1996).

¹ Although the idea of drawing from different perspectives and employing various metaphors in public administration has been discussed as early as 1955 by Waldo (1955), popularity of this, more "holistic," visioning of the field is a more recent phenomenon. Such a reasoning is not peculiar to public

In order to fully understand the emergence and evolution of public management, it will be useful to discuss how the new concept of public management has addressed the methodological and epistemological tensions along the above-mentioned dimensions with conflicting values, and what were their intellectual beginnings for that. Since public management scholars often emphasize the normative character of the enterprise, we will add another dimension: what are the behavioral norms that the discipline prescribes to practice.

Figure 1.
Competing Claims in Public Administration and Management

	FOCUS	
INTERNAL (Structure and elements)	_____	EXTERNAL (Environment)
	NORMATIVE CHARACTER	
PROCESS (Legalistic accountability)	_____	RESULTS (Action)
	METHOD	
SPECIFIC (Subjective)	_____	GENERAL (Objective)

As a starting point for our analysis, it will be useful to trace the evolution of public management thought from a study that for many epitomized the “old” public administration—Simon, Smithburg and Thompson’s *Public Administration* (1950).² Understandably, the fault lines between public administration and public management are

administration only, but is becoming more and more popular in social science research (e.g., Morgan 1997).

² Though the text is not “orthodox” in all aspects (e.g., differences in public and private management), this is an important text reflecting (and defining) the field for some time, so the comparison will still be fair.

more than fuzzy, and many points in the following analysis have evolved and are often not as sharp as initially conceived by some proponents of public management. Still, for understanding the evolution of public management, it is often useful to discuss these positions in detail.

Focus

POSDCORB-based traditional public administration, initially challenged and later augmented by behavioralism, was concerned with organizations. The idea of administration was conceptualized to be generic, while the domain (i.e., the public sector) different. It was concerned with “the activities of the executive branches of national, state, and local governments; independent boards and commissions set up by Congress and state legislatures; government corporations; and certain other agencies of a specialized character” (Simon et al. 1950, p. 7). The only exclusion the authors admitted were judicial and legislative agencies. Non-governmental administration was basically understood as private (business) administration. As we can see, administration was conceptualized mostly on the scale of organizations.

After the disappointment of many Great Society programs and realization that implementation was not so straightforward, the suddenly burgeoning subfield of implementation studies (e.g., Pressman and Wildavsky, 1973) made it obvious that internal focus alone was not enough—agencies and organizations interacted with each other, with the public, media, etc. Government policies clearly transcended organizational boundaries, and an inter-organizational perspective was needed. By the late 1970s, it was

obvious that optimization-oriented public policy education failed to live up to its expectations. It became a popular view that "the government might not need a set of classy policy analysts as much as it needed a set of managers who could build and administer programs and get things done--people who could ensure that what was decided in Washington, D.C., bore some relation to what actually happened in Oakland, California" (Stokes, 1996, p. 161). Since many public administration schools concentrated on more practical training of mid-career state and local employees, many universities began to conceptualize their new approach to public affairs and administration by starting public management programs in new "jurisdictions"--business schools, generic management schools, and somewhat discredited public policy schools. The movement culminated with stressing the identity of new programs by disassociating them from the old Public Administration and Public Affairs³ programs and the establishment of APPAM—the *Association for Public Policy Analysis and Management*.⁴

Emergent public management in the 1970s can be seen as heavily influenced by two streams of thought: business management (mostly strategic management and emphasis on economic incentives) and public policy. The public policy approach supplied the normative rationale for organizational action (most often derived from technocratic analysis), while strategic management answered the internal-external tension by organically balancing these two levels without ignoring any of them. The hope was that public administration renamed as *public management* "connotes concerns broader than those of internal organization," since "the term *strategic management* is pervasive,

³ Most of these programs are members of the National Association of Schools of Public Affairs and Administration (NASPAA).

⁴ For different types of public administration programs, see Stillman (1991). For an excellent overview of development and academic institutionalization of public management in the US, see Lynn (1996) and Stokes (1996).

but no one speaks of *strategic administration*" (Bozeman and Straussman, 1990, p. 4). This also seemed to situate the locus of public management at the top level. As a result, public management became identified with top executives or "execucrats" (Ricucci, 1995), and, in the best traditions of highbrow public policy schools, disassociated itself from the mundane business of the lower levels.

There was a surprise ahead, though. The concept of strategic management shifted away from analytic strategic planning of the mid-1960s to a more holistic vision/process understanding of it. Strategic management as conceptualized in the late 1960s and embraced by economists in public policy schools was in essence strategic planning that tried to rationally pursue opportunities and match organizational structure with the environment. The most representative text of this approach was offered by Ansoff (1965), where strategic management was seen as a very top-down, centralized analytical enterprise. Soon it was discovered that while this was a very "beautiful" approach, it somehow failed to be implemented (Ansoff et al., 1976). Soon afterwards, corporate strategy students reinvented incrementalism (Quinn, 1980), long known to the students of public administration (Lindblom, 1959). The final nail in the coffin of top-down, analytic version of strategic management was hammered by Mintzberg (1994), who argued that strategic planning is trying to reconcile irreconcilables—the synthesis of strategy with the analysis of planning. Nowadays, strategy in business administration is often viewed as something emergent, a perspective that is very often embedded in the organization, like culture. Before identifying several types of strategic behavior, Nutt and Backoff (1992, p. 55-83) distinguish five uses of strategy:

- Plan (rational comprehensive action);
- Ploy (trying to outwit the opponent);
- Pattern (stream of actions made up of both intended and emergent ideas);
- Position (analyzing organization's place in the environment and locating niches for growth);

- Perspective (culture, worldview);

And four types of scenarios of reality (based on perception of time and assumptions about environment) that are best described by the following metaphors:

- Saga (the past is seen in positive light and offers clues for the future);
- Quest (strong leaders guiding towards their vision);
- Venture (present-oriented action dealing with perceived opportunities and needs);
- Parlay (incrementalism-based action that creates opportunity for a further move).

As we can see, although analytically most coherent, planning-based top-down management is just one of the many uses of strategic management that is in turn highly dependent on the manager's vision of reality. In public organizations changing the existing vision or implementing new strategy is becoming even more complicated, since many public organizations are bonded not only with organizational culture, but also with public laws and regulations, and are more vulnerable to public and political pressures. Such an angle on strategy seriously undermines one of the core tenets of public management: focusing on top executives as the locus of study.

Apart from strategic management, another trend that helped to shape emerging *public management* was the rise of the 'managerialist' doctrine in business management.⁵ This thinking is best exemplified by Peters and Waterman's *In Search of Excellence* (1982), in which they criticized overbureaucratized corporations as constraints for knowledgeable and competent managers committed to their customers and determined to create value for their organizations. Once again, the focus was the (top) manager. While study (and exaltation) of managers was nothing new, this time managers were fighting something relatively new—the excessively rigid organizations they managed themselves. Thus, focus on organizations was not only perceived to be myopic with regard to missing

⁵ The term is preferred by non-American (mostly Commonwealth) writers, although it is gaining more and more acceptance in the US. For Americans, the term "managerialism" may have sounded as a quite old concept from the Progressive era.

the bigger picture, but also limiting in action and excessively conservative for meeting challenges and taking advantage of new opportunities. A focus on managers means that all organizations (both public and private) are virtually the same, and managerial expertise (success) and best practices are easily transferable. Interestingly, such an assertion is less and less frequently made in the business administration (or organization studies) literature, from which it was borrowed.

Normative Character

Simon, Smithburg and Thompson (1950, p. 19-20) argued that “the study of behavior of persons in organizations can be non-normative,” and that the book “will largely be concerned with administration as a science... in [the] sense of objective understanding of a phenomena without confusion between facts and values.” Since the late 1950s, though, the idea that social thought cannot be “normless” came under severe criticism. So the question became which norms or values should be accounted for. By the mid 1970s, especially after the New Public Administration movement, public administration came to be seen as concerned with “the performance of the polity, with citizen roles and performance, and with the public administrator’s role in creating and sustaining relationships between citizens and their governing institutions. Many scholars in public administration... have insisted that administration is essentially about serving the public interest” (Lynn 1996, p. 52). Public management proponents, on the other hand, very often focus on results. One of the most renowned authors of public management, Michael Moore (1996), clearly stipulates that he is developing “a normative (rather than positive) theory of managerial (rather than organizational) behavior” (p. 2). He also mentions that two questions are in the center of his inquiry: 1) How should managers cope with inconsistent, fickle, political mandates; and 2) how can they best experiment, innovate and reposition public organizations in their changing environments?” (p. 6).

This results in the irony that public management is considered "excessively" normative in the public policy circles, while the public administration community considers it lacking normative character (Lynn 1996, p. 87). Obviously, the points of reference for norms are different for the two communities, because they are shaped by different discourses. The public policy community is interested in results and specifics, and the public administration community is interested in legitimacy of the system as a whole in general, and public organizations in particular. Thus, being normative for the first group usually means geared towards action, and was shaped by the Great Society discourse of rationally introducing change. And since it was presumed that public policy advice was going to be consumed by policy-makers (i.e., elected politicians), questions about legitimacy were not seen as perplexing. Being normative for the second group means being accountable in a constitutional framework, or operating within the norms of discretion under democratic (i.e., elected) authority and serving the public interest. This line of thought was reified by the discourse questioning the rise of the administrative state and bureaucracy's increasing role in society, and can be traced back at least to the Finer-Friedrich debate in 1940-1941, later articulated with all intensity by Lowi (1979) in the 1960s.

In the 1970s, the problem was also attacked from a public choice perspective (Niskanen 1971). Apart from this, New Public Administration (Marini 1971; Frederickson 1976) in the 1970s and the "constitutive school" (i.e., viewing public administration as a legitimate part of the American constitutional regime) in the 1980s and 1990s (e.g., Rohr 1986; Wamsley et al. 1990; Cook 1992) brought the previously maligned issue of public interest⁶ (e.g., Schubert 1956) back into discussion. As opposed to mostly economics-informed public policy discourse, 'public administrationists' (as the

⁶ Public interest, much like the concept of state, was dismissed by behavioralists because it could not be "found" empirically.

proponents of ‘public management’ call them) look at the imperatives of public action from a wider perspective, trying hard to articulate other, complementary criteria other than the allocative efficiency criterion of microeconomics.

A good example of different emphases in public management and public administration is the recent debate in the pages of the *Public Administration Review*. Arguing that “any field of science is defined by the big questions it asks,” Robert Behn (1995, p. 315) suggested the following big questions in public management:

1. *Micromanagement*: How can public managers break the micromanagement cycle—an excess of procedural rules, which prevents public agencies from producing results, which leads to more procedural rules, which leads to...?
2. *Motivation*: How can public managers motivate people (public employees as well as those outside the formal authority of government) to work energetically and intelligently towards achieving public purposes?
3. *Measurement*: How can public managers measure the achievements of their agencies in ways that help to increase these achievements?

He distinguishes two facets of the micromanagement question—the issue of trust between executive and legislative branches, and the governance issue of aiding public managers to help clarify how legislators, political executives and career civil servants should share responsibilities for policy-making and implementation. Despite the fact that Behn clearly does not have a narrow vision of these “big” questions, the locus of his concern is clearly the manager, and emphasis is on action and achievement.

Responding to Behn, Francis X. Newman (1996) and John J. Kirilin (1996) argue for a totally different set of “big” questions for public administration. Newman (1996, p. 410), while acknowledging that Behn has raised important questions, charges that Behn’s questions are “of application, not probes into the origins or basic nature of the discipline.” Newman poses the following “big” questions:

1. What is the nature of organization? Of a “public” organization?
2. How is the public organization related to its environment?
3. What does it mean to manage or to administer the public organization?

Kirlin (1996, p. 416) argues that Behn’s questions, by focusing on managers, “give management of organization primacy over the democratic polity, a position effectively critiqued by Appleby (1949) nearly half a century ago,” and that it ignores political and legal aspects of public administration. He identifies the following “big” questions of public administration in a democracy:

1. What are the instruments of collective action that remain responsible both to democratically elected officials and to core societal values?
2. What are the roles of nongovernmental of collective action in society, and how can desired roles be protected and nurtured?
3. What are the appropriate tradeoffs between governmental structures based on function (which commonly eases organizational tasks) and geography (which eases citizenship, political leadership and societal learning)?
4. How shall tensions between national and local political arenas be resolved?
5. What decisions shall be “isolated” from the normal processes of politics so that some other rationale can be applied?
6. What balance shall be struck among neutral competence, representativeness, and leadership?
7. How can processes of societal learning be improved, including knowledge of choices available, of consequences of alternatives, and how to achieve desired goals, most importantly, the nurturing and development of a democratic polity?

Kirlin identifies the criteria that the “big” questions of public administration in a democracy should satisfy:

- Achieving a democratic polity;
- Rising to the societal level, even in terms of values also important at the level of individual public organizations;
- Confronting the complexity of instruments of collective action; and
- Encouraging more effective societal learning.

Because by and large public administration and public policy programs are functioning as different entities, little exchange is going on between them. As a result, the discourses perpetuate their claims. The result is that often there is confusion about equally valid conflicting norms/values.

Method and Universality

Simon, Smithburg and Thompson (1950, p. 10-12), noting that differences between public and private administration are most often “in degree rather than in kind,” argued that “it is possible to work out a general theory of administration that will encompass all kinds of organizations.” *Public management*, though, was aspiring to a higher calling than the theory of what was perceived as the internal management of organization, at the same time shying away from raising excessively political “systemic” questions.⁷ It followed the lead of public policy studies and focused on specific policies or tasks, taking the general political system as a background, or as a secondary concern. By and large public management was contextualized in terms of the political system, i.e., the emphasis was on political dynamics of the policy subsystem (how different actors behave) rather than on the place of policy within a larger system and its relation to other societally important values. Following the lead of the public choice approach, the political system was conceived as a set of rules where different exogenous interests compete. As V. Ostrom (1977: 1510) wrote, “the subject matter of political inquiry is the allocation, exercise and control of decision-making capabilities among people in human societies. Decisions are ordered by reference to rules.” On the other hand, following the logic of managerialism, these different arenas of action were seen as essentially similar, where senior executives could easily use their previous experience of focusing on outcomes, and foregoing petty controls imposed by bureaucratic regulations.

⁷ Although many public management scholars argue for normative theory, they usually mean action-oriented prescriptive theory, not one that raises normative questions like responsibility and discretion.

Classic organization theory was perceived as too myopic and limited, and too apolitical approach. On the other hand, it often raised overarching value (systemic) questions that neutral managers were not supposed to focus on. Another, generic approach was needed that would offer a common methodological basis for studying diverse phenomena at hand. Microeconomics, borrowed through policy analysis, came as the savior, offering a rigorous across-the-board methodology for analyzing vastly different policies, since all policies were conceptualized in terms of scarce resources and choice.

In essence, public administration was borrowing a metaphor (methodology) from policy analysis that, in turn, was borrowed from microeconomics (and operations research). The problem, though, was that the metaphor was having problems both at its "foster" home of policy analysis, as well as its initial domain, economics. A careful reading of developments in both fields shows that economic methodology is contextual and does not apply to all problems and all times.⁸

Differences in emphasis between economics and public administration have been noted by public administration scholars. Fred Thompson (1997, p. 997), although encouraging public administrators to look for answers "outside of the box" more often, especially when studying public economics, argues that the "rational-choice, economics-based paradigm has not emerged preeminent, at least not so far." He mentions three reasons why public administration is not economics:

⁸ See Appendix 3 for detailed discussion.

- 1) Public administration is concerned with prescription, while economics is concerned with prediction. “Bluntly put, public administrators solve problems, economists explain choices” (p. 997).
- 2) “Economics is an a priori, theoretical discipline; public administration is concerned with “pragmatic reform.” Economists build elegant, logically consistent deductive models; public administrators deal with messy, real-world problems. Indeed, it can be argued that economists prefer rational choice theories to models that incorporate bounded rationality primarily because they are conclusive, not because they are right” (Ibid.).
- 3) Public administrators are preoccupied with technical efficiency (getting the most output), while economists are concerned with allocative efficiency (p. 999-1002).

Commenting on the situation in Anglo-American public sector, where “organizational and administrative agendas have been intellectually and epistemologically “hijacked” by a virulent strain of positivist “science”—economic rationalism” (Kouzman et al., 1997, p. 22), Kouzman, Leivesley and Korac-Kakabadze argue that among many other vices (e.g., value-fact dichotomy), social choice theory is allegedly “strong” on prediction only because of a concentration on behavioral outcomes, at the expense of dismissing issues of “how” and “why.” Most public administrators, on the other hand, are primarily interested in “how” and “why” questions, since they both need prescriptions and to justify their actions in the face of competing value norms. For them, decision-making is not simply about choices between alternatives according to particular values in the value-fact hierarchy, but a complex matching of reality judgments (what do we have), value judgments (what we ought to have), and instrumental judgments (how do we get there)—a three-pronged single human activity that Sir Geoffrey Vickers has labeled “appreciation” (Vickers 1995).

Thus, the question of values always returns. Discussing the issue of neutrality in the 1960s, well after *Administrative Behavior*, Herbert Simon (1967) proposed to discuss the issues of power of a bureaucratic office not in terms of neutrality, but in terms of autonomy and predictability and reliability. He argued that every profession does not simply apply its knowledge and expertise neutrally, but applies it to some usually legitimate, societally agreed end. So, speaking about neutrality, one must think about the predictability of values that will be achieved by "impartial" actions of the bureaucracy. To the extent as values are not questioned, Simon proposed, we can insist on neutrality. But when values change, we cannot be sure that the "neutral" routine of the bureaucracy is taking us to predictable, reliable societal values we endorse. The question is, how often are values unquestioned? Can we safely assume that this happens quite often, and addressing values should be a rare phenomenon? And how do we decide when to inquire about values?

Finally, on the organizational level, administrative science once promised to render generic science for all types of organizations (Simon et al., 1950). Now, its claims are more modest. Commenting on the belief "that there has to be one theory of the organization and one ideal structure," one of the most prolific and influential management scholars, Peter Drucker (1997, p. 5) argues, "organizations will increasingly be fashioned differently: for different purposes, different kinds of work, different people, and different cultures. The organization is not just a tool. It bespeaks values... we are rapidly moving toward a plurality and a pluralism of organizations." A very similar idea is advanced by Herbert Simon almost fifty years later from the publication of the classic Simon, Smithburg, Thompson textbook (Simon, 1997, p. 11):

The idea that there is one form of organization—specifically, the private corporation—that has a unique capacity for efficient action is simply a myth that ignores both the motivations at work and organizational behavior and the limits in

our capacities for measuring consequences and converting them into costs and demand prices. Finally, the forms of organization in a society have much to do with the distribution of power... A plurality of organizational forms, governmental alongside private, can help to disperse power in society.... There are no simple formulas for choosing between markets and organizations, or between governmental and private organizations, in a modern society. A great variety of patterns can be seen in the world today without clear choice among them. Simple dogmas of universal privatization or socialization are particularly suspect for the concentration of power they encourage. There is a great deal to be said for hybrid vigor.

Supporters of public management may argue that while organizations vary, management does not. Managers, according to this view, are carrying out essentially the same functions everywhere, just modifying it for scale and scope of the task and peculiarities of the environment they are working in. This notion has been contested by students of public affairs for some time now, and is currently being questioned in business management. For example, Laurence Lynn (1987, pp. 59-64) identifies three levels of games--high, middle and low--to describe the practice of politics, public administration and policy implementation. The high game, for instance, addresses "philosophies of government and fundamental responsibilities of our institutions." High games are played in the open, without many behind-the-scenes deals. They involve media, academics, politicians and bureaucrats. Other games differ both in characteristics and participants. In a similar notion, Christopher Bartlett and Sumantra Ghoshal (1997, p. 93) contest the "Russian doll" model of management, "where at each level of hierarchy, the manager is similar but bigger than the manager level below." In reality, they argue,

A hierarchy sharply differentiates roles vertically. In hierarchical organizations, top-level managers set direction by formulating strategy and controlling resources; middle-level managers mediate the vertical information processing and resource allocation processes by assuming the role of administrative controllers; and, swamped by direction and control from above, front-line managers find themselves in the role of operational implementers. Despite these differences, however, theory and practice have actually reinforced each other: the theory has made the hierarchy legitimate while the practice has made it operational (Ibid.).

Later, Bartlett and Ghoshal (1997) discuss how these roles have been changing recently. The transformation, though, is not in the direction of convergence. Operating-level managers are changing from operational implementers into aggressive entrepreneurs, senior-level managers are transforming from administrative controllers to supportive coaches, and top-level managers are turning from resource allocators to institutional leaders.

To all of these, one can add the fundamentally much more open and vague nature of public problems, which makes situations even more complex in the public sector. Much has been written about the differences in public and private management (e.g., Rainey 1991; Allison, 1984). For illustrative purposes only, let us look at the recent assessment of the issue by one of most prolific and influential "generic" management scholars—Henry Mintzberg.

Discussing three basic assumptions underlying the "Management"⁹ view of management," Mintzberg (1996) notes the: 1) activities can be isolated both vertically and horizontally; 2) performance can be measured fully and properly; and 3) activities can be entrusted to autonomous professional management held responsible for performance. According to Mintzberg (1996, p. 79), "these assumptions, in my opinion, collapse in the face of what most government agencies do and how they have to work." The reasons are that it is very difficult to separate government activities not only horizontally (e.g., foreign policy cannot be identified with single agency), but also vertically—i.e., isolate administration from politics; measurement in public services often requires "soft" or normative judgment, and hard measures are not much help; and the cult

⁹ Mintzberg (1996, p. 78) capitalizes Management to denote "a narrow, stylized process that, according to my research, has surprisingly little connection with what effective managers actually do."

of heroic leadership of management often results in constant reorganizations and confusions.

Armed with such a perspective on the concept of management, one has to approach to the claim that public management is better suited for understanding and dealing with the concept of governance, with a healthy dose of skepticism. As discussed in the previous chapter, according to the OECD framework *public administration* is the rather mundane task of properly taking care of the organizational side of the government. *Public management*, on the other hand, is concerned with *managing the governance process*, and “encompasses the broad range of techniques and strategies that are used to carry out the responsibilities assigned to governments” (e.g., managing economic development). “It includes, but goes beyond, the structure and administration of the public service. In contrast, the term “public administration” refers to the techniques by which government policies are carried out” (OECD, 1996a, p. 11). Despite the OECD rhetoric, the question of governance is not a primary concern of American concept of public management, and because of its shared methodology with NPM (focus on managerial behavior and tasks, microeconomic rationality, etc.), neither it is one of the main aspects of NPM.¹⁰ Out of the discussed concepts of public administration and management which have been put forward the closest to addressing the governance perspective as envisioned by OECD¹¹ is the conception of public administration provided

¹⁰ For example, discussing (new) public management, Les Metcalfe and Sue Richards (1987, p. 17), mention the following two features, among others, that describe management: (1) Management is an intra-organizational process, i.e. it is what goes on within organizations. (2) Managerial control is hierarchical: coordination and control are achieved through well-defined hierarchies of responsibility and authority. How exactly these features are going to facilitate addressing the issues of governing in complex web of organizations, networks, multiple and overlapping hierarchies, non-permanent actors, is a question still to be answered.

¹¹ I.e., “more than public administration and the institutions, methods and instruments of governing...also the set of relationships between governments and citizens, acting as both individuals and as part or through institutions, e.g. political parties, productive enterprises, special interest groups and the media” (OECD, 1996a, p. 11).

earlier in this chapter by Kirlin (1996), with its explicit emphasis on societal learning, among other features.

Richard Green and Lawrence Hubbell (1996) analyze in detail implications of the Reinventing Government movement for governance. Drawing from the Blacksburg Manifesto (Wamsley et al., 1990), they define governance as "administering in a political context" and directing competence toward the "broadest possible public interest," and see it as competence in sustaining "the agency perspective," and the "constitutional governance process" (p. 38-39). Administering in a political context requires multifaceted "agential" leadership, the elements of which include:

- (a) the ability to sustain dialogue among competing interpretations of our regime values, and to balance their inherent tensions within and among diverse policy contexts;
- (b) stewardship or trusteeship, which includes notions of representation and standing in for the people on decisions of public interest;
- (c) conservatorship, which requires an articulate sense of institutional preservation and performance;
- (d) a restraining or tempering influence over public opinion for the sake of preserving long-term, as well as short-term public interests;
- (e) protection of our fundamental rights, and maintenance of rule by law;
- (f) educators and nurturers of citizen roles in our democratic governing process;
- (g) constitutiveness, which involves presenting (or perhaps, confronting) citizens with choices that will define their character as a common people (Green and Hubbell, 1996, p. 39).

Against this list of criteria, their assessment of Reinventing Government is merciless:

In terms of governance, we must conclude that Osborne and Gaebler's entire reinvention thesis offers no more than a disappointing series of red herrings. Nothing in their model is really new, and most of it leads down blind alleys. They parrot much of our Progressive reform tradition, melding it to neoclassical economic philosophy as revived through public choice theory. In many respects, they have simply reinvented our historic impulse to reform our governments and are bound to disappoint everyone because the problems they seek to confront remain intractable (p. 60).

To sum up, discussion of method inevitably brings forth the issue of values and contextual nature of knowledge generated by different disciplines (which may not only look for different answers, but also might ask different questions). Comparing phenomena in different national-administrative contexts complicates the issue even more. Since public administration (and public management) is a truly interdisciplinary endeavor (Stillman 1991; Kettl and Milward 1996) that actively borrows from other disciplines, it is becoming increasingly obvious that students of public management cannot afford not to address the issue of values. The question, then, is what are the criteria and procedures for “arranging” often conflicting borrowed metaphors from different social and epistemic contexts? How we can compose a truthful, convincing meta-narrative from a variety of partial narratives? Obviously, a successful management framework should address this question.

Is There Really a Revolution?

Discussing public management one should consider also the emergence and popularity of two public management paradigms recently very popular in Anglo-American countries-- the New Public Management (NPM) in Britain, New Zealand and Australia, and the Reinventing Government (ReGo) movement in the US. New Public Management¹² also

¹² The word 'new' was emphasized by the proponents of the term to denote a break from what they perceived as the American conception of public management as the applied subfield of public administration and public affairs (Hughes 1998). Ironically, Hughes is basing his argument on a quote from American scholars (Shafritz, Ott, and Hyde) who are more closely associated with the National Association of Schools of Public Affairs and Administration (NASPAA), and who tend to view public management as such. In the 1970s, when the public management movement was still in formation in the USA, the flagship journal of public administration in the US--*Public Administration Review* (PAR)-- had a rubric under the title *public management*, where public management was perceived as an applied subfield. Even one of the first books explicitly taking a policy analysis approach, Bozeman's (1979) *Public Management and Policy Analysis*, did not contain a definition of what public management is and how different it is from public administration. But after the establishment and rise of the Association of Public Policy Analysis and Management, and the emergence of the *Journal of Policy Analysis and Management* (JPAM) as a leading forum for proponents of the new view of public management as an "independent" field of study, PAR became more 'traditional.' Despite the fact that there is still no consensus as to what public management exactly is (Bozeman 1993; Kettl and Milward 1996), if the proponents of NPM looked at APPAM-affiliated scholars for reference, it would have been quite difficult to claim that *New Public Management* is

has had considerable impact on public management discourse internationally, especially through the Public Management Service (PUMA) of OECD.

One can confidently argue that despite significant achievements in reforming public management practices around the world, New Public Management and its cousins across the world exhibit a lot of variety and do not live up to the title of paradigmatic revolution.¹³ The US experience is telling in this context. The reason the US was not as radical in its attempts at administrative reform in the 1990s is not only because of a more stable political-economic situation and more openness to interest groups and a less abrupt political process, but also due to the experience with tenets of reform earlier (PPBS, ZBB, Grace Commission) that did not yield spectacular results.

Many students of reform argue that in order to fully understand the phenomenon of administrative reform, one should extend analysis to political structures and context beyond the administrative machinery of the government, a research agenda that is rarely pursued. Lynn (1996b), for example, finds only Heady (1996) systematically following such a premise. Some researchers argue for extending basically micro-economic logic of analysis to political phenomena as well for this purpose. Howard Frant (1996), for example, calls for learning from New Political Economy, and examining interests and motivations of not only bureaucrats, but also politicians. He argues that NPM research has ignored the "citizen-politician nexus" in principal-agent theory partly because the theory is derived from the private sector, and partly because positivistic enterprise of inquiry shies away from questions of values and norms. Some observers, on the other hand, argue that argumentation and tolerance are more important for administrative

really new, since APPAM's conception of public management would have been an emerging, independent discipline with managers (instead of organizations) and results (instead of process) as its focus.

¹³ See Appendix 4 for detailed discussion.

reform than design and performance (Hood and Jackson, 1991), and call for analyzing the philosophies and rhetoric of reforms. Such an approach "allows one to be more sensitive to political norms and values, and to political cultures and situations behind mere rhetoric" (Keraudren and van Mierlo, 1998, p. 47). It allows us to explore how different (often contradicting) streams of thought are being combined in one reform, what does account for their public acceptance, how different political goals interact with administrative reform strategies, and why reforms that are often couched in the same meta-language differ from country to country. Such an approach is highly contextual in nature, and requires explicit discussion of ideas shaping the events as a part of the analysis of the situation.

A systematic look at Public Management (new or old, Commonwealth countries, North American or other) variations around the world shows that ultimately administrative reforms are political phenomena, and without discussing the political/economic context one cannot fully account for variance in practices. Similarly, the question of public management theories eventually boils down to different values and visions. One should not jump to a conclusion, though, that values and norms determine administrative practices, and nothing else matters. Rather, as a pragmatic aspect of the government, public management/administration (both the practice and the discipline) is multi-dimensional and reflects compromise, past institutional legacies, and conceptualization of economic and social problems, as well as ideology. The task is to analyze how different visions of government and management are incorporated into often eclectic frameworks that find popular and academic acceptance and, ultimately, political support. As we will see later, argumentation is extremely important, because it is the glue that holds together different parts of the whole.

Though Public Management addressed some of the shortcomings of Public Administration, it did not answer all of them, and left several issues of traditional PA virtually unanswered. Christopher Hood (1991), for example, has argued that NPM emphasizes a certain set of values over other, also legitimate set of values. NPM, according to his insightful analysis, is emphasizing what Hood calls Sigma-type values (purposefulness, frugality, efficiency), while assuming Theta-type values (honesty, fairness) as given under certain structures, and virtually ignoring Lambda-type values (resilience, robustness, survival and safety). As we have discussed above, the Public Management movement in the US has very similar foci. But the problem is that, however strong the political emphasis over certain values, the government cannot completely forgo the other values, and mainstream public administration knowledge (characterized first of all, by textbooks) has to reflect those values, too.¹⁴

It is also important to note, that traditional Public Administration has evolved, and looking at the content of some recent books on PA and PM it is hard to distinguish exactly how different they are (Newland, 1994). In essence, the problem was misconstrued when the problem of competing values was seen as the demise of "old" values. In reality, values can surface in different combinations and configurations, and the task of the student of public administration/management should be examining how these alterations impact administrative behavior and outcomes. Very brief analysis of selected volumes on public management and administration shows that differences are of

¹⁴ Because they try to appeal to a wider audience, textbooks are always more "mainstream" and reflect changes much more conservatively, while journals and monographs are much faster to reflect changes. Despite the fact that journals have different theoretical and methodological concerns, a content analysis of journals and conference proceedings, still might have resulted in quite similar results, since during recent decades there was a proliferation of scholarly journals with different foci. More thorough analysis would require not only content analysis of textbooks and journals, but also institutional structures that support such a knowledge-- new instructional and training structures in the academic environment (new type of schools, departments, etc.), impact of different professional associations (APPAM, NASPAA, IPMN, etc.), affiliation of journals (universities, associations, commercial publishers), different award and publicity programs, etc. Because of space limitations, I will discuss very briefly only selected textbooks, as the most "neutral" medium of public administration knowledge.

degree, and not of kind, and that the lines between the two are becoming increasingly fuzzy.

Levine, Peters and Thompson (1990, p. 307), in their well-received public administration text, define management in general as "whatever those formally in charge of organizations actually do," or the organization and direction of resources to achieve a desired result," and tie the concept of management to executives. Crane and Jones (1991), in their *The Public Manager*, argue that public management involves: (1) working with and through other people; (2) striving to achieve public goals; (3) applying management skills and knowledge. While the definitions are quite similar and cover very comparable sets of topics, what actually is different is the organization of textbooks. The first text starts and pays considerable attention to the macro-view of public administration (i.e., bureaucracy in the political system, representation and responsiveness, etc.), while the second jumps into essentially POSDCORB-based organization of the text after a much shorter introduction about the context of public organizations.

In a similar vein, Berkley, Rouse and Rodovich's (1991) *The Craft of Public Administration* pays more attention to organizational level phenomena (leadership, personnel, communication, budgeting, etc.), while Palumbo and Maynard-Moody's *Contemporary Public Administration* (1991) clearly distinguishes between micro- and macro-level issues, and before engaging detailed discussion of micro issues, considers the problems of public bureaucracy. Finally, in more recent textbooks, divisions are becoming less and less clear. Grover Starling's *Managing the Public Sector* (1998) discusses public administration instead of public management, as one would suppose from the title, but as opposed to earlier public administration texts, does not discuss public bureaucracy in general. It also pays attention to market mechanisms and

privatization in more detail, as management- and policy-oriented texts do, but also has a separate chapter on ethics that most of those texts do not. Garvey's (1997) *Public Administration: The Profession and the Practice*, is similarly more difficult to classify into either tradition. It starts with personnel administration (with history of civil service) and organization theory, then discusses some traditional macro-issues (e.g., accountability vs. discretion, public vs. private, etc.) and ends with policy analysis and implementation studies. These texts also contain more public choice- and microeconomics-informed material, and as opposed to textbooks from two-three decades ago, do not contain chapters on comparative or development administration.

To sum up, public management falls short of paradigmatic revolution in the field of public administration/affairs. Despite its success in institutionalization of a certain discourse, and addressing some shortcomings of "traditional" public administration, public management still fails to establish a separate identity, distinct from public administration, as an academic or practical discipline. Neither does public management allow a broader, governance-oriented view of the field that transcends ossified structures of bureaucracy. While it offers more insight and appreciation of market-type relationships in delivery of services, it adds little in terms of citizenship, authority, responsibility, cooperation, fairness, etc. Its emphasis on certain aspects and values does not diminish the validity or importance of other values and concerns that managers and organizations confront in everyday life. The analysis of public management/administration, thus cannot escape the normative issues of governance, an issue that becomes far more important in

comparative perspective, where regime values and objectives cannot be assumed to be either uniform or enduring.

Is this an impasse? Does it mean that competing (and simultaneously overlapping) research programs in the field will deter us from cumulative knowledge generation? To answer this question, it is important to take a historical viewpoint of the subject. Analyzing public administration discourse both in Europe and America during last four centuries, Mark Rutgers (1997, p. 295) concludes:

In the past 350 years, the public administration discourse is continuously wrestling with its identity. Time and again, the differentiation and integration of knowledge are advocated, normative foundations are disputed, and both the practitioner and academic orientation claim priority. This leads to flip-flopping between limiting and specializing public administration, on one hand, and the call for synthesis and knowledge integration, on the other hand. By continuously pursuing an encompassing characterization, both in normative/descriptive and academic/practical way, the public administration discourse has to deal with an identity crisis.

After such a view on the evolution of public administration, it is hard to speak of paradigmatic revolutions in the field. In the Kuhnian (1970) model, old paradigms collapse and new ones take hold, and mature science is united by a single paradigm. Others have contested this dynamic, saying that the history of science "has been and should be a history of competing research programs (or, if you wish, paradigms)" (Lakatos, 1970, p. 155). Indeed, examples from other social sciences prove this point (e.g., Ferguson and Mansbach, 1988). It has also been argued that this Kuhnian dynamic of paradigms, even if true for natural or experimental sciences, is not necessarily true for social sciences, where coexistence of paradigms does not necessarily mean an undeveloped, "preparadigm" state of affairs (Diesing, 1991, p. 56). Still others argue the "punctuated equilibrium" model or Schumpeterian "classical situation" when there is

more or less consensus about the body of the scientific theory as more characteristic for social sciences (Heilbroner and Milberg, 1995). Realization of competing paradigms (research programs, value frameworks, etc.) has brought forth responses that try to accommodate the problem with various versions of eclecticism, which will be discussed in more detail in the next chapter.

Before addressing the methodology of synthesis for social sciences, we still should ask what does this diversity (or cacophony) of ideas mean for public administration. As Rutgers (1997, pp. 295-296) argues, the practice of public administration always did and will transcend disciplinary and thematic boundaries. This is aggravated by the fact that the "object of knowledge in public administration cannot be visualized directly," a notion mentioned by the famous German administrative scientist Lorenz Von Stein more than 100 years ago.¹⁵ Von Stein argued that there is hardly any other science that "must consider so many preliminary theoretical and philosophical ideas before its object of study appears" (Rutgers, p. 296). This leaves us with an understanding that

...different approaches are not only possible, but are, in fact, necessary, to get a coherent view of (parts of) public administration. As a consequence, public administration as an interdisciplinary field cannot adopt a limited, singular approach. At the same time, this implies that the world of practitioners cannot be the starting point for an academic study. It is the practitioner orientation of interdisciplinary research that requires an integrating starting point, a theoretical framework.... Only when attempts to unite all approaches into one theory are abandoned can the study of public administration truly become a knowledge-integrating discourse (Rutgers, 1997, p. 296).

¹⁵ Although Von Stein's studies transcended purely governmental administration, public administration was the core and essence of German administrative sciences. Thus, the above-mentioned quotation should be understood as relating to public administration.

Toward the Theory of Comparative Public Management

Public administration scholars in general, and comparative and developmental administration scholars in particular, have always held close to heart Dahl's (1947, p. 10) assertion that "no science of public administration is possible" unless "there is a body of comparative studies from which it may be possible to discover principles and generalities that transcend national boundaries and peculiar historical experiences."¹⁶ Late twentieth century globalization has added new relevance to this issue, making the universality of (new) public management one of the most important "emerging issues" in the field (Hood, 1995). On the other hand, comparative public administration is argued to lose relevance and methodological freshness if it neglects developments in "non-comparative" public administration or focuses on some narrow range of topics (Jun, 1976; Page 1995). One can argue, then, that the answer lies in a public administration methodology that works equally successfully for both comparative and non-comparative purposes.

In this respect, analysis of the Public Administration to Public Management movement (however successful) is extremely important, since it mirrors similar issues Comparative Public Administration had to wrestle with and which has resulted in the bifurcated field of Comparative Public Administration and Development Administration. Obviously, if one aims for a unified methodology of Comparative Public Administration, he or she has to address the same concerns that led to the emergence of Public Management.

As public management, development administration was always concerned more with results rather than process. But because of value and focus differences, development

¹⁶ After ensuing behavioral revolution, two other Dahl's equally important concerns--(1) clarifying the role of normative values; and (2) better understanding of the nature of man in public administration--have been resurrected far less frequently.

administration, despite some yet inconclusive recent trends, is not quite similar to public management. There are two reasons. First, development administration has a larger than organizational concern, and does not focus on managers as the pivotal actors in change. The second reason is that of a different concept of the state that underlies each endeavor. Development administration, much like German cameralism, has an active-positive view of the state. The state promotes, to some extent even engineers, economic and social development. Administratively, this may pose a problem, because the task (development) is vague, contextual and subject to change. Very often this results in shifting the emphasis from "administration of development" to "development of administration," or to enhancing bureaucratic capacities (competencies) of the state. Public management, especially as exemplified by British and New Zealand versions, on the contrary, shies away from such a task. The government here is a "virtual-government," where ideally "microstructures (the activities of agencies) would no longer exist within government," and the "superstructure will exist only to the extent needed to arrange for private organizations to provide public services" (Mintzberg, 1996, p. 81). Here it is important to develop basically managerial capacities of negotiating and monitoring contracts. It is not surprising, then, that development models based on neoclassical economics had a relatively short life in the field of development administration, and are being succeeded now by more complex and dynamic models, wherein policies are seen as "dynamic combinations of purposes, rules, actions, resources, incentives, and behaviors leading to outcomes that can only imperfectly be predicted or controlled" (Brinkerhoff, 1991, p. 6).

Once again, we can see that methodology is connected to norms. Comparative Public Management, then, especially if it has practical aspirations, cannot be insensitive to values, norms or political purposes and take a uniform approach across scores of countries. To sum up, the adopted framework for Comparative Public Management should be open-ended and flexible. It should:

- **Explicitly address the inescapable issue of norms and values, though also providing some guidance for both dealing with value conflicts and making different frameworks analytically comparable;**

- **Be flexible in the subject and the focus of the study, since:**
 - a) **In Comparative Public Management researchers are inescapably involved in systemic comparisons. Even if they want to concentrate on lower level, intra-organizational phenomena, they have to discuss much wider issues.**

 - b) **The focus of such an eclectic and multi-disciplinary field as public administration/management cannot be defined once and for all, since issues of or about government administration will never cease to be framed by a variety of people with conflicting agendas and positions. In much narrower terms, with the rising popularity of the concept of governance, neither bureaucracy nor managers can be viewed as the single most important concepts defining the field.**

- **In terms of a methodology, comparative public management/administration should be able to incorporate and appropriate competing value frameworks and metaphors borrowed both from other social sciences, and expressed by real-life political and administrative actors. This means moving away from rigid “science” to a more interpretive, multi-methodological approach, one that is not opposed to rational action, but delineates and complements it.**

CHAPTER 3

The Methodology of Comparative Public Management Research: A Discursive Approach

A comparative public management research program, as argued previously, should be able to address the issues of reconciling (or appropriating) competing value frameworks in society while solving real-life administrative problems, attune various intellectual influences in the fundamentally interdisciplinary field of public management to the problem at hand, and be consistent with the traditions and criteria of comparative research in social sciences. The two first concerns, although not identical, are quite similar, and will be discussed together. Both have to deal with weaving certain (often conflicting) ideas into a persuasive story/action program, while discarding very similar ideas for the same purpose. In this chapter we will discuss methods of dealing with partial narratives or addressing different value frameworks, examine the traditions of comparative research in public administration and other social sciences, and suggest a method that addresses both concerns.

Dealing With Multiple Narratives in A Complex Social World

As argued, the study of public management cannot sidestep the issue of norms, values and different interpretations. Is this concern unique for public management due to its radically inter- and sometimes, cross-disciplinary nature as a field, or it is a valid issue for sciences in general? Or, perhaps, for social sciences? Social sciences have long been argued to be different from natural sciences.¹ As Anthony Giddens (1993, pp. 20-21) maintains,

¹ Multiplicity of perspective in social sciences is often linked to interpretivist and social-constructionist approaches to the enterprise. The interpretivist approach in social science—the desire to understand, rather than explain, has intellectual underpinnings in German tradition of hermeneutics and *Verstehen* tradition in sociology, phenomenology of Alfred Schutz (1967), and critiques of scientism and positivism by ordinary

The difference between society and nature is that nature is not a human product, is not created by human action. While not made *by* any single person, society is created and recreated afresh, if not *ex nihilo*, by the participants in every social encounter. *The production of society* is a skilled performance, sustained and 'made to happen' by human beings. It is indeed only made possible because every (competent) member of society is a practical social theorist; in sustaining any sort of encounter he or she draws upon social knowledge and theories, normally in an unforced and routine way, and the use of these practical resources is precisely the condition of the production of encounter at all.

This, in turn, has implications for social sciences.

Sociology, unlike natural science, deals with a pre-interpreted world, where the creation and reproduction of meaning-frames is a very condition of that which it seeks to analyze, namely human social conduct: this is, to repeat, why there is a double hermeneutic in the social sciences that poses as a specific difficulty what Schutz, following Weber, calls the "postulate of adequacy" (Giddens, 1993, pp.166-167).

Whereas the arguments by Giddens and others² focus on "pre-interpreted nature" and complexity of the social world, the argument by Goktug Morcol (1997a; 1997b) originates from a different perspective--human ability to comprehend the world. Drawing from "constructivist psychology, cognitive science, and the new sciences of quantum mechanics, chaos theory and fuzzy logic," Morcol (1997a, p. 54) argues that we "have a natural disposition from the childhood toward using metaphors in our thinking and

language philosophers. Historically, the interpretivists held the view that mental sciences (*Geisteswissenschaften*) or cultural sciences (*Kulturwissenschaften*) were different in kind than natural sciences (*Naturwissenschaften*), with the goal of the latter being scientific explanation, and the goal of the former being grasping or understanding (*Verstehen*) of the "meaning" of social phenomena (Schwandt, 1994, p. 119). The issue was once again forcefully articulated in the US by Clifford Geertz (1973) who called for a new paradigm for social science inquiry, stipulating that it should be "not an experimental science in search of law but an interpretive one in search of meaning," and called for "thick description" of social phenomena instead of law-like generalizations of observed relationships between phenomena.

Objectivity in science has been attacked not only by social scientists and specialists in humanities in the universities (e.g., Denzin and Lincoln, 1994; Rosenau, 1992), but also been discussed with regard to natural sciences in political circles. For example, in June of 1993, Congressman George J. Brown, Jr. submitted a report to the House Committee on Science, Space and Technology, entitled "The Objectivity Crisis: Rethinking the Role of Science in Society," based on a discussion of a panel of distinguished scientists at the American Association of Advancement of Science 1993 Boston meeting. One has to note, though, that most criticisms of objectivity in physical (natural) sciences is not as much directed against epistemology (and ontology) of research in physical sciences but against social organization of natural sciences (funding, priorities, basic vs. applied research, etc.).

² For a systems theory view on complexity of social world, see Appendix 5.

communication." Since "political and organizational realities are inherently ambiguous," (p. 55) it is "epistemically necessary to use metaphors in organization theory" (p. 43).

All of this amounts to a different than traditional view of science. For Giddens, for example, the primary tasks of sociological analysis boil down to a) the hermeneutic explication and mediation of divergent forms of life within descriptive metalanguages of social science; b) explication of the production and reproduction of society as the accomplished outcome of human agency (Giddens, 1993, p.170). Discussing organizational action, or theories of "autonomous consequential choice," James March (1996, p. 282) notes that "modern theories are often best characterized as theories of heuristics, attention, search and learning than of comprehensive calculative rationality. They fold into a broad decision-making frame-ideas about the updating of expectations, behavioral biases, sequential attention to targets, search, the temporal sorting of problems and solutions, adaptive aspirations, variable risk preferences, and the costs and benefits of information."

Recent literature in social sciences tries to formulate theories that are more flexible in their structure and address the issue of integrating different narratives (frames, value systems, disciplines) into one dynamic meta-narrative. I will discuss some such theories drawing from two disciplines that are very influential and closely related to public management--policy sciences and organization studies--which also address macro- and micro-concerns of the discipline. Before discussing these theories, one distinction should be made. Theories dealing with different perspectives in policy sciences have two levels of normative relevance, while theories drawn from organization studies are concerned mostly with one. Usually, the question posed in organization studies can be reformulated as the following conundrum: How do I, the manager, make a correct decision given these different, often conflicting views of organization? In policy analysis,

another concern is added. Since often there is more than one decision-maker involved, and it is assumed that decisions are made in a democratic society, the problem is not limited only to making a good decision about a complex and ambiguous situation, but also doing it collectively and in a legitimate manner. Hence, a manager's initial narrative (reading, vision) of the situation has to be communicated effectively and legitimately to others. Here the solution transcends from competent (correct) reading of a complex situation into political theory and normative assumptions about the collective decision-making mechanisms--background political structure, rules of political discourse, participation, ideal speech situation, democracy, legitimacy, etc. Though not all theories openly address these concerns, they are important questions to bear in mind when analyzing different approaches.

We can distinguish four basic groups of theories of how to come up with a new, integrative narrative. The first group consists of variations on the famous 'garbage-can' approach, with random coupling of solutions, actors, problems and resources. The second group, let us call them 'enlightened positivists,' basically argues for enriching a particular, for some reason (often articulated) better and dominant, framework with insights from competing frameworks. The third group, let us call them 'pluralists,'³ suggests examining the situation at a deeper level, and based on this analysis, suggests some guidelines on what framework to choose. Finally, the fourth group--whom we will name 'argumentative post-positivists,'⁴ does not prescribe very specific guidelines for choosing a frame, rather

³ The label "pluralist" here is different from that usually connected with interest-group pluralism. The term in the sense employed here was used by Sir Isaiah Berlin (1998), and refers to epistemological positions about dealing with many perspectives. See Appendix 6 for discussion.

⁴ While some of the scholars discussed in this perspective subscribe to the 'argumentative' (or discursive) label, others do not follow it explicitly. The term is used to underscore their common emphasis on studying underlying frames of thinking and their possible interactions, and rhetoric and persuasion in policy and management arguments. A defining statement for this approach in policy analysis and planning can be found in Fischer and Forrester (1993).

offers some heuristics and describes how different frames work together and what normative and objective factors affect the choice.⁵

The last approach provides better solutions to policy and organizational problems than the previous ones. It supercedes the normative detachment of the garbage-can model, the unproven superiority of a particular chosen approach of the "enlightened positivism" school, and the unreality of our cognitive capability to match external reality with models from our repertoire of the "pluralist school." Though the argumentative approach overcomes these problems, it is often criticized on grounds of epistemological relativism.⁶ For example, Paul Sabatier (1995, p. 202) argues that many proponents of this method, while uncomfortable with epistemological relativism, do not "present any substantive criteria for determining the validity of various frames of reference." He finds that argumentative approaches demonstrate "any commitment to fundamental norms of science, especially (1) a willingness to be clear enough to be proven wrong and (2) a commitment to intersubjectively reliable methods of data acquisition and analysis" (p. 202).⁷ Arguing that science is not just another frame of reference, Sabatier further claims that "policy analysts usually deal with problems of some technical complexity, that is,

⁵ See Appendix 6 for detailed discussion.

⁶ See Rein and Schon (1994) for a thorough discussion about escaping the 'relativist trap.'

⁷ Sabatier also argues that "procedural solution" to the problem (often based on Habermasian "ideal speech" situation), such as John Dryzek's "discursive democracy," have an insufficient basis in reality. That is, the assumption that "most citizens are extremely interested in public policy, devote virtually unlimited time to it, seek information from a wide variety of sources representing different points of view, demonstrate great tolerance of people with opposing values, and somehow manage to engage in rational dialogue with thousands of other people" (p. 202) is incorrect. Such solutions, Sabatier charges, are possible in a small, simple society with virtually no division of labor, that is "unlikely to generate policy problems, let alone wicked policy problems." While it is not the objective of this work to evaluate democratic decision-making aspects of argumentative model (they are sufficiently articulated in Fischer (1995), and Schon and Rein (1994)), it is interesting that Sabatier himself opts for a "procedural solution" to the problem, though not specifying exactly what it would entail. He concludes the review of Fischer and Forrester's *Argumentative Turn in Policy Analysis and Planning* (1993) by urging policy analysts (instead of treating different actors simply as people with different frames of references) to "seek to devise institutional arrangements to help resolve those agreements according to professional/scientific norms" (p. 203). Essentially, this can be translated as "devising institutional arrangements so that different policy actors accept professional expertise as key to solving wicked problems."

cases in which the magnitude and extent of the problem (however defined), its causes, and the probable consequences of alternative solutions are unknown or in dispute. In such cases, scientific ways of knowing, for all their imperfections, are likely to be superior to understanding the overall situation, although the "ordinary knowledge" of practitioners and other actors in specific locales may also have substantial validity" (p. 202-203).

This brings us back to "enlightened positivism." Good theories, in such a perspectives, are "covering laws: generalizations that, describe the world as we see (or measure) it" and scientific progress is "a kind of R² sweepstakes" (taken to extreme by economists like Milton Friedman)" (DiMaggio, 1995, p. 391). Social sciences, on the other hand, are often called upon to produce theories that, together with the "what" of the above-mentioned approach, also address the "why" and "how" questions, account for social process and emphasizes narrativity, and also enlighten and bring surprising insights. DiMaggio (1995) calls these approaches "theories as narrative" and "theories as enlightenment." Long lists of perfectly scientific research that has picked up dust on the shelf explain the promise and potential of theories as narrative.⁸ One method of achieving such an objective is policy argumentation (Fischer and Forrester, 1993; Fischer, 1995), that "promises ... [to] integrate the process and content divisions that have arisen within the policy sciences" (de Leon and Overman, 1998, p. 500). As it will be shown below, Fischer's model of practical policy deliberation is uniquely situated not only to provide fuller theory generation (answering not only "what," but also "how" and "why" questions), but also to accommodate requirements of comparative social science research that will be discussed below.

The Comparative Method

There is no general agreement upon what "the recipe" of comparative method exactly entails (e.g., number of research units, level of analysis, etc.), but across different fields of social science there seems to be growing awareness and attempts at a more eclectic approach that is not only dealing with multiple levels of analysis and their interaction, but also multi-methodological approach. For example, Alan Zuckerman (1997, p. 305) argues that political scientists from "all three [rationalists, culturalists and structuralists] schools examine the relationship between individual decisions, social contexts and institutions," and that often as a result of this interaction fresh theoretical perspectives emerge.

Howard Balanoff, Montgomery Van Wart, and Kenneth Pryor (1998) identify several key methodological issues for the field. First of all, the question arises, "what is comparative?"

- 1) Any comparison (Goodsell, 1981)
- 2) Any material about polities other than their own (e.g., Huddleston, 1984);
- 3) Single-country case studies that have comparative component (Sigelman and Gadbois, 1983);
- 4) Two or more countries being overtly compared.

The issue of comparison seems less complicated if a distinction is made between the method and focus (field of inquiry) (Rose, 1991). Not everything that employs comparative analysis relates to other polities, and not everything that studies different polities is explicitly comparative. A case study of two different units within an organization will employ comparative analysis as a method. On the other hand, a single-

⁸ Based on this understanding of theory, throughout the work models, theories and narratives will be often

country case study testing a previously articulated and tested theory contributes to our understanding of comparative administration without engaging in explicit comparison of two and more polities.

The second methodological issue, Balanoff et al. (1998, p. 458) argue, is the degree to which theory building should be focused on scientific or pragmatic criteria, seeing this as an extension of the old debate of pure vs. applied science. Boundaries tend to fluctuate with time, at times (in the 1960s and 1970s) nearly giving development administration a separate status. Again, the issue is less complicated when one approaches the issue from a normative perspective. Recognizing that every approach and solution has normative bearings helps us to relate the issue at hand to its political and administrative context, which in turn helps to assess feasibility and acceptance of the phenomenon that is being studied. Peters (1994), reflecting upon the normative aspect of research, raises another important question. He asks whether we want an average performance or we want to ameliorate and improve performance or generalize generalizations about public administration. The answer may entail different strategies of research— e.g., studying the "usual" behavior or studying best practices.

Finally, Balanoff, Van Wart and Pryor (1998) argue, there is the issue of the level of analysis. First, there is the technical level (administrative model). A second level focuses on entire bureaucratic entities (especially as they interact with the political system) (bureaucratic model, also known as middle-range theorizing). And finally, the last level is the general systems approach (a.k.a. ecological approach, grand theorizing) that views public administration as a constituent part of a society along with the citizenry, political systems, economic system, and sociological norms that affect the component subsystems.

This issue can be further clarified if we make another important distinction— between level of analysis and level of abstraction (Alford and Friedland, 1985, p. 21). The first deals with what is the primary unit of our study (e.g., individual, organization,

used interchangeably.

society), while the second deals with the level of articulating theories that claim more or less generalization (e.g., conceptualizing phenomena at hand as unique entities, institutional types, or systemic entities). Amid the cacophony of different voices trying to define methodological issues in the field of comparative public administration, there seems to be common agreement only on one issue--that the field needs more "middle-range" theories (e.g. Pierre, 1995; Heady, 1996). Such a theory is envisioned to be something in-between grand theorizing of the 1960s a la Riggs (1964, 1973) and descriptive and particularistic case studies of the 1980s. Though the call for "middle-range" theories in comparative public administration and the warning against "cosmic" models is not new (Presthus, 1959), it was not until the field of comparative public administration passed through the stages of systemic solutions and behavioral studies that the call for middle-range theories became mainstream. Middle-range theories do not imply, as it is often assumed, that we should study only institutions (e.g., bureaucracy), but rather that analysis should bridge the micro- and macro- gap in research focus. As it was argued in earlier chapters, such a drive for middle-range theories also has some parallels with the public management orientation in the field of public administration, and the desire to ground public management (both comparative and non-comparative) in the concept of bureaucracy leads to dead ends.

Issues of methodology have also been discussed extensively also by B. Guy Peters (1988; 1990; 1992; 1994), as well as others (Aberbach and Rockman 1988; Pierre 1995; Bekke et al., 1996). Pierre (1995) identifies three sets of problems for comparative public administration research: 1) conceptualization and definition; 2) development of a framework that specifies dependent and independent variables; 3) measurement and theory testing. First of all, there is the need to define conceptual premises of the enterprise: what are public organizations? Are they the focus of the study? Then, there is the need for specifying the concepts we want to compare systematically. For example, Peters (1992) suggests people, organizational studies and bureaucratic behaviors as dependent variables for studying public bureaucracies across nations. As argued in earlier

chapters, due to its applied and interdisciplinary nature, the field of public administration effectively defies limiting the number of concepts that should be studied. In such a case, there are no grounds upon which the field of comparative public management should be limited in its inquiry (Page, 1995). Finally, there is the issue of measurement of concepts. How do we measure the same concept across nations? The related questions of feasibility--data requirements and availability--are even more acute in comparative research (McGregor and Solano, 1996).

In search of a theory of comparative public management

As "regular" public administration, comparative and development administration has tried to reformulate itself along the lines of public management. Although there is not much writing on this subject, several interesting approaches exist that try to overcome the macro-micro gap of comparative administration theory, and situate programs within a wider context. Bjur and Zomorrodian (1986), for example, propose a "heuristic framework of indigenous administrative theory." They identify three conceptual levels for value analysis: 1) domain of cultural values; 2) domain of institutional values (administrative systems and subsystems); and 3) domain of instrumental values (administrative/ management models and techniques). This general framework is very useful for logically situating administrative practices in a more general framework, but does not answer certain questions, such as measurement (verification of results). It also does not address the program variable explicitly, and there is a possibility that similar structures (practices) fulfilling different functions can be compared--a mortal sin according to some comparativists (Dogan and Pelassy 1990).

Bekke, Perry and Toonen (1996), along with McGregor and Solano (1996), following Kiser and Ostrom's (1982) "methatheoretical framework for the integration of different approaches to institutional analysis," identify three levels in their comparative

analysis of civil service systems: 1) operational level: civil service as personnel system; 2) collective choice level: civil service as governance institution; and 3) constitutional choice level: civil service as symbol systems. Wise et al. (1996), comparing the capacities of national administrative organizations of the US and Sweden, identify three analytical dimensions for research: 1) the public interest dimension; 2) the economic dimension; and 3) the management dimension. As we can see, both Bekke et al. (1996) and Wise et al. (1996) propose models similar to that proposed by Bjur and Zomorrodian (1986). A World Bank Discussion paper on civil service reform in the Gambia (Pinto 1996, p. 14) "vertically segments the environment into the following three analytical levels, from the top down: 1) political-structural level (organization of the state); 2) administrative systems level (public bureaucracy); and 3) technical level (service delivery and core economic functions)." While this approach explicitly deals with results (thus, issues of measurement can be approached easier) that are more appropriate for the program level, it does not consider culture or social choice, as the other systems do.

All of these approaches require careful consideration of the program or phenomenon under study so that exact characteristics of the program responding to the levels and foci identified in each approach are defined, measured and compared. As I will argue below, Fischer's (1995) logic of policy deliberation provides a general heuristic framework that will enable a researcher to systematically reveal and define characteristics of programs under consideration that are corresponding to different levels of analysis in the above described models. Fischer's approach, through its four levels of discourse, accommodates all of the previous approaches, without missing an emphasis on empirical or cultural dimensions. The logic of policy deliberation satisfies the two conditions delineated for the research of public management--it allows one to deal with multiple frameworks of interpretation, analysis of knowledge generation, and it is fully compatible

with comparative research traditions in political science, public administration, economics, sociology and organization studies.⁹

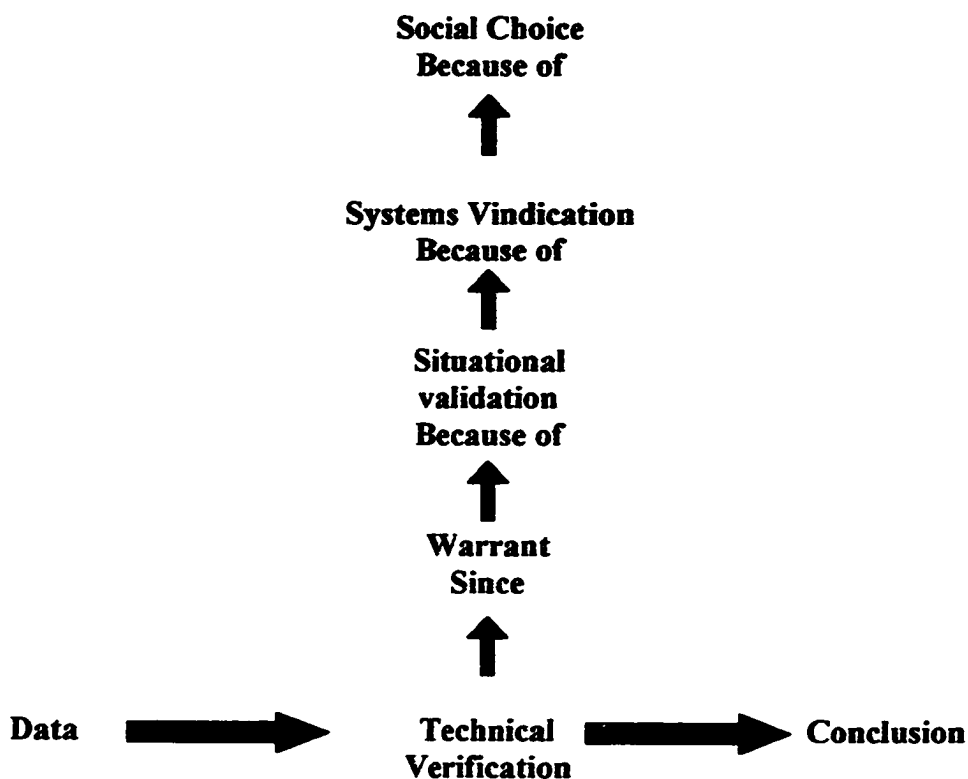
The Discursive Approach: Fischer's Logic of Policy Deliberation

Fischer's (1995) logic of policy deliberation, is a part of "argumentative turn"-- a growing movement of post-positivist approaches to policy analysis (Fischer and Forrester, 1993). Essentially post-positivist in nature, Fischer's approach differs from "purely" deconstructionist and postmodern approaches. It is different from "postmodern" discourses that are mostly employed for the purpose of epistemological analysis and critique. Fox and Miller (1995), for example, discuss public administration in the postmodern tradition, distinguishing and critiquing three discourses that shaped public administration: orthodox, constitutional and communitarian, and critique these discourses. The logic of policy deliberation is more practical, with more concrete and systematic analysis of the issues.

Drawing from Habermas's logic of comprehensive rationality, Toulmin's informal logic of practical argument and Taylor's logic of evaluative discourse, Fischer argues for analysis of practical policy evaluation arguments (Fischer, 1980; 1995). As a model for policy evaluation, the model "tests the reasons given concerning a policy's technical efficiency, its relevance to the circumstances of the situation, its instrumental implications for the social system as a whole, and its relation to the ideological principles that justify the societal system" (Fischer, 1995, p. 231).

⁹ See Appendix 7 for discussion.

Figure 2. The Logical Structure of Comprehensive Evaluation



Source: Fischer 1995, p. 232.

There are two discursive phases of policy evaluation-- "first-order evaluation" and "second-order evaluation." First-order evaluation focuses on empirical verification of the program and situational (contextual) validation. Empirical verification is engaged in technical-analytic discourse, and is concerned with program outcomes. This is the domain of traditional evaluation. It answers the following questions (Fischer, 1995, p. 20):

- Does the program empirically fulfill its stated objectives?
- Does the empirical analysis uncover secondary or unanticipated effects that offset the program objectives?

- **Does the program fulfill the objectives more efficiently than alternative means available?**

Situational validation is engaged in contextual discourse, examining whether the program objectives are relevant to the situation, examining assumptions and conceptualizations underlying the problem that the program is designed to solve. It answers the following questions (Fischer, 1995, p. 21):

- **Are the program objectives relevant to the problem situation?**
- **Are there circumstances in the situation that require an exception to be made to the objective(s)?**
- **Are two or more criteria equally relevant to the problem situation?**

At the second order the logic of policy deliberation shifts from concrete situation to the society as a whole. Second-order evaluation is comprised of two levels: societal vindication and rational social choice. Societal vindication is engaged in systems discourse and is organized around the following questions (Fischer, 1995, p. 21):

- **Does the policy goal have instrumental or contributive value for the society as a whole?**
- **Does the policy goal result in unanticipated problems with important societal consequences?**
- **Does a commitment to the policy goal lead to consequences (e.g., benefits and costs) that are judged to be equitably distributed?**

Finally, social choice is engaged in ideological discourse, deliberations about what is good life and respective ways of life. It raises the following types of questions (Fischer, 1995, p. 22):

- **Do the fundamental ideals that organize the accepted social order provide a basis for a legitimate resolution of conflicting judgments?**
- **If the social order is unable to resolve basic value conflicts, do other social orders equitably prescribe for the relevant interests and needs that the conflicts reflect?**

- Do normative reflection and empirical evidence support the justification and adoption of alternative ideology and the social order it prescribes?

Second-order evaluation is more rare than the first-order discourse, and, except for some highly charged moral issues (e.g., abortion), ideological discourse enters into practical policy deliberation mostly when there are systemic changes happening in the society. Usually, a higher level discourse is invoked when the lower-level discourse cannot fully explain (or justify) phenomena under discussion.

The logic of policy deliberation thus offers "integration of four major methodological orientations in the social sciences which correspond to his four levels of analysis: empirical means/end analysis, phenomenological social science, system analysis, and political philosophy" (Buchstein, 1996, p. 73).

It may seem that only first-order discourses apply to public management, and second-order discourses pertain to the policy and politics domain. Such a view of public management may be essentially true if one accepts the politics-administration dichotomy at face value, accepts as a fact the notion that policies are adopted by deliberation that ignores administrative capacities, that policies are always clearly stated and precisely executed, and do not evolve during time. Fortunately or unfortunately, that does not happen. Policies or programs very often survive numerous government changes and respectively reflect the changing ideological climate of the country by emphasizing some elements of programs at the expense of others that initially were thought to be more important. Even without changes in administration, in an era of diminishing resources a program that starts as an experiment may turn into a full-fledged program only if it can persuade the parties involved that they pursue goal(s) that benefit the society as a whole. While policies may actually fall short of their promise in their performance, at least

rhetorically they should correspond to prevalent norms in order to continue. Thus, often policies are articulated at several levels, though they are debated mostly at one level at a time.

For example, Fischer (1995) discusses disability policy in the US at the system vindication level. The policy has been debated along the lines of program content (e.g., do they achieve finding jobs for disabled people?) and situational context of the social problem (e.g., does the medical definition of the problem correctly address the problem of social integration of handicapped people?). At the second-order discourse, though, the debates about disability policy transcend the actual content of the policy, and instead concentrate on the issue of the systemic issue of rights vs. utility, or equity vs. efficiency (what are the costs that society in general should bear in order to accommodate the rights of equal participation of disabled people?). Finally, the proper balance or the trade-off between equity and efficiency is a matter of social choice to be addressed in ideological discourse through political philosophy. Or, in another example, the UK government "has been subjecting all its activities to searching scrutiny by addressing a series of "prior options" questions" (OECD, 1997):

- Does the work need to be done at all?
- If the work is necessary, does the government need to be responsible for it?
- If the government does need to be responsible, does the work have to be performed by civil servants, or could it be delivered more efficiently and effectively by the private sector?
- Where the job must be carried out within government, is the organization properly structured and focused on the task?

Though the above questions are formulated along the lines of New Public Management and seemingly do not engage in political philosophy, the questions raised transcend first-order discourse, touching upon issues of the size and scope of government that cannot be

answered just by verification of program outcomes (successful or not) or situational validation (whether the program addresses the correct causes or not). The issue of whether the work is necessary is not, or whether it is, the responsibility of the government clearly belong to the second-order discourse.

Including second-order discourses in the proposed analytical framework is important not only for empirical, but also for epistemological, reasons. As it has been argued earlier in this chapter and shown in the above example, theory-generation and testing requires reflective analysis of frames that shape our vision of facts and preference of values. Thus, one can argue that all four discourses apply to the realm of public management. First-order discourses directly address the issues involved in "classic" policy/program evaluation, whereas second-order discourses help to examine the issue in a broader framework and are especially valuable in comparative research.

Another important aspect of the logic of practical policy deliberation is that it allows one to escape the conundrum of "scientific" vs. "pragmatic" criteria (Balanoff et al., 1998). The model does not strive for uncovering eternal metasystemic regularities, but conceptualizes problems and their solutions within their socio-economic context, and aims for transformational social science. Transformational social science "is to assist political actors in their own efforts to discursively understand the ways in which they can make and remake their political systems" (Fischer, 1995, p. 22). Thus, scientific criteria are not contradicting pragmatic criteria; actually, they may be defined by the pragmatic context of the situation.

Policy becomes dominant only when it is based on a coherent and persuasive ideology that is able to connect policy outcomes with inputs. Very often it is achieved due to a change in policy discourse, when a new (or the winning) discourse makes it

possible to interpret empirical findings in a new manner or to show links of these findings to claimed outcomes in a more persuasive manner. Although ideas are important in shaping the argument, new ideas do not decide everything-- discourses are comprised not only of ideas, but also of institutions that help to mold and sort them. Institutions, as ideas, reflect the changing world-- though in a different manner and at a different speed. Because many values are embedded in institutions that shape and direct policy discourses, the discursive approach incorporates institutions and structures into analysis. Inclusion of institutions makes the discursive approach very potent for comparative analysis. It allows for comparative analysis that is sensitive both to the structure of the government and to the culture of the country--key factors of comparative enterprise (Wilson, 1989).

Comparative Uses of the Discursive Approach in Public Management

Fischer's logic of policy deliberation is extremely well suited for comparative analysis. As with all methods in comparative public policy, it is heuristic, and helps to generate and test concepts that may be applied across different cases. Thus, it may fulfill a hypothesis generation function, as well as be used in theory-confirming, theory-infirming and deviant case studies. The method not only allows us to concentrate on one "segment" of the political and societal system through the first-order discourse, but through second-order discourse relates the particular problem to a broader socio-economic and value framework.

Since the method is explicitly questioning the function of the object of the study, it helps to examine how much the concepts under study are comparable or universal. There are "embedded confounding variables" that theories conceived in one cultural context have difficulty uncovering (Farmer, 1995, p. 55). This can be achieved through contextual discourse. For example, Niskanen's (1971) model of bureaucracy stipulates

that bureaucrats are primarily interested in power aggrandizement, usually expressed through budget-maximizing (or discretionary spending-maximizing) behavior. But as Dunleavy (1992) has mentioned, such a model presumes interagency immobility for bureaucrats (and political appointees) and their identification with one particular agency, rather than, say, an administrative elite circulating among various agencies. Contextual analysis would uncover such a perspective, say, by tracing patterns of bureaucratic careers in different countries, and specifying different structures that influence bureaucratic behavior.

Virtually all countries at one point have discussed borrowing foreign administrative practices. Because the method of practical policy deliberation explicitly deals with norms and values, it can be used for "lesson-drawing" from a certain premise, as well as anticipating whether certain administrative practices will be adopted or not. For example, Chinese leaders understand very well the benefits of privatization in the wake of Asian financial crisis—especially for dealing with bankrupt or nearly bankrupt factories that may account for up to 30% of the public sector assets (Lyle, 1997a, Barnathan et al., 1998). Still they opt for piece-meal reforms (Lyle, 1997b), and shy away from Russian-style radical and massive privatization schemes, since projected social stratification and instability, compounded with recent urbanization of China, are seen too costly (Lyle, 1997c). Given that Chinese values stress order and harmony above many other values (e.g., Hampden-Turner and Trompenaars, 1996; 1994; Hickson and Pugh, 1995), it is becoming obvious that despite any pressures (internal or international) China is going to follow the route of incremental reforms. In such a perspective there is another advantage—the model allows us to account for learning by policy-makers.

The four levels of policy discourse identified by Fischer accommodate all models of systemic study of institutions that are evoked by the students of comparative public

policy and administration, while none of the concepts above could have explained all four levels of discourses in Fischer's model. In addition, the logic of practical policy deliberation is consistent with the development-related discipline that is virtually ignored in public management literature--development ethics.

Noting that development "is an ambiguous term used both *descriptively* and *normatively* to depict a present condition or to project a desired alternative," Denis Goulet (1995, p. 1) underscores the necessity of value analysis for development. He traces the establishment of IDEA (international Development Ethics Association) and the development of a new discipline--development ethics-- to three sources: 1) "Yugoslav praxis humanists in search of non-dogmatic Marxism; 2) Central American analytical philosophers applying symbolic logic to issues of technology and social transformation; and 3) US analytical philosophers looking beyond Western theoretical sources to craft applied ethical norms to guide action in spheres of global change and public policy" (Goulet, 1995, p. 5). Goulet identifies four levels of ethical discourse that closely resemble Fischer's four levels of policy deliberation. The levels of ethical discourse are: 1) general ends; 2) criteria specifying when ends exist in concrete situations; 3) systems of interrelated means which constitute strategies for pursuing the ends sought; and 4) individual means taken separately (Goulet, 1995, p. 11). As in Fischer's model, the analysis is not abstract, and it is specified that the general ends are rarely, if ever, debated. Another interesting aspect of development ethics is its attention to subtleties of decision-making, and discussing different versions of rationality that govern decision making. Goulet (1995, pp. 14-17), for examples, distinguishes three partial and complementary types of rationality: technical, political, and ethical. Goulet's political rationality, much like Diesing's (1962; 1967) political rationality discussed by Fischer (1995, pp. 212-214), follows the logic of compromise, negotiation and accommodation

(Goulet, 1995, p. 15). Finally, much like Fischer's model, Goulet's approach has public participation and democratization at its premise.¹⁰

The Discursive Approach as Meta-logic

The discursive policy approach, as has been argued above, is uniquely suited for the study of comparative public management. As a general research strategy, it is suited both for building and testing middle-range theories, as well as for concept generation and lesson-drawing. Still, it is not a panacea and answer to all questions in the field of public administration and public management. The logic of policy deliberation guides us to comprehensive identification of problems (with thorough understanding of their context) and discussion of relevant alternatives, without losing sight of the general societal framework on the background of which the problem is identified and policy is deliberated upon. But it does not aim to delineate the realm of public administration and public management; rather it illustrates a method according to which the subject matter should be conceptualized. In fact, it implies that this question can never be definitely answered.

An example of delineating the field is provided by Gerald Caiden (1994). Caiden (1994, p. 52-53) does not limit the field to comparative study of bureaucracies, and identifies 28 "key components" for the enterprise of public administration that "still need general agreement and upon which common agreement is within reach." They include theories of collective action, public law, public service, public conduct, public finance, public bureaucracy, public goods, public interest, good society, etc. Later (1994, pp. 55-56) he proposes to limit the core of public administration "to the territory traditionally contained within the folklore of administrative reform," and lists 22 major areas of

¹⁰ The issue of participation and democratization are one important aspect that is not discussed here in detail, since our focus is the analytical characteristics of the model. For detailed discussion, see Fischer (1995) and Goulet (1995).

"constant revision and overhaul." They partly overlap with the previous list and include, among others: scope and activities for public intervention and determination; nature of public power and authority, public policy-making, public finance, public entitlements, etc.

Clearly, neither the method of approaching the problem (discursive approach) nor the proposed framework of the field (public management/public administration) proposed above do have ambitions to encompass everything listed by Caiden. But they provide clear methodology of structuring the theories and concepts identified above. Essentially, every concept is framed within the boundaries of certain discourse that expands to the next higher level of discourse for clarification of ambiguous points, and consciously or unconsciously, the discursive approach is employed to discuss the problem at hand. For example, a discussion of policy-making can be framed in the situational validation discourse if we are clear about the ends of the policy (or do not have terms to frame it otherwise), and are concerned with the management of the program in a particular context. Thus, the problem essentially becomes one of correctly diagnosing the problem (what is the problem? what is the context?). But if the aims of the policy are not clear (or are contested publicly), we are going to resort to the third level discourse--societal vindication. Here, issues like the scope and activities for public intervention and determination, the nature of public power and authority come into play. Thus, the proposed method does not answer all the questions, simply because it does not intend to, but rather provides a systematic, multi-methodological approach to the inquiry of those questions.

CHAPTER 4

Privatization Management: A Discursive Approach

This chapter will outline the strategy of employing the method of practical policy deliberation for comparative discussion of privatization. Before discussing substantive issues of privatization, let us first examine what a theory conceived in such an approach should entail. As explained in the previous chapter, theory should have explanatory power not only for "what?" questions, but also for "why?" and "how?" questions (Sutton and Straw, 1995). In such a "narrative" perspective of theories (DiMaggio, 1995), what type of models should we elaborate? Such knowledge-generating serviceable models should "retain recognition of norms but have enough research questions and methods appropriate to them to describe meaningful aspects of ...[the field], explaining why, for example, a technique works the way it does or why people are satisfied or dissatisfied with it" (Miller, 1991, p. 4).

As has been stated earlier, "fluidity" and the context-specific nature of both public management and the boundaries of the public sector make privatization a most promising (though not singularly defining) focus for studying public management. It has both substantial value for general understanding of public administration/management, and methodological value for comparative analysis. Substantively, it addresses questions that are of conceptual importance to public management practice and philosophy: What are the limits of the public sector? How it should be managed? Methodologically, privatization in one form or another is present across countries, and, despite a multiplicity of forms, is a more or less clearly identifiable phenomenon.

Privatization is context-specific phenomenon that it is embedded in the political process. It is an interesting phenomenon that equally successfully lends itself to analysis

in a variety of social science disciplines. As stated earlier, privatization is a public management option (tool, measure) designed to achieve various ends, ranging from increasing efficiency and revenue generation to building political support (or building a new class) to shrinking the size of the government. It is not the only way of targeting these aims-- each of the above mentioned objectives can be pursued by other means as well (e.g. more investment, eliminating services at all, new taxes, etc.).

The Concept of Privatization

Privatization is broadly defined by E.S. Savas (1992, p. 81) as *the act of reducing the role of the government, or increasing the role of the private sector, in an activity or in ownership of assets*. This definition includes divestment of state-owned enterprises and assets, delegation of service production via contracts, franchises, vouchers, and displacement of government activities by allowing private alternatives to emerge in deregulated marketplaces.

Definitions and classifications of privatization in literature vary based on their rationale or underlying theory. Vickers and Wright (1989), for example, write, "there are many ways of categorizing the various dimensions of privatisation--by intent, by impact, by sector." Jurgen Kuhl (1997, p. 140) distinguishes three basic forms of privatization according to their "political" logic. The first is *political privatization*, where all citizens are provided with shares or vouchers regardless of their economic viability, capital stock and management. Second, there is *fiscal privatization*, where firms are sold to the highest bidder as a means of increasing public revenues. The last is *economic privatization*, where government restructures the enterprise and negotiates some further agreements

with prospective owners about employment and social benefits. E. W. Russel and Graeme Hodge (1995) classify more than 20 methods of privatization described in literature based on different levels of government involvement after privatization. These five groups are: 1) denationalization (e.g., selling the whole or parts of an enterprise); 2) load shedding (e.g., withdrawal from service provision); 3) privatization of production (e.g., contracting to the private sector); 4) deregulation/liberalization (e.g., repealing monopolies); and 5) privatization of finance (e.g., charging user fees).

The US National Academy of Public Administration Panel on privatization distinguishes two definitions of privatization. The narrower definition of the term privatization "essentially means 'load-shedding,' the surrender of government of certain of its functions and their assumption by private for-profit and non-profit institutions," while the wider definition "embraces not only denationalization or load-shedding by government, but also a variety of other forms of government action that involves reliance on the private sector" (NAPA, 1989, pp. 8-9). This distinction is based on "a fundamental distinction between government as a financier, authorizer or overseer of services, and government as a producer or provider of services. ... So conceived, privatization is not an either/or proposition, but a continuum, with government-funded and provided services at one end, privately funded and provided ones at the other, and a wide array of combinations in between" (Ibid.).

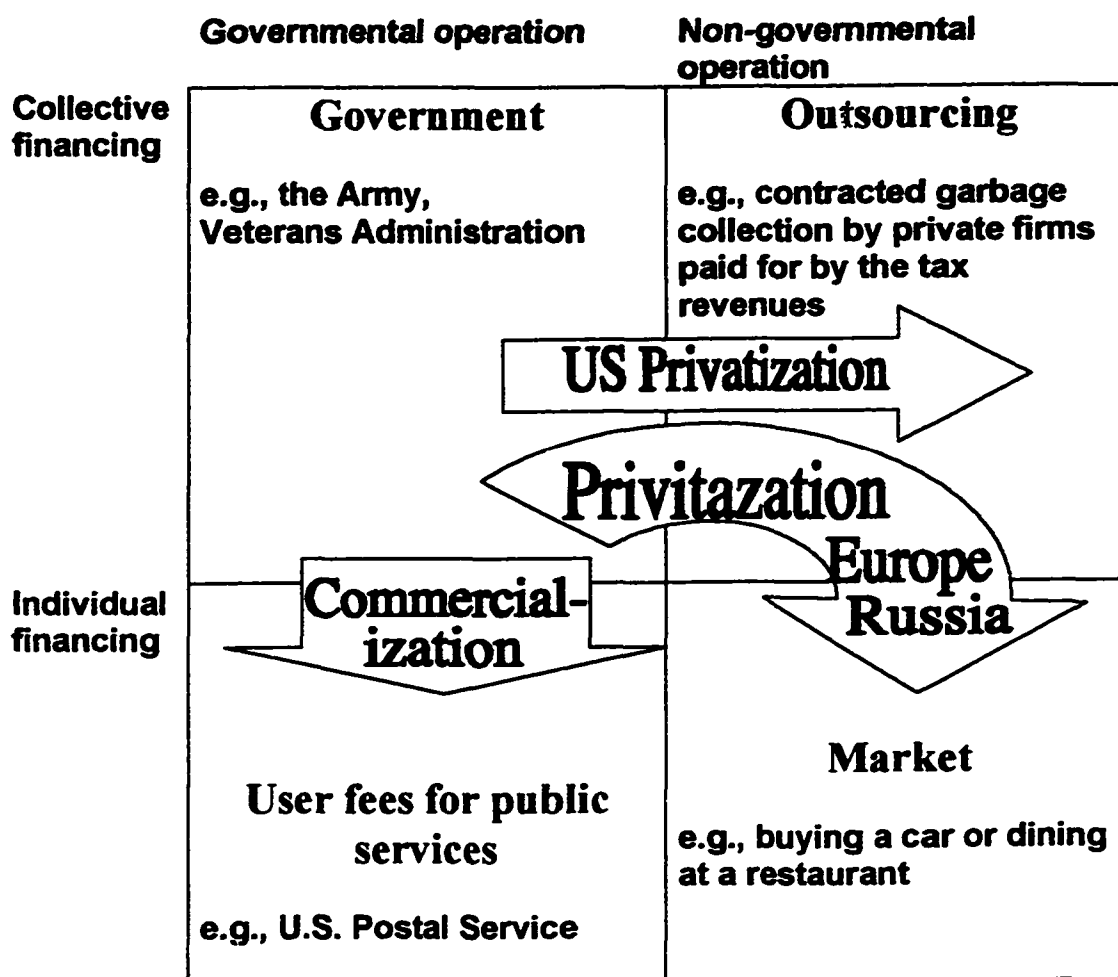
This line of thought is pursued more systematically by authors who argue that *the choice between public and private delivery of services has two basic dimensions:*

financing and performance (ownership, operation) (Wamsley and Zald, 1973; Kolderie, 1986; Donahue, 1989).¹ The first dimension is an answer to the question: how should we pay for public services, individually or collectively? The second dimension asks the question whether the good (service) should be produced (delivered) by a governmental organization or a non-governmental organization? Thus, we have four possible scenarios describing the public-private relationship in the production of goods and services (see Figure 1 below). The upper-left cell is the delivery of services (goods) paid for collectively and delivered by public sector organizations. This cell contains what is usually referred as government--public schools, the Army, etc. The lower-left cell describes the activities that are individually financed but publicly delivered. This cell describes such widespread activities as delivery of mail through the U.S. Postal Service, water services paid individually according to meters, etc. The lower-right cell is the delivery of services that are paid for individually and delivered individually, and is referred to as the market. And finally, the upper-right cell is the one with public financing and private delivery. This cell covers a range of activities from contracting out of municipal garbage collection to the production of intercontinental ballistic missiles. The activities embraced here constitute nearly half of all government spending on goods and services, and usually describe the practices that most Americans refer to as privatization.

¹ A similar, but more elaborate, approach is employed by E. S. Savas in his book, *Privatization: The Key to Better Government* (1987). Savas recognizes the government's role in providing essential services, and discusses best ways of service delivery. Based on two characteristics of goods and services--feasibility of exclusion of others from consuming and collective or individual nature of consumption of the good--he distinguishes four types of goods and services: private, toll, common and collective. Based on different combinations of government financing, provision and regulation of goods and services, Savas identifies ten types of service arrangements: 1) government service, 2) government vending, 3) intergovernmental agreement, 4) contracts, 5) franchises, 6) grants, 7) vouchers, 8) market systems, 9) voluntary service, and 10) self-service. He also provides a checklist for appropriateness of each arrangement for provision of certain type of service or goods, that covers, among others, service specificity, availability of competitors, the scale of the service, responsiveness to consumers, susceptibility to fraud, equity, etc.

The American public sector--federal, state, and local levels combined--annually spends more than 1 trillion US dollars (excluding interest and transfer payments), approximately half of which goes to buy goods and services from outside organizations. One weakness of such a definition is its assumption of a dichotomy between public and private financing, as well as the dichotomy between governmental and non-governmental organizations, or the dichotomy between governmental and non-governmental delivery of services. In reality, there is a continuum in both cases, and different organizations have varying degrees of political and economic authority (Bozeman, 1987). Many organizations are financed both from user fees and government subsidies, and from private donations and subsidies. The issue of government vs. non-government dichotomy is even less clear, where the rise of "para-government" organizations, or "quangos" (quasi-non-government organization) is considered to be one of the most important phenomena in modern societies. The most complete taxonomy of organizations is offered by Perry and Rainey, in which they cross-classify organizations according to ownership (operation), funding, and mode of social control (Rainey, 1991). From this perspective, Savas's (1987) above mentioned perspective of alternative service delivery is more flexible. Since our focus is privatization, and not alternative service delivery in general, we will continue our discussion following the model described earlier.

Figure 3. Political Economy of Provision of Public Services²



Different countries and different contexts put different meaning in the word privatization. For example, in Western Europe and in post-communist countries it is understood primarily as "selling of state-owned enterprises, plus a radical shift in ideology" (Palmer et al, p. 1). In our scheme, it will mean moving from the upper left cell to lower right cell, whereas contracting out for services (outsourcing) is the move from upper left to upper right cell. Other-than-contracting forms of privatization also take place in the U.S., but

² Captions "US Privatization" and "Privatization UK, Russia" refer not to the only, but the most prominent form of privatization in the mentioned countries.

are not as widespread and large in their scope as the practice of contracting out. The practice of contracting out is present at all levels of government—federal, state and local—while other forms are mostly organized at the federal level. They include, among others, loan guarantees, vouchers, and special enterprises.

Comparative privatization research thus far has mostly concentrated on different factors that affect privatization decisions in different countries, such as labor market flexibility, accountability, potential windfall profit to the government, or moral and political doctrines (Fuller, 1994). Most comparative research is published as a compendium of symposium papers covering either separate countries or separate industries (e.g., Clarke, 1994; Clarke and Pitelis, 1993). Very few studies engage in systematic comparative research. Usually, in such studies, for methodological purposes, researchers engage in structured examination of one type of privatization, rather than comparative analysis of different modes of privatization (e.g., Zahariadis, 1995).

Among the issues examined in privatization research are the political economy of privatization (political and economic causes of privatization), performance issues (public vs. private ownership and performance), problems and prospects of different privatization strategies (e.g. competitive tendering, sale of assets, deregulation) (e.g., Clarke and Pitelis, 1993; Clarke, 1994; Kwan, 1990; Gayle and Goodrich, 1990), privatization-nationalization cycles (Hirschfield, 1982; Siegmund, 1997). The most sophisticated analysis has been offered by Zahariadis (1995), in his study of industrial privatization in Britain and France. Discussing different perspectives on privatization, Zahariadis

convincingly shows that most rational choice approaches (public choice, property rights, industry structure) have more a normative appeal rather than an empirical record. Drawing from Cohen et al.'s (1972) garbage can model of decision making and Kingdon's (1984) model of agenda forming, Zahariadis develops a "multiple streams" model of privatization. In brief, the argument is the following: "privatization is brought about by coupling three factors in critical moments in time: available alternatives generated in policy communities; high government borrowing needs; and the ideology and strategy of governing parties" (Zahariadis, 1995, p. 36). Available alternatives are selected according to two criteria, technical feasibility and value acceptability, while ideology is operationalized as party identification with nationalization. Privatization outcomes depend on coupling these three streams in critical moments called policy windows (Zahariadis, 1995, p. 43). This happens because there is a lack of goal clarity. "The model assumes a situation of problematic preferences where policymakers often do not know what they want" (Ibid.). What results is a "policy in search of a rationale" (Kay and Thompson, 1986). While this analysis explains quite accurately the process of privatization both in Britain and France, it does have several limitations, due in part to selection of cases. First and foremost, it does not seem to be applicable to situations where there is no drastic change in policy, but privatization is a part of the management arsenal, as in the US. Second, although the model shows how political parties and ideology matter in privatization, it helps little in lesson-drawing. For example, it will not render prescriptive answers to policy-makers debating introduction of privatization in some country. Finally, as most literature which draws from the garbage can model, it pays little attention to institutional structures shaping policies.³

³ Indeed, the portrayal of loose structures of policy processes, such as Kingdon's model, have been

Analysis of privatization in Western European countries by Vickers and Wright (1989) offers more factors affecting privatization, though not in such a systematic framework as Zahariadis (1995). Vickers and Wright (1989, pp. 28-29) provide an organizing framework for comparative study of privatization policies:

- **The motives and ambitions of the privatizers, which have contained various mixtures of ideological, economic, political and financial objectives;**
- **The different starting points from which privatization is proceeding, as defined by origins, nature and scope of public sector enterprises in European countries;**
- **The political and institutional structures in which the privatizers operate, including the nature of their respective party political systems, the degree of centralization of political and industrial power, the structure of policy communities, and the prevailing policy style;**
- **The financial systems through which the transfer of ownership to private investors is carried out.**

While very insightful, these factors do not provide a theory of how privatization happens, though it sheds light on many factors affecting the decision. The issue of why certain forms of privatization are prevalent in some countries, while not in others, is a related question almost never raised in the privatization literature. Such a question also frames the issue in more "administrative" terms. As some researchers propose, questions aimed at explaining "outputs" as opposed to "outcomes" hold a promise for public management

criticized by originators of the "garbage-can model" on the basis that they disregard the institutional basis of politics, because "institutions are more than simple mirrors of social forces" and "political institutions

(Barzelay, 1997). I will try to apply Fischer's logic of policy deliberation for articulating such a theory. What type of research design should we apply for generating theory about more frequent or prevalent use of certain forms of privatization? Perhaps, the best research design here will be case studies using "congruence procedures" (i.e., investigating congruence or the lack thereof between observed independent and dependent variables and their predicted values) (Van Evera, 1997, pp. 58-61). Cases will be chosen that have high or low value on a selected (usually, the dependent) variable, and through analysis of case patterns will be sought that account for such differences in the variable. For proposing theories (as opposed to testing), case studies may be more fruitful, since they will allow, to some extent, for "process tracing" (i.e., exploring chain of events that transform initial conditions into specific case outcomes) (Ibid., p. 64). In our case, we will choose three countries that are distinguished by prevalent use of one form of privatization--the US, the UK, and Russia. In the United States, the prevalent form of privatization is outsourcing; in Great Britain it was sale of assets through "floating" them on market; and in Russia, sale of assets through a gigantic voucher system. In addition, each of the cases has different levels of one independent variable--the size of the public sector--from the minimal state presence in the US, to a more mixed economy in Great Britain, to a very centralized Soviet economy. Thus, since cases have such strongly defining characteristics, we can hope for stronger tests (Van Evera, 1997, pp. 31-34). To sum up, the task is to propose a theory of choice for privatization options using the methodological approach of practical policy deliberation by studying three cases with extremely high or low values of certain types of privatization and the size of the public sector.

define the framework within which politics takes place" (March and Olsen, 1989, p. 18).

A Discursive Approach to Privatization Analysis

In a loosely coupled system with multiple policy objectives (consequences) for each method employed and multiple means for each aim, where the critical mix of policy/management is evolving rather than is preplanned and executed, the policy/management configuration is glued together by argumentation that champions specific means as the most persuasive way toward specific ends. Argumentation is not limited to establishing causal relationships between policy inputs and outputs—it extends to policy outcomes as well. Outcomes may vary from outputs not only because they represent a larger picture (e.g., reduction in crime as opposed to increased arrests), but also because they have a clearer normative dimension. For example, voucher education in the US may be rejected because it is suspected that it promotes "balkanization" of public schools into ethnic and religious-based schools (Allen, 1995). The immediate outcomes (higher test scores, increased parental choice) claimed by the proponents of vouchers are not contested not because of lack of arguments or empirical data, but because the normative/moral argument employed is seen more potent-- America is about bringing people together, not dividing them apart.

What will we look at when analyzing privatization from the viewpoint of the logic of policy deliberation? First and foremost, we should try to detect the discourse within which the debates about privatization are framed in each country. Is it first-order discourse focusing on particular aspects of the program (e.g., does it work?), rarely questioning underlying societal values affected by privatization? Or is it couched in more

abstract terms (e.g., is there an overriding moral cause for privatization, such as consumer choice), leaving the "particulars" to implementers?

The second phase of analysis is to discuss the reasons that result in such a situation. To a certain extent, this is analysis of systemic vindication level, sometimes transcending into ideological discourse. The factors accounting for predominance of one discourse or another will be analyzed from two perspectives--structural and cultural.

Structural factors can be further distinguished into two groups-- socio-economic and political-institutional. The first group will include, for example, factors like the size and history of the public sector, the nature of government regulation, industry structure, etc. Institutional factors will include the nature of politics (e.g., fragmented, consensual, etc.) and important actors in the process.

Cultural factors can be also further distinguished into two groups--general cultural patterns (e.g., the concept of equity and its relation in other values), and more "ideological" aspects of political ethos--issues such as the role and nature of the government. If these issues are explicitly questioned during public debate, we are dealing with fourth-level ideological discourse.

The following chapters will follow the logic outlined above to discuss privatization in the US, Great Britain and Russia.

CHAPTER 5

Privatization in the US: Optimizing Small Government

History and Practice of Outsourcing in the US

Several forms of privatization are practiced in the US.¹ Traditionally, because of the historically limited character of public sector and other forms of privatization in the U.S. (Vickers and Wright, 1989, p. 11), outsourcing in the U.S. is generally identified with privatization (e.g., Kemp, 1991). Since contracting out or outsourcing is by far the most common type of privatization in the US, our discussion will be limited to this particular practice.

Contracting out the services has a long history in the United States. Mail delivery was contracted out before the Constitution, so the practice is older than the American state. Corruption and scandals was also common at the time. When during the years of the American Revolution George Washington visited Philadelphia, he was appalled to see that "those who had prospered on wartime contracts now rolled about Philadelphia in gaudy coaches, while the Continental Army survived on half rations, slim supplies, and often no pay" (Hanrahan, 1988, p. 79). Contracting was widespread, and along with purchasing goods, which was the most common case of contracts, included such "pure" governmental operations, as the original secret service during the Civil War, reporting and publishing of Congressional and Supreme Court journals. The federal government contracted for the incarceration of prisoners with lower jurisdictions, which, in their turn,

¹ See Appendix 8 for brief discussion.

contracted out the incarceration with private firms. Congress appropriated funds for operating federal prisons only in the 1890s. It is worthy to note that in each case of decision-making about nationalization or "governmentalization" of the services, the decision by the President or Congress--or both--followed some problem or scandal involving the contractors (NAPA, 1989, p. 9).

The scope and scale of government activities expanded greatly during the Progressive Movement and especially with the New Deal. Although the expansion of the government was based on a positivist faith in scientific knowledge in general and scientific management in particular, and in the capacity of people to rationally apply that knowledge, the expansion of the government was not insulated from private sector. The same period also witnessed growing cooperation of the government with the private sector. This tendency of government growth along with increased cooperation with the private sector was apparent also in the 1960s, when such public-private programs as Medicare and Medicaid (which heavily rely on private care offset by federal reimbursement) were enacted. As the National Academy of Public Administration Panel put it, "the rapid growth of the government through the 1960s occurred not at the expense of the private sector but, in considerable measure, in combination with it" (NAPA, 1989, p. 10).

Simultaneously, the increasing complexity, scale and the scope of the government activities intensified the criticisms of the public sector in the early 1970s, though the sentiments again increasing government were not new. They were expressed since the first

nationalization attempts, and the attempts of government to regulate contracted businesses (e.g., enforcing minimum wages on federal construction projects in the New Deal era). There were similar sentiments also when standards for contracted services were established as early as the beginning of the twentieth century.

Federal level. The first major attempt on behalf of the federal government to encourage contracting instead of its own production came after the WW II. During the war, along with increased government production, the biggest fusion of the government and private sector also happened when the government had to mobilize the resources of the country. After the war many companies tried to maintain their contracting relationships with the government--a large and credible client--sometimes at the expense of the consumer market. While during the Truman administration two major statutes² were passed that regulated the federal procurement process, it was the Eisenhower administration that began the first assault on public production and called for substituting contracting for governmental commercial and industrial production. The Eisenhower Administration issued Bureau of the Budget Bulletin 55-4, which formally established a general policy that called for greater reliance on the private sector for the provision of commercial goods and services to the government. The document instructed federal agencies to rely solely on commercial sources of supply.

² These were the Armed Forces Procurement Act of 1947, which covered the Department of Defense and NASA, and the Federal Property and Administrative Services Act of 1949.

Later the government's policy has become less comprehensive but more specific. In 1966, the Bureau of Budget issued Circular A-76, which called for accelerated pace of contracting for government industrial and commercial goods and services. This circular, which was revised in 1967, 1979, and 1983, continued to be the basic contracting guideline until the 1990s. In 1966 the policy was modified to introduce the concept of competition between potential private sector suppliers and government-operated commercial activities. In 1979, the policy was further refined to include detailed guidance on how federal agencies should conduct cost comparisons with the private sector. The 1983 revision directed that all federal agencies conduct management and cost studies of their existing commercial activities to determine which of those activities could be more effectively and efficiently performed by private contractors. It also provided guidance as to which services currently under contract could be converted back in-house.

The pro-business government ideology contained in the circular did not change. The 1979 revision of Circular A-76 stated: "In a democratic free enterprise society, the Government should not compete with its citizens. The private enterprise system, characterized by individual freedom and initiative, is the primary source of national economic strength. In recognition of this principle, it has been and continues to be the general policy of the Government to rely on competitive private enterprise to supply the products and services it needs." Simultaneously, the circular also states that there are functions "inherently governmental in their nature," which ought to be performed by federal employees. The circular includes the following as governmental functions:

investigations, prosecutions, and other judicial functions..., management of government programs requiring value judgments, as in directing the national

defense; management and direction of the Armed Services; conduct of foreign relations; selection of program priorities; direction of federal employees; regulation of the use of space, oceans, navigable rivers and other natural resources; direction of intelligence and counter-intelligence operations...; regulation of industry and commerce, including food and drugs.... Monetary transactions and entitlements, as in government benefit programs; tax collection and revenue disbursements by the government; control of the public treasury, accounts and money supply; and the administration of public trusts (as quoted in Hanrahan, 1988, pp. 93-94).

In 1988, President Reagan's Commission on Privatization submitted a report, entitled "Privatization: Toward More Effective Government," where it found that in all reviewed areas (ranging from low-income housing and federal loan programs to air traffic control and federal asset sales) there is "a potential for improved efficiency, quality of service, or both, to be derived from increased private sector participation in the provision of services" (President's Commission on Privatization, 1988, p. 38). Many of the report's recommendations ended up exactly as did the earlier (1985) recommendations of the Grace Commission Report (President's Private Sector Survey on Cost Control)—unimplemented, perhaps with the exception of more contracting. As subsequent studies later argued, reports often have ignored not only politics and interest group power, but also some legal and administrative issues. Most of asset sale recommendations are still not implemented (e.g., sale of Amtrak).

The neo-liberal Clinton administration has followed a different line of thought than the government of the Reagan-Bush era. Despite distinct ideological differences (pro-government and activist), it has achieved quite significant results with streamlining federal service (mostly eliminating layers of middle management). Based on the Reinventing Government Movement, Vice-President Gore's National Performance Review boasts

substantial streamlining not only in personnel, but also regulations. For example, OPM eliminated "the outdated, confusing 10,000 page Federal Manual and the monstrous Standard Form 171 job application form. Much of what has been centralized in the manual was delegated to local agencies to make decisions on a more appropriate level" (Sunoo, 1998, p. 61). Under the auspices of the Clinton administration's National Performance Review, Executive Order 12866 issued in September 1993 mandated streamlining the pages of the Code of Federal Regulations (CFR), which is a record of all annual executive agency regulations, including previously issued regulations that are still in effect. As of September 1996, various agencies had eliminated 11,569 pages from the 50-volume, 120,000-page Code. From 1993 to 1996, 263,500 FTE (full-time employee) positions were cut in the executive branch; from January 1993 to January 1997 the federal executive branch non-postal workforce was cut by 14 percent; and the Office of Personnel Management's (OPM) salaries and expenses have been reduced by 33% (Sunoo, 1998). One strategy in federal OPM's downsizing has been privatization using the Federal government's first Employee Stock Ownership Plan (ESOP). About 700 employees of OPM's investigations unit formed their own company under ESOP--called US Investigations Services, Inc. (Ibid.).

What is the scope of privatization at the federal level? Despite the "big government" rhetoric from critics, the scope of outsourcing in the federal government is substantial. In fiscal year 1993, for example, 37% of all discretionary federal spending went through contracts. This is about twice as much as civilian pay (20%) or entitlements (19%), and three times as much as grants to states and localities (11%) (Kettl, 1995, p. 2).

With Vice-President Gore's National Performance Review rolling, we can expect further reduction in civilian labor force (because of streamlining), and subsequent increase in the share of contracts. Some critics argue that the federal government privatizes far more than it should, since often it contracts out functions that have policy-making components and should be carried out by the government. In a recent study, the General Accounting Office (GAO) found that out of the 108 randomly selected federal contracts it examined, 28 involved some regulatory activities that should have not been carried out by contractors (Ibid., p. 4).

How much further can the government be privatized? The Libertarian Cato Institute (1997), in its *Cato Handbook for Congress*, does not champion service outsourcing (perhaps considering it an established practice), and suggests two main types of privatization for federal government: sale of enterprises (14 items and categories, such) and sale of assets (8 items and categories).³ The first include the Tennessee Valley Authority, Amtrak, National Weather Service, air traffic control, U.S. Enrichment Corp., Department of Energy labs, 4 NASA aeronautics labs, etc. Assets include Spectrum, various federal reserves (helium, petroleum, etc.), federal loan portfolios, etc. Estimated savings are \$ 524.7 billion (\$ 81.1 billion from enterprise sales and \$ 443.6 billion from asset sale). By American standards, this number is not very large, especially considering that \$150 billion in revenues were projected from sale of the Spectrum alone. The probability of the sale of many mentioned enterprises or assets is not very high. There have been calls for the sale of Amtrak's and US Postal Service since the 1980s with no

³ See Appendix 9 for details.

particular success, and the rest of the enterprises are also considered some sort of national infrastructure, which will make their sale also harder.

Finally, lately there have been debates about privatizing the sacred cow of American politics--Social Security. With an ebullient stock market during the last seven years, and a threatening demographics of baby boomers massively retiring in 10-15 years, to many private investment of retirement funds seems to be the answer. Three basic approaches were circulated in the policy community (Passel, 1996; Baker, 1996). First, there is the approach of partial commercialization of the management of social security. In other words, the government still levies tax on the payroll, but invests part of the proceeds not in safe and usual Treasury instruments, but in a government-run mutual fund indexed in the stock market. Second, there is the full privatization approach, where workers take full responsibility for their retirement and the government is only providing a beneficial regime for retirement savings. Basically, in this Cato Institute-supported libertarian approach everybody invests (or chooses not to invest) in private pension funds or other financial instruments, and there is some money for the destitute. Finally, there are the hybrids. In these scenarios, there is a mandated element of necessarily saving combined with worker's responsibility for skillfully investing either all or part of the required savings (Passel, 1996; Feldstein, 1997). While certain "entrepreneurial" handling of finances is quite possible, any wholesale change of the system, especially after President Clinton's very popular proposal to earmark the first federal surplus in 30 years for repaying the borrowings from Social Security trust funds, does not seem very probable. Discussing the issue, the Presidential Council of Economic Advisers "took

pains not to endorse of any of the panel's three proposals," and stipulated that "...any proposal for equity investment must consider the consequences when markets fall" (Calmes, 1997, p. A2). Except for scale and social implications, privatization of Social Security will be unique also in one sense--it is the only type of privatization activity in the US that has immediate macroeconomic implications. There will be both a huge influx of money to Wall Street (Dreyfuss, 1996), and the government borrowing costs will go up since it will have to borrow from the Wall Street as well.

State level. The privatization literature usually addresses the issue either on the federal level or on the local level, and studies dealing with privatization on the state level are rare. In 1993, the Council of State Governments (CSG) initiated a national survey to fill in this gap. The study found an increased frequency of privatization projects over recent period. The survey lists 202 types of programs/services that are partially or fully privatized in the 50 states across the nation. Chi (pp. 3-4) summarizes the findings of the report:

State governments were not as quick to initiate privatization projects as the other levels, primarily because of legal or administrative barriers to privatization, but over the past few years the number of state agencies with such projects has rapidly increased.... As for cost savings from privatization, the Eastern region showed the highest percentage; 27 percent of the agencies that responded to the CSG survey said their savings were more than 10 percent. Between 13 percent and 17 percent of the state agencies in other regions reported savings of more than 10 percent. Regarding the major reasons for expanded privatization activities, cost savings was the most frequently cited reason by responding state agencies in the Eastern region, while the lack of agency personnel or expertise was the number one reason for their anticipated expansion of privatization activities in the next five years. Contracting-out is the most popular form of state privatization activities according to CSG survey; 78 percent of state agencies surveyed have used the contracting-out form. It should be noted, however, that vouchers and franchises, notwithstanding relatively low percentages, have been used in state government more frequently than had been previously reported.

Since the 1980s, many state governments have created task forces to deal with privatization issues. For example, in Colorado the Governor created such a task force in 1988. And after the enactment of HB 93-1212 in 1993, Colorado now statutorily encourages the use of private contractors for personal services to achieve increased efficiency in the delivery of government services without undermining the principles of the civil service amendment. An 1995 performance audit conducted by the State Auditor entitled, "Contract Management Oversight," reported that during Fiscal Year 1994 state agencies entered into 2,625 personal services contracts for \$163.8 million (Pffner, 1997, p. 26).

Though there always have been private provision of not very commercial services like bounty hunting after escaped criminals (Sexton, 1995). With an increasing presence of Republican governors in the 1990s, some states began to contemplate privatization of some services and assets that have been considered "out of reach" before. For example, there is talk both in New York and New Jersey about privatization of some airports (Wald, 1995). New Jersey is even considering privatizing some quite sensitive services, such as child welfare (Pulley, 1996). In essence, such a proposal argues for New Jersey State Division of Youth and Family Services to still keep their core mission--investigating child abuse and neglect, and taking care of more severe cases. It also proposes to contract out the bulk of the Division's caseload to a private, profit-making firm engaged in contracting part of mission implementation--coordinating foster care, therapy and adoption. The case is atypical in one aspect. If such services are contracted, they are usually being performed by non-profit, rather than for-profit, organizations. Because of

the non-profit nature of the provider and special regime it has to operate under, some authors see such a transfer as distinct from simple contracting out. Chang and Jones (1992), for example, see this form as a special American hybrid model not very common elsewhere.

Local level. The history of privatization and contracting for services, or as it is also called purchase of services, at the local level is diverse and is not as systematically documented as the same activities on the federal level. As Nelson notes, the provision of local services has undergone two transformations since colonial times (Nelson, 1980, p. 428). Early in the colonial times, the only provider of services such as fire protection were the private firms. Wealthy families paid for fire protection, and displayed iron decals called fire marks, on their doors. These decals marked the firm from which they acquired fire protection. Many colonial houses have burned down in presence of competing firefighters, who did nothing to fight the fire. As the cities grew, the first transformation occurred, and public provision of services became a norm. Some municipalities had provision of certain services, such as fire-fighting, on a voluntary basis, which is neither public or private in terms of our privatization framework.

The purchase of services by local government always existed, but the trend of contracting for, say, sanitation services, did not become popular until the late 1960s. Contracting for human services is also a new phenomenon. Nelson quotes a 1973 ICMA survey, which showed that municipalities responding to the survey contracted a total of 68 different kinds of services, ranging from refuse collection to tax collection and air

pollution abatement, but did not include contracting for human services (Nelson, 1980, p. 429). The most commonly purchased service was solid-waste collection/disposal, exercised in 24% of the cities and 22% of the counties, with average 6% of cities and 9% of counties contracting for services. A 1977 U.S. Department of Commerce Survey found out that the amount spent on purchasing of services constituted 16.9% of all state and local expenditures that year (Ibid., p. 430). A survey of city and county governments in 1987 found that almost 60% of them were doing at least some purchasing of services, and experimenting with other forms of privatization (NAPA, p. 11).

Drawing from a survey data for 1988-1989, Savas maintains that "virtually every jurisdiction in the United States contracts for one or more services," and that, on average, a service from the list of 48 different services (ranging from public works to health and human services) is contracted out by 20 percent of communities responding to the questionnaire (Savas, 1992, pp. 82-83). It is worthy to mention that in 1989 many local jurisdictions were already contracting for health and human services; indeed, 43 percent of the respondents stated that they contract for operation of homeless shelters, and 34 percent for operation of drug/alcohol treatment programs.

A 1995 survey of the 100 largest American cities found the following patterns of privatization:

The number of privatized services in each city ranged from zero to 19. The average number of privatized services for the 66 cities was 6.9....

The authors of a privatization survey conducted for the ICMA in 1992... indicated that they could not detect any significant variation by region in the number of services privatized by cities of all population sizes.... analysis of our

survey results suggests that the same conclusion can be reached for America's largest cities.

The figures concerning the number of privatized services in America's largest cities suggest that the privatization movement has made a significant impact. Only three of the 66 cities had not privatized any city services. However, a relatively large number of large-population cities have not fully embraced the privatization approach in a broad-based manner... (Dilger et al., 1997, pp. 23-25).

The survey also showed that privatization of city services was fairly evenly distributed across service types. The ten most privatized services in America's 66 largest cities in 1995 were:

1. Vehicle towing: 53-80 percent of the cities.
2. Solid waste collection: 33- 50 percent.
3. Building security: 32-48 percent.
4. Street repair: 26-40 percent.
5. Ambulance services: 24-36 percent.
6. Printing services: 23-35 percent.
7. Street lighting/signals: 17-26 percent.
8. Drug/alcohol treatment centers: 16- 24 percent.
9. Employment and training: 16-24 percent.
10. Legal services: 16-24 percent (Ibid.).

Usually, bigger cities are more innovative, draw more attention, and are better known for their management savvy. It does not mean, though, that privatization is limited to bigger cities. Sometimes smaller towns go much further in their efforts of streamlining government. For example, Crestwood, IL (population 12,000), a village 20 miles southwest of Chicago, has privatized virtually every service and activity--from "bookkeeping to street maintenance to water and sewer repair." The long-term mayor of the town has reduced the village's staff from 127 to 17 people during 27 years, while still offering an array of services without increases in taxes (Brace, 1994). Exposure to similar practices in municipalities with different socio-economic characteristics, and different

practices in similar towns, inevitably raises the question of: what does account for such diversity on the one hand, and similarities on the other hand? As one would expect, there have been studies trying to answer these questions.

More than at state and federal level, local privatization studies have engaged in significant amount of comparative studies, trying to find out certain patterns. Usually, three sets of questions are asked. First, is it effective? Second, who (which cities) does privatize? Third, what is that makes privatization effective? How should it be done? The answer to this question is more likely to be a checklist of do-s and don't-s. And finally, there is one important aspect that privatization studies and debates touch upon--its impact on labor.

There have been numerous empirical studies comparing costs of services provided by public and private organizations. The studies are mostly performed for local services, and although the researchers maintain that they took into account different factors, such as the size of the municipality, comparability of services, cuts in wages, etc., the methodology is often contested (Donahue, 1989). Probably, the most studied service is the solid waste collection (Savas, 1977, Stevens, 1977), with a typical conclusion that collecting of solid waste by a public agency is more expensive than contracting it out, although less expensive than a totally private (market) provision of the service. Studies comparing delivery of several services both by agencies and contractors by and large find that private contractors are more effective (e.g., Stevens, 1984), although in the case of

natural monopolies (utilities) government provision seems to be less costly (Baumol and Blinder, 1988; Donahue, 1989).

Who does privatize? There have been several empirical studies that tried to find correlation between levels of privatization and various socio-economic characteristics of cities (e.g., Ferris, 1986; Greene, 1995; Hirsch, 1995). Ferris (1986) found that privatization is less likely to occur in non-metropolitan cities (i.e., less supply), in cities with low public-sector wages, and more likely to occur in cities with high property tax burden. Hirsch (1995, pp. 240-241) concludes that the cities are "likely to be favorably disposed to an affirmative decision [about privatization] if their jurisdiction is small or middle-sized, levies relatively low per capita non-property taxes, and has a low bond rating. At the same time, however, such officials face a confusing situation with regard to unions: although communities in which public-sector unions are stronger than private-sector unions tend to have a significant incentive to privatize, powerful union resistance will seek to prevent it." Discussing a similar finding--that fiscal stress is not related to privatization--Greene (1995, p. 18) suggests that "privatization remains a controversial concept and our understanding of it is limited." He suggests that it is plausible that Hatry's (1989) hypothesis is correct: privatization is idiosyncratic. It seems that there is agreement on some factors (suburbs, medium-size), while there is no consensus on others (fiscal stress), and the models are not very clear on labor issues.

The issue of labor is an important one. As studies have shown, if there is one aspect in which that public and private employees differ, it is the level of fringe benefits:

private, very often non-unionized employees, get significantly less fringe benefits than unionized public employees (National Commission for Employment Policy, 1988: Kettl, 1993). Usually the terminated public employees find jobs either with the contractor, or within other government services (NCEP, 1988). Procedurally, the evolved practice in some of the largest American cities is like this. After discussion (actually, 30-60 day prior notification) with unions, the city management issues request for proposals. Then, the management may have several meetings with the union leaders before awarding a bid, but if by that time unions do not have a competitive offer, the contract is awarded to other parties. Individual cities may differ in some details. For example, Philadelphia has 90-day and 180-day contract review policy before finally committing to a vendor (City of Philadelphia, 1997). Indianapolis has special training for the union before the contract is awarded (to make them competitive), gainsharing (city workforce earns share of cost savings if it performs function under bid price), and a bidding moratorium "in cases where city workforce demonstrates constant superiority" (GAO, 1997, p. 36). Essentially, public sector employees (more correctly, unions) are treated as preferential vendors with privileged schedules to prepare bids, etc. Empirical studies find that cities with unionized workforce are less likely to seriously consider privatization, and when considering, are less likely to implement it, which is mostly a result of unions influence away from bargaining table (Chandler and Feuille, 1991).

What works? How to privatize? In the 1990s, these questions were not merely academic. Several states, including Georgia, Colorado, and Massachusetts, came up with reports specifying guidelines for privatization. For example, in November of 1993,

Governor William Weld's Office of Administration and Finance released a report entitled *Privatization in Massachusetts: Getting Results*, which includes a section entitled "Evaluating Privatization Initiatives." The section discusses the ideal conditions for privatization, including:

1. Competitive marketplace;
2. Potential for savings;
3. Promise of enhanced quality or responsiveness;
4. Satisfactory assurance of government control and accountability;
5. Minimal risk;
6. No insurmountable legal, political, or practical barriers;
7. Minimal adverse employee impact (Massachusetts, 1993a; 4-6).

The Weld administration report also offers a parallel seven-point guide to "mitigating imperfect conditions." For example, for softening the adverse impact on employees, it is recommended to enable public employees to have an equal opportunity to bid for the work, and develop a personnel redeployment plan, including a requirement that private firms interview displaced employees, and have the state provide job placement and retraining to affected employees (Wallin, 1997).

In a similar vein, a recent U.S. General Accounting Office (GAO) (1997) report, *Privatization: Lessons Learned by State and Local Governments*, chronicles the most notable and long-term privatization efforts undertaken by five states (New York, Massachusetts, Virginia, Michigan and Georgia) and one municipality (Indianapolis). These governments played a leadership role in incorporating privatization as a core component of their government activities and service delivery systems. The most common type of privatization activities were outsourcing, then asset sales, and in one case instituting managed competition. The most common cause was cost savings,

followed by load shedding because the activity was not considered a core function of the state. There were six lessons drawn from experience:

1. Privatization can best be introduced and sustained when there is a committed political leader to champion it.
2. Governments need to establish an organizational and analytical structure to implement the privatization plan.
3. Governments may need to enact legislative changes and/or reduce resources available to government agencies in order to encourage greater use of privatization options.
4. Reliable and complete cost data on government activities are needed to assess the overall performance of activities targeted for privatization, to support informed privatization decisions and to make these decisions easier to implement and justify to potential critics.
5. Governments need to develop strategies to help their workforce make the transition to competitive market thinking.
6. When a government's direct role in the delivery of services is reduced through privatization, a need is created for enhanced monitoring and oversight that evaluates performance compliance with the terms of the agreement and performance in service delivery.

Lessons from Privatization

Some proponents of privatization see it as a universal tool, a panacea for all the problems the public sector faces. The California-based Reason foundation, for instance, argues that "no service is immune from privatization" (Goodman and Loveman, 1991, p. 32). Most of the authors treating the subject of privatization (and to some degree proponents of it) do not have a no-nonsense approach that privatization is an end by itself and a cure for all ills. Most of them qualify their call for privatization, emphasizing the actual arrangements under which the service is delivered. Kettl (1995), for example, argues, that though everything can be privatized, everything should not be privatized. Goodman and Loveman (p. 28), for example, find it useful to "move the debate away from the ideological ground of private versus public to the more pragmatic ground of managerial behavior and accountability." In such a context, "the pros and cons of privatization can be measured

against the standards of good management: regardless of ownership. What emerges are three conclusions:

1. Neither public *nor* private managers will always act in the best interests of shareholders. Privatization will be effective only if private managers have incentives to act in the public interest, which includes, but is not limited to, efficiency.
2. Profits and public interests overlap best when the privatized service or asset is in a competitive market. It takes competition from other companies to discipline managerial behavior.
3. When these conditions are not met, continued governmental involvement will likely be necessary. The simple transfer of ownership from public to private hands will not necessarily reduce the cost or enhance the quality of the services (Ibid.)

One of the main tenets of the highly popular book by David Osborne and Ted Gaebler *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector* is the call for competitive government. They do not limit competitiveness only to the market or only between private firms that bid for contracts, but call for competitiveness between public and private, public and public agencies. Osborne and Gaebler follow E. S. Savas's (1987) proposed guidelines on the appropriateness of each arrangement for provision of certain type of service or goods, that it should be judged according to the following criteria (Osborne and Gaebler: 343-344):

- service specificity, or how specifically the service can be defined so that the guidelines for private producers of the service can be exact;
- availability of competitors, which is basically, the availability of competitors;
- efficiency and effectiveness;
- the scale of the service, or how large should be the organization to efficiently produce the service;
- relating benefits and costs, or the calculation of the degree to which those who use the service pay directly for its benefits, or the question on the appropriateness of user fees;
- responsiveness to consumers;
- susceptibility to fraud;
- economic equity;
- equity for minorities;

- responsiveness to government direction;
- the size of the government required by service arrangement.

Osborne and Gaebler elaborate on this framework and also come up with a table that contains recommendations as to what kind of tasks are best suited for different sectors (Osborne and Gaebler, 1992, p. 347-348). They identify strengths and weaknesses not only for the public and private sectors, but for the third or non-for-profit sector as well. From their perspective, the tasks best suited for the public sector are policy management, regulation, enforcement of equity, prevention of discrimination, prevention of exploitation, and promotion of social cohesion. The tasks best suited for the private sector include economic and investment tasks, profit generation and promotion of self-sufficiency. The tasks more appropriate for the third sector are the social tasks, tasks that require volunteer labor, tasks that generate little profit, promotion of individual responsibility, promotion of community, or promotion of commitment to welfare of others. This typology, however, is a bit abstract and significantly less helpful for our purposes than the framework suggested by Savas, because almost every endeavor the government pursues has multiple goals. And terms as economic tasks are too broad.

Prager (1994) argues that "contracting out is not a silver bullet," and it will lead to cost savings only if certain factors are considered:

- there is economy of scale;
- there is economy of scope;
- if the organization structure of the contracting firm is better suited for the task, otherwise organizational restructuring may be a better option than privatization;
- there is competition;
- costs of the contract management are low.

Many of the writers are aware of increased possibilities of corruption and urge monitoring of contracts, and emphasize the political accountability of management contracting out for services.

Thus, the argument can be summarized that privatization should not be considered as the ultimately efficient available option to the increasingly complex problems government faces. It should be viewed as an alternative arrangement of service delivery that can be more efficient under certain conditions. The decision about privatization should be adopted after careful consideration of a host of factors, ranging from technical characteristics, organizational structure and competitiveness of the environment to management's capacity for monitoring, costs of monitoring and the relation of the privatization service to the agency's mission. Gains in cost savings should not be at the expense of other values of the government, such as equity and fairness. Because of the increased possibility of corruption, privatization requires constant feedback and reinforcement of accountability practices. Privatization should not be pursued for goals other than cost savings, such as reducing the government or decreasing service levels.

US Privatization in Comparative Perspective

Privatization in the United States comprises a much less radical process than in Europe and the post-communist countries. The reason is not only the much more limited scale of the process, but also the place it occupies in the life of the country. To analyze this, we will employ Fischer's (1995) logic of policy deliberation.

One cannot help but notice that the privatization argument in the United States is by and large limited to the first-order discourse, while the most popular form of practice is outsourcing.⁴ Two types of issues preoccupy policy makers, as well as academic debate: 1) does it work? and 2) under what conditions does it work? Sometimes systemic-level questions are also raised, but only with regard to a very narrow set of problems, and are discussed only briefly. Ideological discourse is entertained only by a few academics, and is marginalized even in academe.

The arguments are mostly about effectiveness of privatization (outsourcing), and conditions that induce effectiveness, such as competition, low transaction (and monitoring) costs, political support, economies of scale, specification of the service, etc. The whole argument is couched in terms of microeconomic efficiency. There are only two issues where the argument transcends this language, albeit in a very limited manner. First is the issue of labor. Labor unions of public employees have some priority in their competition for contracts. But this is more a part of situational than systemic discourse. Labor has its particular privileges not because public employment (or employment in general) is valued, but because structurally, labor very often has an already established position in the system. In an extremely large, and structurally fragmented country with almost no government involvement in industry and lack of industrial policy, labor displacement is a local issue without macroeconomic implications.

The topic that comes closest to the systemic vindication level is the issue of (not very likely) privatization of social security. While macroeconomic implications are of situational-level discourse (e.g., will there be more expensive government borrowing as a result of privatization?), the issue of protecting social security's capacity in case of market falls brings some other values to forefront (Krauss, 1998; Kuttner, 1998). Christopher Hood's typology is very useful for discussing these values. In his insightful analysis of New Public Management, Hood (1991) distinguishes between Sigma-type values (purposefulness, frugality, efficiency), Theta-type values (honesty, fairness), and Lambda-type values (resilience, robustness, survival and safety). In essence, when the Presidential Council of Economic Advisers stipulated that "...any proposal for equity investment must consider the consequences when markets fall" (Calmes, 1997, p. A2), it was bringing Lambda-type values into public discourse. As we can see, with more politicization (both in terms of political forces and implications of social choices) of the issue, the logic of efficiency that dominated the first-level discourse has to retreat, opening room for other types of values.

One can also argue that Theta-type values (honesty and fairness) are always in the picture, since critics of privatization always bring up issues like low-ball bidding, "creaming," etc. While this is correct, there is a substantial difference between the two. In the first case, the argument is about resilience and safety of the social safety net, and there are no clear answers what will be the response in case of failure. Will the government take

⁴ In addition to the arguments provided above, see Appendix 10 for more detailed discussion of pro and con

the responsibility? Given that capacity is lost, and the cost is enormous, will it even be able to do so? These questions are open. In the second case, a specific type of privatization--outsourcing--solves the conflict between Sigma and Theta values by prioritizing Sigma values and assuming Theta values. The key here is temporariness (constant renewability) and limited scale of the contract. In essence, the assumed logic is: 1) outsourcing is more efficient; 2) if a contractor is caught in a dishonest or unfair practice, the contract will not be renewed; and 3) if there are losses or discrimination in service, the situation can be ameliorated, since the damage is not too big and was not suffered too long. Thus, because it is believed that violations of Theta values are not inherently natural for privatization, but are allowable digressions that can be corrected within a short period of time without substantial injection of additional resources, it becomes a part of situational validation discourse.

Now, the question arises, why is this the case? Why doesn't the discussion of privatization ever rise to discussing the role and implications of the market in society, or the role of the state in society? Also, why is outsourcing the most common form of privatization in the US? There are several reasons, which we will group as structural or cultural.

First, we have to remember that, together with Japan, the United States has one of the smallest governments in the world, with the public sector accounting only for about 33-34% of GDP (Economist, 1997). The government in the United States had always had

arguments.

limited presence in industry in general, and in some cases never owned services (such as airlines) that often used to be government monopolies in other Western countries. As opposed to most (if not all) industrialized countries, historically in the U.S. the rise of big business (and business in general) preceded the rise of the big government (McCraw, 1984). As a result, it was much more likely for an expanding government to take a regulatory strategy than to go for direct provision of services. There are not too many things that government was involved in earlier and now wants to shed the load by retreating from such responsibilities. Essentially, there is not much argument about what services the government should provide. The programs that are seen as blatantly wasteful (such as the now discontinued infamous subsidies for bee wax), are not big in scale or cost. The biggest item of federal budget that draws criticism of being excessive is welfare income transfers, which is not an easy issue to tackle. It is not a surprise, then, that despite numerous calls for sale of federal assets since the early 1980s, the biggest sale has not been Amtrack or the US Postal Service or some other enterprise, but Elk Hills oil and natural gas reserve (Danielski, 1997).

Second, the US has the largest economy and internal market in the world. This means constant availability of domestic competition. From this, "competition" means that there is a pressure to cut costs, and "domestic" means that nationalism is not an issue when privatizing, and there are no fears of foreign takeover. As a result, even such a sensitive enterprise as the US [Uranium] Enrichment Corporation is now being offered for sale (Murray, 1996).

Third, the open and fragmented character of American politics, often labeled as interest-group liberalism, devolves many policies to subsystems with sometimes quite powerful and organized interest groups who are able to maintain their benefits and services (DeLoe, 1995). Finally, despite the fact that public-sector unions have increased their clout within the American labor movement, there is an overall drop in unionization in the US, which has the lowest unionization rates among industrial countries—18% (Lodge, 1990, p. 20). This also makes potential opposition to outsourcing less powerful. Essentially, what we have is a stable, fragmented, limited government that favors incremental change, and a strong private sector on the supply side, with weakening labor unions fighting off privatization.

Speaking about cultural factors, one has to start from the concept of state. This concept is notoriously absent from American public administration discourse (Stillman, 1991). It can be partly explained by a peculiar American history wherein a strong centralized state came to power only after big business was established (McCraw, 1984), or by the fact that the apparatus of the state—public administration—developed earlier in the US than the concept of state came to be recognized (Stillman, 1997). Partly it can be explained by the fact that the founding of American republic was influenced by Lockean understanding of government by contract, with no autonomous role for the state, and that vision is still strong today. The metaphor of government as a social contract is ideal for outsourcing (contracting) purposes. Another implication of foregoing the concept of state is that historical perspective is often lost. Thus, if one is detached from history and

institution building, microeconomic rationale seems to be the best for judging aspects of the social contract.

Second, Americans believe that they live in a predominantly middle-class, egalitarian society. While behavioral norms and attitudes are really more egalitarian than in most other countries, income distribution is far from egalitarian (e.g., Parenti, 1994, p. 57). Among the OECD countries, for example, the US has the second highest Gini coefficients of income distribution, (Vanhoudt, 1997).⁵ Ironically, though, the absolute majority of Americans, regardless of their income--from the poor to quite rich--consider themselves to be middle-class (Roberts, 1997, p. 6E). This perception reinforces the underlying notions of 'public choice' school--we are all alike, we are consumers of government services, and government institutions are, in essence, our contractual arrangements that should be monitored, renewed or terminated.

Egalitarian attitudes have different implications. International organization research has shown that Americans share two cultural traits with other mostly Anglophone countries--small "power distance" (how people handle status inequality) and weak "uncertainty avoidance" (the extent to which people are threatened by uncertainty). Geert Hofstede (1991, p. 141) calls the resulting working culture the "village market" model. In another piece, discussing how national culture affects organizational paradigms,

⁵ The Gini coefficient is a statistical measure of income inequality. It measures the sum of differences between the actual proportion of total income earned by the corresponding fraction of population (a.k.a. the Lorenz Curve) and the value of that fraction. For example, if the lowest 50 percent of population earn 30 percent of total income, the difference will be 20 percent, or 0.2. The sum of all such differences will constitute the Gini coefficient. Its value is between 1 (complete inequality, where 1 person earns all the income) to 0 (perfectly equal distribution). In the US, Gini coefficient is on rise since the 1970s.

Hofstede (1996) notes that most American theories of organization are anchored on the concept (metaphor) of market, while, say, the French build on concepts of power, and the Dutch see the beginning of it all in the concept of consensus. As a result of the market metaphor, an organization is seen, say from the neo-institutionalist or principal-agent theory perspective, as an entity that is based on controlling shirking (loafing) of its various members. Perceived as such, if the transaction costs for contracting are not high, there is no need for institutions. Another implication of the market metaphor is that more emphasis is placed on outputs than jobs, since employees are also seen as independent contractors wandering from institution to institution. As such, layoffs are very often seen as a natural process, and the job market as a very dynamic phenomenon, with organized labor not warranting any more protection than it has now. Historically, this may be also a result of a quite abundant cheap immigrant labor supply.

Finally, there is the legacy of the old politics-administration dichotomy. As a heritage from the Progressive era, administration in general, and municipal administration in particular, are seen as domains of neutral expertise (Henig, 1990). Such an angle to administration gave local officials the possibility of experimenting with privatization, especially given the fact that pre-Reagan privatization arguments were more pragmatic than ideological. This heritage is not expressed only in ideology, though. As Henig (1990) argues, it also resulted in structural reform that isolated city managers from many interest groups, most importantly from local labor unions.⁶

⁶ Henig also discusses in detail how neo-conservative argument and pragmatic local practice "found" each other after many years of separate existence. For matters of space, we will forego this discussion in this paper.

Conclusion

Privatization in the US is taking place, and it is taking place at an increased pace. In most of the cases, privatization is cost-effective. Privatization is not effective because the private sector per se is better, more efficient or more effective. The reason for cost savings is the special institutional arrangement, where private firms compete with each other or with public agencies and are monitored by the contracting agency.

Outsourcing is the most common type of privatization in the United States for several cultural and structural reasons. It emerges as the most popular form of privatization since, among many meanings of umbrella term "privatization," it emerges as the most appropriate for the administration of the current moment--namely, optimizing limited government in a fragmented and incremental system. It is unlikely that other forms of privatization will become as popular in the United States, since government responsibilities are not likely to decrease drastically in the near future, so that the government will engage in more load-shedding.

CHAPTER 6

Privatization under Mrs. Thatcher: Curing the "British Disease" with "Popular Capitalism"

The "Thatcher revolution" changed the nature of British politics, fundamentally altering the political landscape and the role of the state in the economy. Before 1979, Great Britain had one of the largest public enterprise sectors in Europe. From 1979 to 1995, implementing a massive privatization program, the government sold more than £50 billions of state assets (excluding proceeds from the sale of government owned housing) to the private sector, and reduced the share of employment in publicly-owned industries from 7.2 percent to under 2 percent (Cook, 1996). In a comparative perspective, among OECD countries only radical reforms in New Zealand surpass the scale of the Thatcher revolution."¹

Despite a Labor victory in 1997, public discourse has been fundamentally changed. After eighteen years of Conservative rule, nationalization has been exorcised from the political vocabulary, and union powers have been curtailed, while competitiveness and flexibility are being stressed. Political dialogue is building from the established realities of the 1980s. The 1997 Labor Manifesto, for example, claimed:

New Labor offers business a new deal for the future. We will leave intact the main changes of the 1980s in industrial relations and enterprise. We see healthy profits as an essential motor of a dynamic market economy, and believe they depend on quality products, innovative entrepreneurs and skilled employees. We will build a new partnership with business to improve the competitiveness of British industry for the 21st century, leading to faster growth.... New Labor believes in a flexible labor market that serves employers and employees alike.

¹ For comparative size of British privatization, see Appendix 11.

History of Privatization under Mrs. Thatcher

It is accepted to divide the privatization program of the Thatcher government into three general phases, roughly equivalent with electoral victories (e.g., Cook, 1996; Bishop and Kay, 1989). During the first phase of privatization, from 1979 and 1983, the government sold public sector assets and public enterprises that were small and largely operated in competitive markets. The emphasis was on selling public property rather than sale of shares in public enterprises. Perhaps, the most significant event was the sale of over one million public housing units under the 'right to buy' scheme, bringing £15 billion to the Treasury (Cook, 1996).

The second phase, from 1984 to 1988, extended privatization to public-sector utilities, and included both denationalization and liberalization, since many (if not all) utilities were natural monopolies.² The first large-scale attempt started with the very successful sale of the British Telecom, and continued encompassing water, electricity, etc. The distinguishing characteristic of this phase was the establishment of separate regulatory offices for newly privatized (and often liberalized) industries.

The third phase, from 1988 on, continued the privatization of utilities, but "represented a new direction for the privatization program" that "gained momentum when a significant number of publicly-owned companies had already been sold and those

² In essence, the term denationalization was not quite accurate, since some utilities have never been private. Partly for this reason, the term 'privatization' became more popular (Lawson, 1993, p. 198).

remaining were proving to be difficult to sell or were unlikely to generate large sums of revenue" (Cook, 1996). In such a situation, the government turned to new methods of privatization that focused on improving government operations, rather than load shedding--contracting out, imposition of user charges, introduction of market-type mechanisms. Such efforts concentrated on the traditional welfare state, or what has also been called the public non-market sector.³ As Cook (1996) notes, "in the UK context, there has been considerable support (or little resistance) to privatization in the public market sector... In contrast, a significant proportion of the public non-market sector commands popular support from the general public."

Privatization initially did not figure prominently in the Conservative electoral platform in 1979.⁴ The program was heavily monetarist, with only limited privatization promises. The only specific pledges of denationalization were those of the aerospace and shipbuilding industries and the sale of shares in the National Freight Corporation. But as Margaret Thatcher (1995, p. 64) puts it, "we got bolder and we learned as we went along. One by one, state-owned industries were brought into better shape and, in an improving economic climate, were prepared for privatization." The paramount concern of the 1979 Thatcher government was fighting inflation. Inflation was more than an economic

³ Some authors, like Heald (1989) make distinction between 'public market sector,' i.e. the public or state-owned enterprises, and the 'public non-market sector,' which encompass more traditional government agencies providing services. Generally the "distinction relates to institutions, reflecting past political choices about financing, and the characteristics of the goods and services supplied" (Cook, 1996). However, as Cook notes, "goods and services in the public non-market sector, such as health care, can be considered marketable even if they are not at present marketed to any large extent."

⁴ Nigel Lawson (1993, p. 199-200), claims that privatization was part of the initial program (though not stressed in the manifesto) and was reflected in Geoffrey Howe's first budget speech in May of 1979. Still, Thatcher's claim of strategic principle rather than a plan sounds more truthful: "I came into 10 Downing Street with an overall conception of how to put Britains economy right, rather than a detailed plan: progress in different areas would depend on circumstances, both economic and political" (Thatcher, 1995, p. 569).

phenomenon, it was a social disease—"it had become deeply rooted in the British political and economic system and in British psychology.... Only a sustained policy to reduce monetary growth and exchange expectations would suffice" (Thatcher, 1995, p. 569). The next aim was reducing public borrowing. Both, as Thatcher saw it, were arresting development, by raising interest rates and crowding out private investment. Privatization and other "supply-side" policies (such as deregulation) followed these objectives.⁵

The initial road for privatization was paved by the previous Labor government, when in 1977, under pressure from the IMF, the first batch (17%) of British Petroleum shares have been sold. Based on this precedent, 5% more shares were sold in November of 1979 in an attempt to "balance the books," when the Thatcher government was "dealing with crises on a weekly basis," as it "scanned the figures on public borrowing and spending, against the background of an international economy slipping faster and faster into recession" (Thatcher, 1993, p. 49).

Next, in 1980 followed direct sales of two British Technology Group companies to institutional investors, instead of offering them on the stock market. Generally, direct sales of companies and activities continued throughout the eighties, but this trend was limited in two aspects:

- 1) from 1979 to 1987 direct sales proceeds were about 5% of the proceeds from flotation (i.e., offering shares for sale on the stock market)⁶; and

⁵ For analysis of application of monetarism in fighting inflation, see Krugman (1994), and Wilks (1997).

⁶ Computed on the basis of privatization data presented by Hyman (1989, pp. 192-193).

- 2) Many of companies which were sold were "non-core" activities separated from their parent companies, such as the British Rail Hotels or British Airways Helicopters.

One can argue that, in essence, vigorous attempts at privatization started with the 51 percent sale of British Aerospace in February of 1981 and 49 percent of Cable and Wireless in October, after which several others followed. The delay of more than one year was in part due to necessity of passing enabling legislation. Usually, enabling legislation would transform statutory public corporations without equity (sometimes also referred to as Morrisonian corporations) into a company under Company Acts, which would enable the government to hold and later dispose (incrementally or at once) of shares of the company.⁷ In 1982, another form of privatization was successfully commenced. The National Freight Corporation was sold through a management-worker buyout.

Privatization reached its peak under the second Thatcher government (1983-87).⁸ Starting with the successful sale of 51 percent of the shares of the first privatized utility-- British Telecom in 1984-- the government sold 97 percent of British Gas (for 5, 434 million pounds) and the remaining 36.8 percent of British Petroleum (for 7,240 million pounds), as well as 100 percent of British Airways, Rolls-Royce, BAA, the Rover group

⁷ Often, during this process, when giving a new balance sheet to these companies, enterprise debts were written off to make it attractive for the stock market.

⁸ This was also considerably facilitated by the victory in the Falklands war in South Atlantic that significantly increased Thatcher's support among the public. See Friedman (1997), Thatcher (1993).

and others in 1986-87.⁹ Also during this time also ten new regulatory agencies were created to monitor and regulate newly privatized companies, or industries (since in many cases these companies lost their monopolistic position in the market).¹⁰ Some observers noted that privatization brought more regulation, while others mentioned that this was a logical outcome, since Great Britain lacked developed competition and regulation mechanisms,¹¹ such as anti-trust or utility regulation mechanisms existing in the United States (Swann, 1988).

Along with regulation, this period saw some attempts at deregulation. For example, the 1985 Transport Act aimed to introduce competition in bus services via restructuring the industry and encouraging new entrants. The bulk of bus services (about 90%) were provided by local authorities, and while the cost of subsidy was constantly rising during the 1970s, the use was declining (Cook, 1996). According to the new law, local authority owned companies could still compete with private operators, but as privatized, or 'arms-length' trading companies. Also, a new classification named eighty percent of all routes as commercial, and as such, ineligible for subsidies (Cook, 1996).¹²

Deregulation of bus services was an example of privatization of local services.¹³

With the exception of housing, the sale of assets in local government was never as large as at the central level, but from the beginning on, there was emphasis on outsourcing and

⁹ For the list of privatized enterprises, see Appendix 12. For more detailed account of privatization receipts, methods, costs, legislation, etc., see Hyman (1989), and Frazer (1988).

¹⁰ For list of regulatory agencies, see Appendix 13.

¹¹ Often monopolistic public corporations were assumed to operate in public interest, the definition of which was never codified.

¹² While the expenditures of local authorities has decreased about twofold from 1985 to 1995, the outcomes of such measures are often contested, partly because reduction in bus driver's wages (Cook, 1996).

introduction of competition in purchasing of local services. The only significant sale of assets was during the first Thatcher government, when under the 'right to buy' initiative tenants were entitled to purchase their rented homes from the local authority owner, at a discounted value. Introduced "under the Housing Act 1980 and extended by further legislation in 1985, 1986 and 1988, this initiative has promoted the purchase of four million homes between 1979 and 1995, raising the national level of home ownership from fifty per cent to eighty per cent. In the same period, public housing stock has declined from thirty per cent of total households to less than twenty per cent" (Cook, 1996). Some observers argue that despite the fact that housing privatization had dual aims of "attracting cross-over voters and improving housing stock"; since public housing was the most dilapidated in Europe, privatization of housing was resting on bipartisan consensus on the necessity of addressing the problem (Lewis, 1993).

Another important aspect of privatization at the local level was introducing competition. The Local Government Planning and Land Act (1980) established Compulsory Competitive Tendering (CCT), requiring local authorities to solicit competitive bids for a specified range of services (construction, building maintenance, and road works). Later (1988-1989) this was extended to "a range of so-called 'blue collar' services, including refuse collection, street cleansing, schools and welfare catering, and vehicle repair and maintenance; ... sports and leisure management" (Cook, 1996). In

¹³ As opposed to the US, most such initiatives were initiated from the central government.

1992, the list also encompassed 'white collar' services: finance, computing, personnel, architectural services, legal services, and housing management.¹⁴

Finally, the most recent efforts of privatization have been along somewhat similar lines at the central level. Since 1979, Thatcher brought corporate captains--distinguished businessmen-- to shape government services and public enterprises, the latter with a plan of subsequent privatization. It was based on what later became to be labeled 'managerialism'--the assumption that if managers were allowed to manage, they would make government operations more efficient. Efficiency scrutinies initiated by Sir Derek Rayner from 1979 to 1982 "mutated in 1982 into the Financial Management Initiative (FMI) via the Treasury and its preference for improved financial delegation and financial control over management information" (Rhodes, 1997, p. 12). As a result, "there was some change, but not a lot, and it depended on whether FMI was a useful means to political ends" (Ibid.). The Efficiency Unit's evaluation of FMI, usually referred as "The Next Steps" (Ibbs, 1988), started a new phase in government management reform (Metcalf and Richards, 1990). This was more radical, and "emphasized not only bureaucratic disaggregation (or agentification) but also competition and using market mechanisms (most notably, the purchaser-provider split and contracting out); and improving the quality of services (especially through citizen's charters and responsiveness to the consumers)" (Rhodes, 1997, p. 13). This was a break from "let managers manage" to "make managers manage" and underscored an elevation of new

¹⁴ CCT is one of the most controversial policies, since it reflects conflicts between central and local government, local managers and unions, and often overlaps with part political divisions. For details, see (Cook, 1996).

institutional economics over managerialism in the doctrine of new public management (Ibid.).¹⁵

The results of the last wave of transformation are not yet fully institutionalized across the board and are still being assessed.¹⁶ We will concentrate our discussion on the most prominent form of privatization employed by the Thatcher government--sales of public enterprises through flotation--i.e. offering them on the stock market.

Results of Privatization

Generally, privatization in Britain is considered to be a success, though every assessor seems to have some caveats. What did privatization achieve? In order to answer the question, first of all, we should ask what were the aims of privatization? It has been argued by many observers that the goals of privatization have evolved gradually and had different emphases during different phases of privatization (Veljanovski, 1987; Kay and Thompson, 1986). Building from the list of aims of privatization policy provided by Vickers and Yarrow (1988), David Marsh (1991) provides a systematic review of literature as to whether privatization achieved its aims.

1. Reducing government involvement in industry. Obviously, there has been a tremendous amount of change--more than half of the public sector has been transferred to the private sector, several hundred thousand workers changed sectors, the amount of shareholders have doubled, the size of the public sector as a percent of

¹⁵ See Appendix 4 for the differences.

GDP has been reduced in half. So, this objective has been achieved. However, as Marsh argues, because of its newly created regulatory structures, the government has the capacity to interfere (which it does not prefer to do).

2. Increasing efficiency. Marsh finds that of three types of privatization mechanisms-- liberalization, contracting out, and asset sales--only contracting out and competitive tendering have led to significant cost savings, though at the expense of "deterioration in the pay and conditions of workers." Liberalizing legislation had a limited effect "because it lacked teeth."

Marsh finds that "almost all observers are agreed that asset sales have very rarely led to increased competition." They did not result in widespread management changes, or changes in managerial culture, but resulted in increased executive salaries. The government limited competition for political reasons. Introduction of significant competition into monopoly industries would have delayed privatization, which the government did not want. As Marsh argues, "there was a clear tension between the government's main economic aim--increasing competition and efficiency--and its broader political aims. In such circumstances, the political aims appear to have been paramount" (p. 467).

Still, Marsh continues, lack of competition "does *not* necessarily mean that there has been no improvement in the efficiency of privatized companies." The comparison of efficiency proved to be a complicated matter. First, many of the

¹⁶ E.g., Rhodes (1997, p. 28) argues, "the transformation of British government can be seen as a shift from hierarchies to markets. But the marketization of public services had unintended consequences; it produced networks... Networks are pervasive. Government is picking up the skills of indirect management."

privatized companies were already restructured and efficient before sales. Second, the question is what is the measure of efficiency. Most studies found that profitability of these companies has increased, but as Massey (1993) argues, when in the public sector, these companies were serving also different aims (e.g., employment, and regional development), so comparisons on the criterion of profitability are not very accurate. Other studies measuring not only profitability, but also productivity, found mixed results (e.g., Dunsire et al., 1991).

3. Reducing the PSBR (Public Sector Borrowing Requirements). Clearly, asset sales have significantly reduced the PSBR, though as Marsh argues, government's policy towards public sector borrowing has changed. Initially it was seen as the main cause for inflation, but later that monetarist assumption was relaxed. As a result, "privatization ceased to be a means to reduce the PSBR, rather it became a way of financing tax cuts without reducing public expenditure" (Marsh, 1991, p. 473).
4. Curbing public sector union power. Interestingly enough, unions have been affected more from contracting out and outsourcing than from asset sales. Outsourcing has resulted in a) job loss, b) lower wages, and c) worsening of working conditions (holidays, overtime). Working conditions and layoffs in privatized companies had mixed results, partly because most of them have been brought into "shape" (including layoffs and early retirement schemes) before privatization, in order to make it attractive for the stock market.¹⁷ Generally, industrial relations have changed, with "collective relations still playing an important role, but increasingly operating

alongside more individual management-employee relationships, most notably in the area of managerial and professional workers" (Colling and Ferner, 1995, p. 507).

5. Wider share ownership and employee share ownership. As Marsh sees it, these themes became more important as privatization progressed. It became the main political rationale for the second phase of privatization, and outweighed other considerations, like introducing competition. While undeniably shareholding has widened--from 7 percent of the population in 1979 to 20% in 1988 (Frazer, 1988)--only 40% of initial shareholders retained their shares, despite many "loyalty bonuses." Share ownership also had a clear class basis, and privatization has been noted to have the effect of redistribution of "public sector wealth to share purchasers, particularly the financial institutions" (Buckland, 1987, p. 255). Or, as many observers like to note, while share ownership has widened, it has not been deepened.

6. Gaining political advantage. Political advantage is an interesting issue, since as Marsh notes population in general has never favored nationalization, and Conservatives opposition to nationalization was only a minor vote-winner in 1979. While support for enterprise privatization may have varied and increased over time, housing privatization was very popular. It seems that "while privatization is not overwhelmingly popular among the general population, it has had a positive effect among those voters who have benefited from it" (Marsh, 1991, p. 477). By some accounts, Tories got (and Labor lost) 10-15% more votes among new shareholders and house owners.

¹⁷ For example, under businessman John King, who became the chairman of British Airways in 1980, in three years the 57,000 workforce has been reduced by 23,000 and profits have reached to £214 million (from £140

In overall conclusion, Marsh finds that Britain is no longer a mixed economy, and that the government has gained clear political advantage from the asset sales and housing sales. When privatization had competing ends, some aims proved to be more important. In particular, "the aim to increase efficiency conflicted with the need to ensure quick and successful asset sales. What is more, efficiency, which implied competition, was compromised because of the need to ensure management cooperation" (Marsh, 1991, p. 477).

Forms of Privatization: The dominance of fixed-price flotation

Out of seven forms of privatization in Britain mentioned by Young (1986),¹⁸ fixed-price sale of assets on the stock market was clearly the most important, both in terms of generated revenue and government attention (Hyman, 1989). Why was this the case, especially if initial reactions to this method--after serious underpricing of Amersham International in 1982--were not very favorable? What were the principal aims that this mechanism fulfilled?

Usually, floating worked through the following structure. First, the shares are underwritten by two layers of financial institutions. First, the official advisers of the deal (usually an investment banking firm) arranges the deal and takes the risk until sub-underwriting is arranged, when other financial institutions agree to underwrite a portion

million loss) (Young, 1989, p. 363).

¹⁸ These include: 1) special asset sales and sales of public sector companies; 2) deregulation and relaxing of state monopolies; 3) contracting out; 4) private provision of services; 5) investment projects inducing the private sector to invest in deprived areas; 6) reducing subsidies and increasing charges; and 7) sale of council houses.

of shares.¹⁹ Usually, underwriters get a commission--from .125 percent to .500 percent (Hyman, 1989).²⁰

Then, underwriters offer the shares to the public for a given price. The public applies (subscribes) for the shares. The shares are subsequently placed with the investors, and are split into three categories (Hyman, 1989, p. 211):

- Firm placing shares--those which the priority applicants (institutional investors whose applications for shares are arranged in advance of the public offer) are guaranteed to receive;
- Provisional placing shares--the priority applicants will receive these unless the offer of shares to the public is over-subscribed by a predetermined amount (usually four times), in which case they will be 'clawed back' and allocated to the public, and;
- Commitment shares--to be taken up by the priority applicants only if not applied by the general public.

If the public oversubscribes for the shares, then the shares are allocated with a design to promote wider ownership--which means that people subscribing for the minimal amount of shares (say, 100 shares) get what they apply for, the next group (say, those who applied for 200 shares) get somewhat less (say, 150), and so on, with the highest group (say, those applying for 1,000,000 shares) getting 10-12 percent of the amount they subscribe for. In addition, various mechanisms are employed to encourage small investors/employees. First, they are allowed to pay in installments, if they experience cash shortage. Second, loyalty bonuses entitle individual shareholders a free share for every ten shares they hold for more than 3 years. Third, the government offered employees free shares, as well as matched with a further number of free shares if they purchased shares in the enterprise. Finally, in the case of public utilities (British Gas and

¹⁹ Competitive bids for primary underwriting have been introduced only by 1985 (Hyman, 1989).

British Telecom in particular) the shareholders were entitled to discounts on their utility bills.

The problem with such a provision is that usually the fixed-price offer is being underpriced, and in the case of Amersham in 1982, "the merchant bank advisers who fixed the price...overdid the underpricing by an embarrassingly wide margin" (Lawson, 1993, p. 210). This led to tremendous oversubscription and the value of the shares jumped significantly a week after trading. This led in turn to a "political storm," charging the government with ripping off taxpayers (and helping their friends in the City). As a result, during the next big sale--of Britoil in late 1982--the government tried a tender approach to flotation--i.e. naming a starting bidding price.²¹

The sale of Britoil was a "flop." Influenced by falling world oil prices, the public subscribed only 27 percent of Britoil shares. As a result, "although the tender method used for the sale had not been the cause for undersubscription, it had certainly not helped, and fixed priced offers, or some variant of them, became accepted as the norm for future privatizations" (Lawson, 1993, p. 220). Public undersubscription also helped the Government to defend against charges of unnecessary uses of underwriters (since they ended up with 70 percent of the shares).

Another important development was the introduction of the "golden" share. When preparing Britoil for public offer, the government's financial advisers "were deeply

²⁰ For a criticism on enrichment of underwriters, see Martin (1993), Chapter 8.

worried that the equity market would be unable to absorb such a large amount of stock, especially in view of the campaign of vilification which preceded the sale. Part of that vilification was caused by the fear that, once privatized, the company would fall into foreign hands; and it became politically imperative to find an answer to this" (Lawson, 1993, pp. 218-219). The response was the "golden share," a "special share which would be retained by the Government after privatization, and which would enable it to prevent control of the company from falling into 'unsuitable' hands" (Ibid.)²² In some cases the share stipulated also that the chief executive should be a British citizen, limited foreign ownership to 15%, placed restrictions on the dissolution of the company, etc. (Hyman, 1989, p. 215).

Essentially, fixed-price floating was geared to achieve three particular ends: 1) wider ownership; 2) speedy sales, or the success of sales as an end; and 3) generating enough revenue, while safeguarding it from foreign ownership. The method certainly did not try to maximize government revenue or getting "the fair price" for public assets, and since many companies were sold as monopolies (such as the British Gas), it did not enforce competition.²³ Commenting upon the prevalence of this method, Vickers and Yarow (1988, p. 428) write:

In our view, Mrs. Thatcher's Government has been guilty of just the sort of 'short termism' that has colored policy towards nationalized industries in the past. The desire to privatize speedily, to widen share ownership quickly, and to raise short-term revenues have stood in the way of devising adequate measures of

²¹ There was also an innovation introduced—to make things easier for small investors—the striking price. For details, see Lawson (1993, pp. 218-223) and Hyman (1989).

²² Instead of foreign, 'unsuitable' was used to circumvent failing EC laws, but the intent was clear to the public.

²³ There were several reasons for this. First, timing was crucial. Second, breaking companies would make them less attractive for investors. Finally, there was nationalism. The argument was, if to break up companies like British Gas, they will be unable to compete globally—a view championed first of all by chief executives of the companies considered for privatization.

competition and regulation for the industries concerned... In the process, the Government has partly been captured by the managements of the firms being sold, since their co-optation is essential for rapid privatization. Short-term political advantage may have been won, but longer-lasting gains in economic efficiency have been lost.

The problem is a little deeper. The Thatcher government did not pursue rapid privatization only for short-term political advantage, but also as a way of remaking British society.

Curing the "British Disease" with "Popular Capitalism": A Case of Societal Vindication

Weak financial performance and constant subsidies to public enterprises in Britain brought the issue of public ownership into the center of public debates during the turbulent 1970s. Empirically, these findings were not the subject of too much debate. Instead, numerous governmental white papers, recognizing multiple goals of public enterprises, were trying to clarify the issue by redefining and refining concepts suggesting how to deal with different, often conflicting aims of public corporations. The debate was framed as an issue of situational validation--trying to figure out what the problem was and what these enterprises were supposed to accomplish (e.g., what is the nature of these enterprises, how should these enterprises be financed, how they should be made accountable to Parliament?). The Thatcher government, though, did not engage in thorough discussions on this matter, but took the argument to a higher level. It did not try to regulate, say, the railways. Rather, a more far-reaching, more global approach was employed. It asked, do we want to pursue all these aims that we are juggling to balance? Before we decide how to deal with subsidizing particular industry in the North, let us ask ourselves, for example, do we need full employment or regional development generally,

and in the North particularly, in the first place, and at what price? The issue thus moved to the plane of third-level societal vindication, transcending the peculiarities of rail transportation, rural development and the link between the two. Such a perspective on public enterprise--with a clear focus on certain aims-- heavily influenced the form of privatization chosen by Mrs. Thatcher's government.

In the 1970s it was widely perceived that Britain was in decline. The 'British disease' was debated in political and academic circles, and there were plenty of diagnoses (Isaak, 1980, p. 99):

Analyzing the British sickness is like describing a patient who appears to be dying from ten diseases at once: geographic insularity, imperial breakup, physical and spiritual devastation by World War II, class rigidity, indigestion caused by work, managerial tax byte, overnationalized arteries, suffocation due to parochial familyness, an increasing proclivity toward public spending matched only by a decreasing inclination toward industrial productivity.

Respective 'cures' were based on the perceived diagnosis of the most important cause of the 'disease.' "When asked to crystallize the essence of the British disease," for example, Margaret Thatcher always held that "the nationalized industries were the seat of it: where monopoly unions conspired with monopoly suppliers, to produce an inadequate service to the consumer at massive cost to the taxpayer" (Young, 1989, p. 353).²⁴

While the conservatives have always been opposed to nationalization because it limited choice (Louckes, 1957), they have lived with it because in many cases

²⁴ For example, describing the 1984-1985 miners' strike, Thatcher saw collective bargaining as an extortion: "The outcome of 1984-1985 miners' strike effectively cemented the new order in which jobs had to depend upon satisfying customers rather than wielding collective power to extort subsidies.... The

nationalization was the rescue of failed industries (e.g., MacGregor, 1989). During the financially burdensome 1970s, when the weak financial performance and constant need of subsidies of public corporations became more obvious, the attacks on them increased. In addition, their "performance assessment has been complicated by methodological difficulties of choosing appropriate indicators of performance, finding appropriate benchmarks against which to compare performance, and in assessing the importance of market structure as a determining factor for performance" (Cook, 1996). Both economic and political motives prompting nationalization in the 1940s were much weaker by the late 1970s, and a growing number of people believed that private enterprises were more efficient (Cook, 1996). In addition, public enterprises have been used for reaching wider social objectives, and "this role has been promoted rather more systematically than has been the case with macroeconomic and industrial objectives, so that in many cases the objectives have come to be accepted as the social obligations of the corporations themselves" (Brech, 1985, p. 774). The interplay of different objectives was always a problem:

Despite its long history, the mixed economy has never settled into a generally accepted *modus vivendi*, although few people would deny the state some role in the production of goods and services. Throughout the post-war era there have been disagreements about the objectives to be pursued by the nationalized industries, about the appropriate extent of the public sector, about the manner in which pricing and investment decisions should be taken in the public enterprise sector, how public enterprise should be financed and how it should be made accountable to the government and to Parliament. This lack of consensus has been most clearly evident with respect to the principal nationalized industries and is demonstrated by a succession of White papers directed at the problem of their control and financing, and by numerous official inquiries and reports (Brech, 1985, p. 772).

proportion of the labor force in trade unions had fallen from 50 percent to 35 per cent, an important cause

This lack of clearly defined goals was the major source of the perception that public enterprises had failed in the 1970s. It "was not clear to what extent managers should reduce costs, promote regional development, maintain employment and fight inflation" (Cook, 1996). This was certainly an issue of situational validation--trying to figure out what was the problem and what these enterprises were supposed to do. But the solution offered by Thatcherism transcended particular specifics of public enterprise reform, and moved to the societal vindication level. The Thatcher government solved the problem by discarding many of these objectives as unworthy, thus making it irrelevant how the problem was defined if it did not belong to ends that were worth pursuing. In her own words (Thatcher, 1995, p. 569):

We intended policy in the 1980s to be directed towards fundamentally different goals from those of most of the post-war era. *We believed that since jobs (in a free society) did not depend on government but upon satisfying customers, there was no point in setting targets for 'full' employment [italics added].* Instead, government should create the right framework of sound money, low taxes, light regulation, and flexible markets (including labor markets) to allow prosperity and employment to grow.

As a result, from the traditional four economic policy goals--low inflation, high growth, low unemployment, and trade balance--only fighting inflation was pursued (Wilks, 1997). This led to a "roller coaster ride" with two "deep recessions, a triumphant boom and a mature recovery" (Ibid., p. 1), with "high unemployment remaining the sore point for Thatcher's government" (Krugman, 1994, p. 176).

The first public statement of the government rationale for privatization was offered by Financial Secretary John Moore (1983), which many considered after the fact

(and indicator) of greater labor market flexibility" (Thatcher, 1995, pp. 574-575).

rationalization (e.g., Mitchell, 1990). It dwelled heavily on inefficiencies of the public sector and the virtues of privatization and competition, without mentioning wider ownership as a goal. The problem was, such a solution was contested not only by Labor, but also by many conservatives. Public criticism, including the former Conservative Prime Minister Harold MacMillan's charge that the government was "selling the family silver" to make the ends meet, was calling for justification of privatization policies also on a more positive note. If unemployment was being discarded in class-conscious British society (Ringen, 1998), there was a need for a vision-- another inclusive aim for people to follow.

The solution came from new conservative thinking, heavily informed by the works of Friedrich von Hayek (Martin, 1993, pp. 45-55; Lawson, 1993, pp. 1039-1054, Veljanovski, 1987, pp. 23-47).²⁵ It stipulated the virtues of markets and proprietors. Thus, ownership, instead of jobs, became the means of inclusion. Nigel Lawson's 1984 speech extolled such a state of affairs (Lawson, 1993, p. 224):

The successful sale of British Telecom... reveals a vast and untapped yearning among ordinary people for a direct stake in the ownership of British enterprise. Investment in shares has begun to take its place, with ownership of a home and either a bank or building society deposit, as a way for ordinary people to participate in enterprise and wealth creation. We are seeing the birth of people's capitalism.²⁶

²⁵ Another important development was crystallization of this ideology within the Conservative Party. During the 1970s, several leading figures of the party, led by Keith Joseph, Margaret Thatcher, and Nigel Lawson decided that the party was only losing ground by being centrist and accommodating in the debate with the Labor party. As they saw it, the militant wing of the labor party, always taking extreme positions, succeeded continually shifting the debate more and more left of the center (see, e.g., Veljanovski, 1987, pp. 23-47).

²⁶ Thatcher amended the term to 'popular capitalism,' since the term 'people's' sounded to her Communist, as in 'people's republic' (Lawson, 1993, p. 224). Whether there is any substance to theory of "popular capitalism," or whether "wider but not deeper ownership" works is beyond the scope of this analysis. For a review of popular capitalism in Japan and the UK, see Okumura (1994).

Thus, during the second phase of privatization in the UK, it was geared towards securing first of all wider ownership (e.g., Suleiman, 1990). Such a stance had its impact on the choice of tools for privatization (Thatcher, 1993, pp. 676-677):

Privatization... was fundamental to improving Britain's economic performance. But for me it was also far more than that: it was one of the central means of reversing the corrosive and corrupting effects of socialism. Ownership by the state is just that—ownership by an impersonal legal entity: it amounts to control by politicians and civil servants; and it is a misnomer to describe nationalization, as the Labor Party did, as 'public ownership.' But through privatization, particularly the kind of privatization which leads to the widest possible share ownership by members of the public—the state's power is reduced and the power of people is enhanced. Just as nationalization was at the heart of the collectivist program by which Labor Governments sought to remodel British society, so privatization is at the center of any program of reclaiming territory for freedom. Whatever arguments there may—and should—be about means of sale, the competitive structures or the regulatory frameworks adopted in different cases, this fundamental purpose of privatization must not be overlooked. That consideration was of practical relevance. For it meant that in some cases if it was a choice between having the ideal circumstances for privatization, which might take years to achieve, and going for a sale within a particular politically determined timescale, the second was the preferable option.

Conclusion

Fixed-price flotation with provisions for wider share ownership emerged as the main form of privatization in Great Britain under Margaret Thatcher. It was assigned the role of not only restructuring ailing nationalized industries, but also reshaping the society and "reversing the corrosive and corrupting effects of socialism." Clearly, the solution was meant to transcend the particulars of the economic problem and deal with societal values. As Heald (1989, p. 44) notes, "in essence the emphasis attached to wider shareholding is political rather than economic. The objective has been to mollify hostility to capitalism and to erode the Labor Party's electoral base."

Since the issue was framed in the discourse of societal vindication, there is no necessity to examine all factors needed to situate a particular policy within a context—issues like the nature of government regulation, industry structure, etc., are important, but not defining, since they are secondary. On the other hand, institutional factors are still worth examining, since they shape the discourse. In the British case, parliamentary sovereignty, compounded with strong electoral support after the Falkland War, resulted in relatively unrestricted policy-making in this area. As Cook (1996) notes, "the main limitations on the will of the government to implement the privatization program are accordingly provided as part of the legislative process. ... These limitations are more procedural than substantive and have not greatly hindered the privatization program."

Cultural-ideological factors, on the other hand, are not defining the issues of a lower-level discourse, but emerge as the main political battleground. The result of the Thatcher revolution has been not only Labor's grudging reversal of support for nationalization (Frazer, 1988; Nolan and Paine, 1986), but also erosion (though not elimination) of traditional Labor emphasis on equality (*Economist*, 1995). As Thatcher wrote in 1995 (p. 605), "eventually, a Labor government may come to power in Britain. If it does, however, it is unlikely to nationalize the industries privatized in the 1980s, nor restore the 98 per cent top tax rates of 1979, nor reverse all trade union reforms, let alone implement the proposals contained in the Labor election manifesto of 1983... What Ronald Reagan and I achieved in the 1980s may well undergo future transformations that neither of us will find congenial." While this is definitely true, we have to remember that

Thatcher revolution reduced government; it still did not minimize it.²⁷ For example, as opposed to industry, the British public still supports governmental provision of health services. The ideological battle has resulted into a new value consensus that currently is not being actively contested.

²⁷ Public spending as a share of GDP fell from 42.6 percent in 1979 to 40.25 percent in 1990 (Thatcher, 1995, p. 571). Compared to 33-34% of the US, and Japan, the economy is still large. As for scale, Callaghan government cut public spending from 49% in 1975 to 44% in 1978 (Thatcher, 1995, p. 372).

CHAPTER 7

Mass Privatization in Russia: Destroying the Remnants of Centralized Power

In 1985 the then new and energetic Soviet leader Mikhail Gorbachev was touting the idea of 'acceleration'-- i.e. the accelerated growth of a totally state-controlled economy, led by increased investments in the machine-building industry-- in order to catch up with the West by the beginning of the new millennium. Ten years later, the Soviet Union had disintegrated, the Communists were out of power, and the democratically elected Russian government was asking for Western aid to reform the economy. The economy also had changed dramatically. Russia was now a market economy. By the beginning of 1996, 77 percent of large and medium-sized enterprises were out of the public sector and accounted for 88 percent of the industrial output of the country, while small private shops and retail stores (88 percent of all shops) employed 9 million people (Blasi et al., 1997, p. 26).¹

Within ten years the Soviet Union (or what used to be the Soviet Union) has experienced a remarkable transformation. In this transformation, privatization played a pivotal role--both as an actual tool of economic transformation, lever of political control, and symbol of inevitable change. Employee-owned and manager-controlled privatization emerged as the main form of the centrally directed massive privatization drive. It radically diminished the importance, if not destroyed the backbone, of a centralized economy--the once all-powerful branch ministries. The choice of this form of

¹ See Appendix 14 for 1992-1997 Russian privatization data.

privatization was influenced not only by practical considerations of accommodating existing political interests, but also by ideological considerations--an acute need to legitimize the transfer of ownership, and an overall rationale of building a free society.

Prelude to Privatization

One should begin the discussion of Russian privatization by starting from Gorbachev's efforts to reform Soviet economy. By the early 1980s, the Soviet economy was in bad shape-- growth was minimal (if any), there were increasing shortages of consumer goods and services,² the official Soviet line called for more *intensive* rather than *extensive* development,³ and Soviet leaders were becoming increasingly anxious about an increasing technological gap with the West (Brand, 1992; Aslund, 1989).

In 1985, after decades of gerontocracy rule ensuring the status quo and elite status of *nomenklatura*,⁴ suddenly one of the youngest members of the Politburo was elected to the highest position in the Soviet Union. Under this new and bold General Secretary, the Soviet Union embarked on reforms to catch up with the West, and increase the living standards of people. Initially, Gorbachev's reforms were conceived in purely Soviet terms-- increased investment into 'vital' industries, such as machine-building, accelerated development of which was supposed to stimulate rest of the economy, and improved centralized control over quality. After such a strategy of improvement failed to deliver

² As Janos Kornai (1992) has convincingly shown, shortage is an essential characteristic of centralized economy that is reproduced on a larger scale.

³ *Extensive* development meant increase in production due to increases in factors of production, such as labor and capital, while *intensive* development meant basically increase in production because of increases in productivity.

quick results, in 1986-1987 Gorbachev initiated *Perestroika*⁵--which included not only improving, but also reforming the existing economic system.

Economic reform during Perestroika followed two lines of change. First, existing state enterprises were given more autonomy and flexibility. Second, they were allowed to engage in non-state economic activities.⁶ During the later years of Perestroika the combination of these two developments brought the first acts of "privatization," or siphoning of state resources into nomenklatura-controlled private enterprises, which Russians dubbed as "prikhvatizatsia"⁷ (grabbing) (Mikheyev, 1996).

Moving in the first direction, Gorbachev's first act was abolishing the almost six decades long monopoly of the Ministry of Foreign Trade in August of 1986, allowing other ministries and some enterprises to directly engage in foreign trade. Next came the critical legislation on redefining rights and obligations of state enterprises in June of 1987. In the hope that more autonomy in developing their plans and more discretion in rewarding more productive employees would lead to increases both in quantity and quality of output, the Law on State Enterprise critically weakened the control of central ministries over enterprises. From 1987 it became technically possible to establish joint ventures with Western partners, but a myriad of rules and regulations were not conducive

⁴ *Nomenklatura* literally meant the list of leading Soviet officials circulating from one elite position to another. As an essential characteristic of Soviet society *nomenklatura* is described by Voslensky (1980).

⁵ *Perestroika* can be fairly accurately translated as 'restructuring.' Though, the term was employed by Gorbachev vaguely, sometimes meaning reform and sometimes meaning revolution, "allowing him both to advance and retreat when convenient" (Aslund, 1989, p. 2).

⁶ For an excellent overview of centralized socialist economy, and various forms of economic activities and property relations, see Komai (1992).

⁷ It is a mixture of 'privatizatsia' [privatization] and 'khvat[at'] [to grab], an expression that sounds like privatization, but has 'to grab' in it.

to large flow of investment to the USSR, and by 1988 only a handful of small joint ventures were established (Aslund, 1989, pp. 140-141).

Sanctioning non-state economic activity was more difficult. Because Marxism stipulated that private property, and subsequent exploitation of hired labor by capitalists, was the cause of "exploitation of man by man," initially it was not conceived even possible to bring up the issue of purely private economic activity. Thus, at least initially, the only legitimate non-state economic activity was the rendering of individual services--where the provider of service did not use hired labor. The Law on Individual Labor Activity, adopted in November of 1986, aimed not only to allow such an activity to cope with a higher demand of mostly manual services (e.g., shoe repairs, apartment repairs, etc.), but also to regulate something that always existed. The next major step in this line was the adoption of the Law on Cooperation in the USSR in May of 1988 (with subsequent revisions regulating activities of the cooperatives in December of 1988 and October of 1989). In essence, the Law on Cooperation allowed establishing private enterprises, with the only restriction posed on collective ownership. Although the cooperatives were allowed to hire labor, the ideological justification for this type of enterprise was that all its owners worked for the cooperative, and thus there was no separation between owners and workers. Since there was no separation, the logic continued, there was no exploitation. The cooperatives were thought of as auxiliary measures to supply the market with consumer goods that in a decade or so would account for about 10 percent of the economy (Aslund, 1989). The cooperatives had certain advantages over state enterprises--they were out of the reach of even modified Soviet

planning, and were not subject to price controls in most cases. They operated as completely private enterprises, with one or two people owning most of the shares, and deciding on most of the matters.

This flexibility and owner control of the cooperatives, combined with increased autonomy given to state enterprises, resulted in "prikhvatization" or nomenklatura privatization, that will be discussed in more detail later. Private economic activity as such, without being legitimized through employee ownership, was officially allowed in the former Soviet Union only by the end of 1990.

Economic reform was not conducted in a vacuum. In order to move ahead with reforms, Gorbachev has challenged the party elite, and tried to mobilize popular support for change. This was largely achieved by the policy of *glasnost*,⁸ whereby long repressed Soviet media finally had a chance at criticizing unpopular phenomena. Along with economic activities, people were allowed to form non-political associations and groups, which in turn soon formed the basis of reform movements and parties in the center and independence movements and parties on the periphery. By 1991, the Soviet Union was deeply divided. On the one hand, the Communist party did not have a monopoly any more, the leader of the country was the President and not the General Secretary, there were partially free elections resulting in active political debates in the legislature, Marxism-bashing was the sport of the day (e.g., Tsipko, 1991; Selyunin, 1991), and all

⁸ *Glasnost* means "openness," and essentially meant rationed free speech, where media was allowed to be critical of certain aspects of the government without touching the "fundamentals" such as the choice of socialistic development of the country, squarely criticize Marxism, etc. With time, though, the boundaries of *glasnost* increased, and many such questions were raised.

republics except those in Central Asia wanted independence⁹ (e.g., Dallin, 1991). On the other hand, there was a rise in Russian nationalism, and growing fear on behalf of the remaining Communist leaders that the country (sometimes perceived as the culmination of Russian empire) was dissipating under Gorbachev's leadership. In the summer of 1991, in their last counter-offensive to change the things back to the way they used to be, the conservative forces miserably failed to carry out a coup. The failed coup resulted in the reverse outcome. The Soviet Union collapsed, and riding on the wave of euphoria, Boris Yeltsin embarked onto a course of radical economic reform. One of central tenets, if not centerpiece of this reform, was mass privatization.

Stages of Privatization

Privatization in Russia can be divided into three main phases. First, there was "nomenklatura privatization," whereby the Soviet elites, sensing imminent loss of power, "exchanged" their authority over the economy for property. Second, as a part of radical economic reform, the Russian government executed the biggest transfer in history of state property to the private sector. From 1992 to 1994, under Russian Government's mass privatization program 16,462 enterprises employing more than 21 million people, were privatized through corporatization and voucher auctions (Blasi et al., p. 192). Finally, "monetary" or fiscal privatization constitutes the last phase. From mid 1994 onward, the government sold its shares in privatized enterprises for "budgetary loans" or for cash. This phase is also characterized by an increased struggle between private financial-industrial groups (or their tycoons) for control of the "juiciest chunks" of the economy.

⁹ Even Russian Federation wanted more power vis-à-vis the center, and it was ultimately Russia and Ukraine that finalized the collapse of the Soviet Union.

Nomenklatura Privatization. Though a comprehensive program of privatization in Russia was not proposed until late 1991,¹⁰ and the legal basis of privatization was established only in 1992, the transfer of state assets and resources to private individuals was well underway from the late 1980s. First, there was the more or less "spontaneous" process of transferring state resources to enterprises where the managers (together with their relatives and friends) had majority ownership (formed, for example, as a cooperative). This took place in basically two forms:

1. sale of valuable resources (usually received through centralized distribution) and products to these private enterprises at very cheap prices, so that the profits (after the private enterprise resold these resources at market prices) end up with the private enterprise;
2. Purchase of services from these enterprises (e.g., management training courses) at often exorbitant prices.

This was possible due to two factors. First, after the 1987 State Enterprise Law enterprise managers had authority to engage in commercial activities, and conclude contracts with other enterprises on their own, without centralized control from the ministries. Supposed control from below--from the employees--never materialized. Second, the cooperatives and other private enterprises (described below) were not subject to the same legal regime as the state enterprises. For example, state price regulations did not cover these enterprises, so they could sell their product (or just resell other products) at market prices.

¹⁰ There were ideas of privatization in Soviet-era reform programs, such as Yavlinski-Shatalin program of "500 days," but they were not fully operationalized and elaborated (Aslund, 1995, pp. 226-228).

Second, there were more "centralized" and direct forms of "nomenklatura privatization," which to a certain extent used schemes described above, but were savvier and better planned. Under Gorbachev's prolonged restructuring of the nomenklatura system, and promotion of state (i.e., elected) offices at the expense of party offices, the positions of the vast majority of once-powerful managers weakened, and the foundations of the old Party elite were shaken (Kryshtanovskaya, 1996; Kryshtanovskaya and White, 1996). As a result, the top nomenklatura, especially those in the CPSU Central Committee, lost its confidence in the future. Soon there were attempts to reclaim the party control over the economy. These attempts took the following forms (Kryshtanovskaya, 1996):

1. Creation of an alternative economy (a.k.a. the "Komsomol economy"). In 1987, the Communist Party organized the Coordinating Council of Youth Centers for Scientific and Technical Creativity (TsNTTM) under the aegis of the Central Committee of the Komsomol (Young Communists' League), and soon a TsNTTM network was created under each district committee of the Moscow CPSU. The primary function of these first commercial structures in the USSR was to transform non-cash money¹¹ into cash, a privilege not granted to any other state enterprise. As a result of such an essentially effortless operation, they gained a profit of 18-30 percent, of which 5 percent went to the CPSU Central Committee.

¹¹ Under the Soviet system, not all money was readily transferable into cash. Instead, enterprises could use these non-cash money to settle accounts between each other, such as paying accounts receivables, etc. For details, see Komai (1992).

2. Granting privileges in economic activities. If the privileges of the nomenklatura earlier were in form of distribution of goods and services in shortage, new privileges in the late 1980s were privileges to engage in certain types of activities that were prohibited to others. In essence, this was a "license to profit." These privileges included:
- a. The creation of joint ventures.
 - b. The free transformation of money into private cash.
 - c. Preferential credits.
 - d. Real estate operations.
 - e. Privileges in export-import operations.

The main manifestations of this "nomenklatura privatization" were the following (Kryshtanovskaya, 1996):

1. Transformation of ministries into concerns. Several ministries, most notably, the Natural Gas Ministry--the base of long-time Prime Minister Victor Chernomyrdin, as well as other very profitable energy-related ministries, became private concerns/corporations under the control of the ministry's leadership.
2. Privatization of the banking system. In 1988-1989 the "system of industrial-construction banks and housing-welfare banks, with branches throughout the country, was abolished. Every part of this system has now been transformed into commercial banks. The buildings, the personnel, the equipment, and often even the director of the bank remained the same. The name and the mechanisms for distributing profit have changed" (Kryshtanovskaya, 1996).

3. Privatization of the distribution system. The first stock-market structures were created from the various structures of GosSnab--the State Committee for Supplies Procurement, which was responsible for the distribution of the "means of production" in amounts specified by the State Plan to Soviet enterprises.

4. Privatization of profitable enterprises. Several years before the beginning of official privatization, some large industrial enterprises (e.g., KAMAZ and VAZ car factories) were transformed into joint-stock companies without appropriate national legislation. Another form of "privatization before privatization" was the creation of commercial structures within factories.

As Kryshchanovskaya (1996, p. 30) concludes:

Essentially, these changes meant that the Party and state nomenklatura's authority over the economy was exchanged for property. The state privatized itself. Whereas formerly property was at the disposal, but not in the possession, of the nomenklatura, it now became legally defined property. A minister became the holder of a controlling share of the securities in a concern, the head of a department in the Ministry of Finance became the president of a commercial bank, a manager in GosSnab became the chief executive officer of a stock exchange. Of course, independent, incidental personages were also drawn into the process of privatization (I am referring to privatization before it was officially declared "nomenklatura privatization"), and many of these [people] achieved success in their new careers. But the main conclusion is that the process of reforming the economy occurred under the nomenklatura's direct control.

Nomenklatura privatization was important also in other aspects. Different phases of such an appropriation of public assets to private persons gave rise to different categories of Russian postcommunist elites--those with Komsomol roots, those with roots in the

banking industry, those with roots in real estate, etc. (Kukolev, 1997; Kryshtanovskaya and White, 1996).¹²

Mass Privatization. When Boris Yeltsin assumed power in late 1991, he brought in a team of young economists led by Yegor Gaidar to carry on a radical economic reform (Aslund, 1995, pp. 52-102). The reform, often referred to as shock therapy by Yeltsin and Gaidar, had the aim of rapid stabilization of the economy through drastic measures within a short period of time so as to minimize pain and suffering in their duration. It followed more or less standard Western prescriptions (e.g., Islam, 1993), and consisted of the following (Blasi et al., 1997, p. 30):

1. Liberalization of
 - a. prices;
 - b. controls on domestic and foreign trade;
 - c. all types of economic activity;
2. Reducing budgetary deficits and subsidies to enterprises;
3. Establishing convertible currency and controlling inflation;
4. Simplifying legal and tax code in order to promote small businesses;
5. Privatization and divesting the state of all commercial and industrial enterprises.

There were several reasons for such a radical program. First, the time frame was influenced by the specific mix of 'utopianism' of reformers believing in quick fixes (Sogrin, 1997), with their more 'pragmatic' political belief that this was their window of opportunity: people would tolerate painful reforms since it was a time of 'extraordinary politics' (Balcerowicz, 1994).¹³ Second, there was an acute need for reform, since "at the

¹² Some activities of Russian 'oligarchs' with regard to privatization will be discussed later. For more detail on their power and political involvement, see, for example, Jensen (1998), Fairlamb (1997), Quinn-Judge (1997). For linguistic explanation of Russian *semibankirschina*, see Safire (1998).

¹³ Since many of the reformers lacked high-level political experience, such a 'pragmatic' belief was deduced from Western political and economic theories. Balcerowicz (1994), for example, bases his arguments on

end of 1991, Boris Yeltsin inherited a weak but hypertrophied state: its reach far exceeded its grasp" (Skidelski, 1996, p. 93). The state had much more obligations than capacity to deliver them, and a rapidly deteriorating economy (partly due to the breakup of the Soviet Union) was making the things even worse.¹⁴ And finally, there was ideology. During the last years of Gorbachev's reign Marxism was totally discredited in the eyes of a younger generation that constituted the core of reformers.

In the framework of reform, privatization was central because of its political importance. First, during the last years of *Perestroika* Marxist analysis was finally extended to analysis of Soviet society, largely following the pattern of discussion set by Djilas (1960).¹⁵ As a result, *nomenklatura* (or the party-state bureaucracy) was seen as the classical enemy in the Marxist mold--a class that had privileges only because it had undeserved control over state property. Politically, especially since the central government was seen as the number one enemy by most popular forces, everyone was keen in reducing its powers.¹⁶ Second, there was the awareness of *nomenklatura* privatization, and a desire to gain control over the events. As Yeltsin noted in his speech on October 21, 1991 (as quoted in Blasi et al., 1997, p. 29):

For impermissibly long, we have discussed whether private property is necessary. In the meantime, the party-state elite have actively engaged in their personal privatization. The scale, the enterprise, and hypocrisy are staggering. The

public choice theory of political change presented by James Buchanan. For a more detailed discussion of the political-economic logic of shock therapy, see Crawford (1995, pp. 25-30), and Poznanski (1995a).

¹⁴ See Appendix 15 for expenditure and revenue data.

¹⁵ Interestingly enough, main tenets of such an analysis appeared in the Soviet press even without mentioning Djilas's (1960) work, which was banned for a long time. But under new policy of *glasnost*, mass media was able to print such a criticism, since it had a definitely Marxist ideology.

¹⁶ This was partly due to particular sequence of Gorbachev's reforms. The first semi-free all-Union elections in 1989 set the stage for more liberal elections in Union Republics in 1990. This resulted in more radical republican legislatures (including Russia), subsequently fighting the central government ministries for more power.

privatization in Russia has gone on [for a long time], but wildly, spontaneously, and often on a criminal basis. Today it is necessary to grasp the initiative, and we are intent in doing so.

Third, the after Gorbachev reforms in the late 1980s, the reformers felt that state enterprises have ended up in a curious situation when the state did not have real authority over them, but was still financing most of them. Because of over-representation of enterprise managers in the legislature (a Soviet era legacy), the reformers felt that there was an unhealthy inflationary link (undermining other aspects of reform) between politicians and managers which they tried to sever (Boycko, Shleifer and Vishny, 1995). Finally, the task of privatizing a largely state-dominated industry was enormous. By some obviously exaggerated and absurd estimates of the reformers, turning the country into a market economy would require 15,000 person years at 10 people per firm, or 150 years for a staff of 1,000 lawyers, accountants, and consultants (Blasi et al., 1997, p. 39). Thus, political considerations, and belief in shock therapy and quick fixes on the one hand, and the enormity of the task on the other hand, resulted in the choice of mass privatization. The next question was about the form of mass privatization.

By early 1992, the working rules of privatization program were clear (Blasi et al., 1997, pp. 38-39):

1. It should be quick;
2. Each interest group would be offered enough potential ownership to pass the law in the Supreme Soviet;
3. It should be simple--i.e., giving all the participants incentives to implement privatization on their own, without government approval;
4. Privatization would occur only if Russian citizens wanted it to happen.
5. Most of the shares in the enterprises have to be given away so that ordinary citizens (whose savings have been wiped out by inflation) could participate in privatization.

On June 11, 1992, the Russian parliament passed the privatization program--the only legislative act regulating privatization. Later, due to presidential-parliamentary conflicts, and Yeltsin's subsequent dismissal of the Parliament in the October of 1993, privatization was regulated by presidential decrees. The law was a compromise between the reformers' initial vision and parliamentary demands. It envisioned mass privatization, consisting of a combination of voucher privatization and insider privatization (giving substantial shares of enterprises to employees and managers). Voucher privatization proposed distribution to every citizen of certificates worth 10,000 rubles of property that could be invested in one of 15,000 enterprises scheduled to be privatized from December of 1992 to June of 1994.

All state enterprises were classified by administrative level, branch and size (Aslund, 1995, pp. 241-242). First, they distinguished between state and municipal property. Then, the enterprises were divided into five categories by branch:

1. Those subject to privatization in 1992 (retail and wholesale trade; public catering, consumer services, construction firms and materials, state agricultural enterprises other than *sovkhozy*,¹⁷ light industry, food industry, agroindustry, unfinished construction projects and firms operating at loss, etc.).

¹⁷ *Sovkhoz* stands for 'Sovetskoe Khoziastvo' [Soviet enterprise] and, after *Kolkhoz* [collective enterprise], constituted the main form of farming enterprise in the former Soviet Union. *Kolkhozy* [plural for *Kolkhoz*] belonged to all its members, while *Sovkhozy* belonged to the state. Usually, there was no particular rationale why some farming enterprises were organized into *Kolkhozy* and others into *Sovkhozy*.

2. Those not subject to privatization in 1992 (budgetary means, the Central Bank, the post office, objects of historical-cultural value, military assets and property, atomic power stations and production of nuclear materials, naval and hydro-technical services, federal roads, air control system, the forests, waterways and mines);
3. Those that could be privatized only by the Russian government (development, production, and repair of weapon systems, objects of civil defense, processing of precious metals and stones, and radioactive materials, the energy complex, medical industry, railways, water and air transport, communication services, enterprises of foreign trade belonging to the Ministry of Foreign Trade Relations, industrial waste disposal enterprises, and enterprises for processing special non-nuclear materials);
4. Those that could be privatized only by the decision of GKI (State Property Commission); and
5. Those that could be privatized only by the local authorities (urban and inter-city transportation, seaports and local roads, small energy-generating complex, garbage recycling, pharmacies, airports, municipal objects and objects of culture).

For more than 30 percent of all property in Russia, privatization was prohibited, 31 percent was subject to decision by the government, 21 percent was subject to the decision of GKI, and 20 percent was subject to decision by local authorities (Aslund, 1995, p. 241).¹⁸ The next step was classification of enterprises into large, small, and medium.¹⁹ It was envisioned to privatize small enterprises through tender sales, the larger ones to transfer into joint-stock companies, and then privatize, while the medium ones could have been privatized either way. Corporatization was designed to "bar well-placed members of the Communist Party, enterprise managers, and state bureaucrats from snapping up the companies under their control" (Blasi et al., 1997, p. 40). Corporatization worked this way. The managers and employees of an enterprise calculated the value of all assets (except land), divided it by 1,000 rubles, and came up with the number of shares. The shares went into the possession of the Russian Property Fund (an arm of the Parliament), and the enterprise was governed by a board of four people: the general manager (two votes), a representative of the rank and file, a representative of local government, and a representative of the federal government (usually from GKI--the State Committee for the Management of State Property). What corporatization effectively achieved is severing the link of the enterprise from the branch ministry, and putting it under the State Committee for the Management of State Property, run by a shrewd political operative and radical

¹⁸ Only the privatization of industrial and commercial (service) enterprises will be discussed. Housing privatization, which was tantamount to allowing Russian citizens to own their apartments they leased from the state, was initiated earlier and was not subject to any significant debates. Privatization of land was stalled, since the Russian parliament, heavily influenced by many Kolkhoz chairmen in its ranks, in April of 1992 voted against allowing private ownership of land. Subsequent presidential decrees were not able to bring too much change into this area.

¹⁹ Small enterprises were defined as those having no more than 200 employees and no more than 1 million rubles worth assets. Large enterprises were those having more than 1000 employees and no more than 50 million rubles worth assets, with medium ones falling in between (Aslund, 1995, p. 242).

reformer Anatoli Chubais. After corporatization, the general meeting of enterprise employees chose one of three available options.

The first option allowed the employees to get 25 percent (nonvoting) of the shares for free, 10 percent at a 30 percent discount from the book value, and 5 percent at a nominal price.²⁰ The rest of the shares were supposed to be sold at an auction or held by the state for later sale. The second option provided for majority employee ownership. Workers (and management) could retain 51 percent of the shares, paying 1.7 times the nominal value of the shares. Option three (restricted to medium enterprises) proposed a management buyout by a group promising to restructure the enterprise. The managers acquired 20 percent and the employees another 30 percent, though it had a clawback clause that if the managing group did not restructure the enterprise in a given time, their shares would be sold at an auction. When the process was over, it was obvious that the second option--the insider control option that was initially resisted by the reformers-- was the most popular one. Twenty-five percent of enterprises chose option 1, 73 percent chose option 2, and 2 percent chose option 3 (Blasi et al., 1997, p. 41).

After the employees chose one of the options, privatization commissions were formed for each enterprise. These commissions organized the share subscription among employees according to the chosen option. The next step was the voucher auctions. These auctions were supposed to increase private ownership above the 65 percent level--the official bar for considering an enterprise private. About 10 percent of shares were

²⁰ The book value was calculated at pre-1992 prices, and inflation following the 1992 price liberalization made them quite cheap.

supposed to be held by the Property Fund until a later decision. Technically, auctions were designed to be simple so that everybody could participate. Practically, very often outsiders were excluded. Despite some presidential decrees stipulating that at least 29 percent of shares should be sold at voucher auctions, since the enterprises resisted voucher privatization, the voucher share stayed at around 20 percent (Aslund, 1995, p. 255). The designers of the program wanted to create "core" shareholders--blockholders that would own more than 5 percent of the shares in order to be able to exercise some kind of outside control over the enterprises. To speed up the process, the government licensed mutual-fund-like investment funds, where people without market savvy were supposed to invest their vouchers. Voucher auctions were the final and most public step in the mass privatization scheme of the government. By the end of the program, public property was no more the prevalent form of property in Russia.

Small and medium enterprises were supposed to be sold through auctions or public tenders. While from 1992 to 1994 106,000 small enterprises became private, the dominant method of privatization turned out to be lease and subsequent buyout by the employees (Aslund, 1995, pp. 250-251).

Monetary Privatization. After the first phase of mass privatization ended, in July of 1994 President Yeltsin issued a decree about the second phase of mass privatization. At this phase, the government was scheduled to sell its share in privatized companies (on average 9 percent in large companies, but reaching up to 38 percent in the fifty largest companies) with some of the proceeds going to budget, and the rest to

enterprises for capital restructuring (Blasi et al., 1997, p. 72). For different reasons, these auctions were not successful (Radygin, 1995; Blasi et al., 1997, pp. 72-75). On the other hand, the government was in dire need of revenues. The result was the infamous loans-for-shares program. This program consisted of a consortium of Russian commercial banks loaning funds to the government while taking the state's share in the largest companies as collateral. Since the government was not really able to pay much of its debts back, many of these shares ended up with the banks at very cheap prices. At this stage, the fight between Russia's biggest financial-economic groups reached new heights (Radygin, 1997). As the party in charge of collateral shares, many banks managed to become the organizers of auctions for these shares, and in that capacity, effectively blocked other banks from buying these shares (Stanley, 1997a; Baker 1997a, 1997b; Fossato and Baker, 1997; Klebnikov, 1998). But since Russia's oligarchs own significant portions of the mass media (e.g., Jensen, 1998), soon the media was trading accusations about unfair sales. There were some high-profile reversals of sales. In addition, there was "the writer's affair" scandal when it turned out that almost all of the leading figures of Russian privatization were involved in a bribery scheme.²¹ They were collectively paid almost half a million dollars of advances for a future book on Russian privatization by a consulting firm connected to one of the richest bankers in the country²² (Stanley, 1997b). As a result of public outcry, loans-for-shares deals were prohibited in August of 1997 (Fossato and Baker, 1997).

²¹ The term 'writers' affair' was a sarcastic reformulation of famous Stalin-era campaigns against some group of people (e.g., the infamous 'doctors' affair).

²² The 'writers' (Chubais, Kokh, etc.) initially maintained that it was just a regular honorarium, which they intended to donate to a charity. But after it became obvious that a book with a strictly academic appeal could not warrant such an advance, the scandal became too big, and Yeltsin dismissed them from their posts.

Results of Privatization

Is Russian privatization a success, a failure, or is it too complex an undertaking to give an unequivocal answer? The answer boils down to criteria of judgment. Usually, observers who claim that Russian privatization was a success, though acknowledging problems, hold that just the fact of privatizing more than 15,000 enterprises in 18 months is a commendable achievement (e.g., Aslund, 1995). Those arguing for the failure of the Russian privatization program are focusing on the effects of privatization, whether it achieved restructuring, economic efficiency and an increase in profits at the enterprise level, or economic growth at the country level (e.g., Goldman, 1997). Those who are ambivalent about quick appraisal are keen to mention that privatization was only the first step that would make later changes possible, and although the things are not too rosy now, it is too soon to tell (e.g., Blasi et al., 1997; Desai, 1995). Let us discuss Russian privatization against the background of aims of privatization proclaimed in the official State Privatization Programs of 1992 and 1994 (Grenbek and Solomennikova, 1995), adding the aim of political/ideological advantage that was not openly articulated in the Program.

1. **Creation of a class of private property owners facilitating the creation of socially oriented market economy.** Despite the fact that vouchers were distributed to the entire population, and most of the workers in the privatized enterprises became shareholders in their enterprises, a new class of property owners was not created. Because insider privatization dominated, there was little significant change in corporate governance, and they were still controlled by the managers (Frydman, Pistor, and Rapaczynski,

1996; Blasi et al., 1997; Sutela, 1994; Pistor, 1997; Burkov, 1995; Kolganov, 1996). The third privatization program claimed the creation of 'strategic' owners--i.e., blockholders that can challenge the management-- as an aim. The main vehicle for this purpose was the creation of state-licensed mutual-fund-like voucher investment funds. The results have been extremely disappointing. Many investment firms functioned as pyramid schemes that eventually collapsed (e.g., Kagarlitski, 1995). Out of 600 investment firms registered in 1994, only 20 to 30 funds were active three years later. The rest ceased to exist, "leaving the majority of roughly 25 million voucher investors not only without returns on their investment but also without residual rights" (Sachs and Pistor, 1997, p. 13). The results of insider-dominated privatization have often been labeled as turning enterprises into *kolkhozy*-- the old Soviet collective farms with no real ownership and run by the chairman (Saburov, 1996). The only significant case of outside control was achieved through infamous loans-for-shares deals, but the number of affected enterprises was very low.

2. Increasing efficiency of the enterprises. Although there is a widespread agreement that measuring effectiveness and efficiency during the transition is extremely complicated, there is a similarly widespread opinion that increasing of efficiency was not a major or immediate aim (Grenbek and Solomennikova, 1995). There are virtually no reports of increased efficiency, and there is a solid evidence that by and large restructuring of the enterprises is extremely slow (Blasi et al., 1997; Kolganov, 1996). On the other hand, all analyses of the economy as a whole point to a decrease in industrial output, worsening of social conditions and "primitivization" (i.e., decline

of manufacturing and increase of extracting industries in importance) in the economy (Millar, 1997; Birman, 1996; Hedlund and Sundstrom, 1996).

3. Social safety and creating of social security infrastructure from privatization revenues. It is difficult to assess the impact of privatization among other radical reforms (price liberalization, etc.) on social conditions, but it is obvious that social conditions of the population have significantly worsened during the reforms. There has been a sharp increase in income inequality (Lyle, 1998), and poverty (Klugman and Braithwaite, 1998). In addition, several months long wage and pension arrears became chronic not only for the government, but also for many privatized enterprises (Wesolowski, 1998a, b, c; ICEM, 1998). Also, with the demise of strong centralized power and advent of often poorly defined property rights, there has been an increase in corruption (Varese, 1997). With regard to the impact of privatization on budgetary revenues, the characterization of the International Finance Corporation's resident representative in Moscow seems quite accurate: "The first stage of privatization process was never intended to raise money. It was a legal form of bribery, designed to involve everyone from company managers to the general public" (Peter, 1996, p. 85). Another problem was that privatization, by supposedly making enterprises more commercially oriented, raised the issue of the "welfare functions" (kindergarten, etc.) that they used to perform (Desai, 1995; Dobek and Thurmaier, 1997; Shleifer and Boycko, 1994). In order to become attractive for investors and spend some money on restructuring, private companies have an incentive to get rid of such facilities, though insider-dominated firms are likely to keep them for a while. On the other hand, cash-strapped municipal governments are reluctant to take new responsibilities. Such a

tension often leads to deterioration of existing facilities.²³ There have also been serious allegations about increased crime as a result of privatization, though statistics in this area do not seem to be uniform.²⁴

4. Facilitating financial stabilization in Russia. This goal was subsequently dropped from 1994 programs, "perhaps, explained by the fact that such an accomplishment during voucher privatization is impossible at all" (Grenbek and Solomennikova, 1995, p. 5). One of the initial arguments against voucher privatization was exactly this impossibility--the charge that vouchers, since they were freely convertible, would result in inflation. If even, as some did argue, they did not cause inflation (e.g., Bogomolov, 1993), it is not clear at all how they were going to help financial stabilization.

5. Creating of competition and demonopolization of the economy. While there were clearly some activities, such as trade, that became quite competitive, these activities were to a certain extent operating like quasi-markets even during the Soviet period

²³ Some Russian observers take this point a step further. For example, Polevanov (1996, p. 18) writes that "privatization, in the form it proceeded, has redistributed property and threatened the existence of Russia as a state." To illustrate this point, he argues that if the Sakhalin fleet was privatized (against which Polevanov rallied when he was a privatization official), not only fish supply to Russian market would decrease, but also more serious consequences would follow. Delivery of fuel to the North and Far East would decline significantly, which in turn, would cause these sparsely populated, but rich in natural resources, territories to decline in population even further. In a somewhat similar argument, Kagarlitski (1996) argues that anti-state sentiments of the reformers are not very useful, since modernization of 'latecomers' (like Germany and Japan) is impossible without state leadership. Golansky (1997) argues that as a result of "reforms" and integration of Russia into global world economy, Russia, as many developing countries, has lost the capacity for choosing its "economic course," and is at the mercy of the global market and multi-national corporations.

²⁴ Zhirinovski and Lisichkin (1995) cite a report by police, alleging that on average, every act of privatization results in 3 criminal acts. In general, the reports about criminal domination of Russian privatization seem to be of two kinds. The first view holds that the mob is omnipresent and important (e.g., Tomass, 1998; Handelman, 1994, 1995), while the second view holds that it is nothing extraordinary, and well comparable to other nations in such stages of development (Blasi et al., 1997, Aslund, 1997b). Among criminal acts during privatization, Russian observers do not complain only against organized crime, but

(Millar, 1997), and demonopolization of foreign trade happened earlier (under Gorbachev). The privatization program per se did not include any means of demonopolization, since the enterprises were not restructured before privatization and sold as separate companies, but rather left in their existing form. In some cases, such as the oil and gas industry, on the contrary, privatization was carried out through monopolization (Sachs and Pistor, 1997).

6. Attracting foreign investments. Perhaps, this is the most ambiguous issue. Whereas there has been substantial amount of foreign investment in Russia (e.g., Andrews, 1997), it is hard to measure its importance. First, there is the issue of capital flight from Russia. Even by most conservative accounts, it far exceeds the inflow of capital into Russia (Birman, 1996), even before the financial meltdown in Russia in the summer of 1998. Second, there is the issue of domination of Russian banks and oil monopolies in the market, and the fact that Western investors are successful only when they cooperate with them (e.g., Klebnikov, 1998b). Finally, there is the issue that many Western investors are wary of investing in a system with insider-dominated, restructuring-averse corporate governance (Blasi et al., 1997). Perhaps, the overall assessment can be that while it may not be a failure, it is definitely not a success.

7. Gaining political/ideological advantage. One can hardly call privatization a winner in a political sense. Being the most visible element of radical reform, in the eyes of opponents it exemplified the wrong turn that the country, and the economy, took

also against foreign companies that are trying to control the Russian market and which 'violate currency and customs laws" of Russian Federation (Burkov, 1995, p. 30).

(Cottrell, 1997; Aslund, 1997a). After initial approval in June of 1992, it was never again supported in subsequent parliaments, and was always an issue of dispute between the President and the Parliament. Opposition politicians made it a central issue in their campaigns for office (e.g., Zhirinovskiy and Lisichkin, 1995). To a certain extent, it helped to mobilize bankers' support for the 1996 presidential elections: they bankrolled Yeltsin's electoral campaign (Fairlamb, 1997; Reddaway, 1997; Quinn-Judge, 1997), but one would hardly consider that a long-lasting electoral advantage.

On the other hand, political/ideological success cannot be denied. Privatization was designed to give the public property, so that they will have a vested interest to resist "any effort to renationalize and return to Communism" (Goldman, 1997, p. 35). Privatization succeeded in fundamentally changing the rules of politics and management of the economy. Commenting on this achievement, Anatoli Chubais, the main architect of Russian privatization, said (Chubais, 1998):

Is the victory of the left possible in Russia? I would not rule out such a possibility. Is a turn to a left course possible in Russia after presidential elections? Unfortunately, it's possible. It would be very hard for the country, would throw it back. But a communist regime is categorically impossible in Russia--neither economically, nor politically. After the summer of 1996 it's impossible to do.

Mass Privatization with Insider Control: The Compromise that Buried Communism in Russia

Initially, most of the Russian reformers were opposed to the ideas of both voucher privatization (disperses ownership, does not generate revenue, may lead to Yugoslav-type

inflationary policies) and employee buy-outs (creates *kolkhoz* mentality, and is unfair to the rest of population not working in factories) as the main form of privatization (Mikheyev, 1996; Aslund, 1995; Bim, 1993).²⁵ So, why exactly did this combination emerge as the main form of privatization in Russia? Because these objections were not central for the purpose of privatization, and as mere "details" could be accommodated as a part of political compromise concluded with the Parliament. As Aslund (1995) notes, Chubais was an extremely skillful politician who compromised on tactics, but did not retreat on strategy. What was, then, the strategic objective of mass privatization in Russia? As Padma Desai (1995, p. 9-10) succinctly puts it:

In Russia, the timing, the speed, design and implementation of the program was in large measure dictated by the objective of launching a frontal attack on the Soviet command economy characterized by state ownership of property as its principal pillar, the apparatchiks as the supreme wielders of economic power, and the citizens as passive employees of the state. Privatization was strategically aimed at removing the party bosses from their central role in the economy, creating incentives of decision making in farms and factories and providing occupational choices to the workforce.... Russian privatization, in short, was a remarkable political-ideological accomplishment. It buried once and for all the idea of state ownership of productive assets in the economy. With regard to economic efficiency however it was no more than a first step awaiting formidable restructuring problems in large factories in heavy industry, the defense sector and the collective farms. Nor did the program guarantee an egalitarian outcome of asset ownership despite its emphasis on widespread asset distribution via vouchers in corporatized factories.

The combination of voucher privatization with employee/management control gave the frontal attack on the power of the Communist Party two things that it needed--legitimacy and political support. As mentioned above, "the first stage of the privatization process was ... designed to involve everyone from company managers to the general public" (Peter, 1996, p. 85). Both methods rested on the deep-seated belief of the Russian people

²⁵ For more detailed and critical analysis of voucher privatization, see Desai (1995), and for critical analysis

that everybody in the country owned everything collectively. As Bogomolov (1993, p. 202) described it:

The idea that country's riches--with the exception as a rule of the most belongings that became personal property--belonged to the people was firmly established in the social consciousness over the course of decades. This idea was strengthened by the constitution of the Soviet Union. Call it naivete by virtue of prevailing idealism, but each citizen believed that some part of the general wealth belonged to him or her. And now it is very difficult to convince those citizens of the necessity to buy their own property. This idea challenges a keenly felt sense of social justice and is forcing the architects of reform to turn to the idea of a partially free distribution of state property.

Employee ownership has long been a favorite model of reform for non-radical reformers of the socialist economy who looked for some kind of "third way" between capitalism and socialism (Filatochev, Buck, and Wright, 1993; Kornai, 1992, 1995; Logue, Plekhanov, and Simmons, 1995a). Although for Russian reformers the idea was reminiscent of Yugoslav-type socialism, which they wanted to escape, they realized that only such a method would ensure workers' and managers' support for privatization. Employee ownership had another advantage. After the failed August coup, communist party officials were marginalized, communist ideology was out of vogue, and enterprise managers emerged as the most potent non-radical political force in the Russian parliament (White, Gill, and Slider, 1993; McFaul, 1996). Since the managers could not openly claim that they should own the enterprises, the next closest thing was to claim the enterprises for the employees, which, of course, they would control. Thus, because employee ownership was also the last legitimizing ploy for managers to keep their power, the reformers realized that without such a compromise privatization would never take off. The advantage that employee ownership gave was that using it skillfully the main enemy-

of employee ownership, see Kornai (1995).

-central branch ministries--could be mortally wounded. After that, the logic followed, the market would force these enterprises to become efficient.

Voucher privatization had similar advantages. First, it was the only means to give ownership to "everybody's property" to people who worked in budgetary institutions--teachers, workers, doctors, etc. Second, after the inflation of last few years, and especially after 1992 inflation, most people could not afford to purchase shares if they would be sold to the highest bidder. The most likely candidates that would end up with people's property, the popular opinion held, were either the criminals or the foreigners, who would buy everything cheaply. Thus, although the reformers initially did not like the voucher option, it again could be used to achieve the main objective--destroy the power of the old central elites.

In the process of implementation, in order to speed up the process, the reformers carried out rapid privatization by three methods:

- 1) employing cadre organization (Gabrielian and Fischer, 1996) in a newly created State Property Committee, where hand-picked and highly paid employees, together with Russian Privatization Centers, designed the privatization process, and in the best traditions of top-down, centralized Soviet planning set targets (e.g., the number of small and large firms to be privatized each month) for each regional office had to fulfill;²⁶

²⁶ Russian Privatization Centers were odd creatures--private entities established by Yeltsin's decree, paid off by USAID, and outside of the government control (Weir and Rosenberg, 1997). These institutions were run by Chubais's cadres, and employed many American consultants. They were responsible for many

- 2) co-opting local elites and letting them run the show the way they pleased (e.g., excluding others from voucher auctions) (Avraamova, 1996; Filatochev, and Bradshaw, 1995)²⁷; and
- 3) designing the process in such a way that it was in the managers' and employees interests to corporatize as fast as possible.

The Russian privatization was framed almost exclusively as a second-order discourse. The ambitions and scale were revolutionary-- and never boiled down to a particular problem of a particular enterprise. First-order discourse--empirical verification (what are the results?) and situational validation (what is the problem?)--were deemed unnecessary. When, during a TV debate in March of 1992, Anatoli Chubais was invited to visit and study a nearby successful firm already privatized via employee ownership, Chubais's answer was that he had already visited a collective farm and did not need to see another one.²⁸ As the other debaters note, "in this peculiarly Russian triumph of neoliberal ideology, empirical experience might be appropriate to illustrate the correctness of the government's policy but not to test alternatives to it" (Logue, Plekhanov, and Simmons, 1995b, p. 258).

regulatory documents--which brought to political charges that Americans were running the sell-off of Russia (Zhirinovski and Lisichkin, 1995).

²⁷ A remarkable exception to forced rapid privatization is Moscow--the largest and by far the most important city in Russia (in all aspects--financial, political, cultural, etc.). In Moscow the extremely popular and very powerful mayor Yuri Luzhkov has retained control over the most of real estate that is currently being leased from the city at very high prices, as well as many enterprises (Stanley, 1997; Fossato, 1997). He has publicly complained that Chubais is giving away state property "like a drunk selling everything in the house," and achieved the goal of getting for Moscow a special status both for industrial and housing privatization (Stanley, 1997, p. 46).

²⁸ This was still in the period when the government did not support employee ownership, and the reformers were using *kolkhozy* to describe employee ownership.

Assessment of the results of privatization was also couched in ideological/revolutionary terms. There surely was a price to pay for rapid privatization. But, as Chubais saw it, there was no other alternative: "We did not [at first] have the choice between socialism and ideal capitalism... The choice in Russia was not between a criminalized economic transition and a noncriminalized one. It was between a criminalized transition and civil war, which was a real possibility" (as quoted in Klebnikov, 1998a).

The socialism-capitalism battle waged by reformers was not only an issue of systemic vindication--i.e. rejection of certain values (or certain proportion of those values) in favor of others. Reformers did not argue against the values championed by Marxism--human development, ending exploitation, full employment, etc. The debate was waged as a part of social choice. The reformers believed that normative reflection and empirical evidence did not support the ideology of Marxism, especially in the economic sphere. The reform was based on the belief that following Communist ideology and organization, regardless of what ends the country chooses, it cannot succeed, since the logic is flawed. Thus, there was a need for justification and adoption of alternative ideology, and the social order that such an ideology prescribed.

To put it in other words, radical reform in Russia was launched from the tombstone of Marxism. A majority of politically active younger professionals in the reform government, who came of age with the prevalent cynicism of secondary echelons of the Soviet elites during the Brezhnev era, never actually believed in Marxist orthodoxy

to begin with. During the last years of *perestroika*, Gorbachev's unsuccessful gyrations between left and right convinced most of them that a consensual reform was bound to fail, partly because they believed that *nomenklatura* would never give up its power voluntarily. Most of these radicalized reformers were in their thirties and lacked significant governmental experience. Since their exposure to Western thought had happened during the 1980s, their vision of state and economy was heavily influenced by ideologies of Thatcher and Reagan (Sogrin, 1997).²⁹ As a result, state involvement in industry was seen as an impediment rather than facilitator (Schmemmann, 1994). Such an approach became pretty well accepted during the last years of *perestroika*. Many journalists portrayed the Soviet gap in technology and economic development as a result of Marxism-Leninism-Stalinism that stifled creativity and personal freedom (e.g., Selyunin, 1991). Tsipko's 1990 indictment seems to articulate succinctly the position of reformers on the matter of ideology (Tsipko, 1991, p. 280):

...Time has no power over our Russian, Soviet "orthodox" [believers in Marxism]. At present, 73 years after the Revolution, they are convinced that the Marxist principles are good from all points of view.... At present even people standing in queues say that rejection of competition and of the market economy destroyed our economy and our country, that socialist monopoly production is a graveyard for advanced technologies and scientific-technical progress, that socialized property will always belong to no one, that theft and waste are caused by the absence of the owner, that no one is responsible for anything. But our philosophers and publicists prefer not to hear or see anything and insist that the Marxist theory of socializing the means of production is the truth.

In the process of reform, the Russian government concentrated on its revolutionary task--destroying the basis of economic and political power of Communism--an ideology, as they saw it, that has crippled their country and doomed all efforts of reform to failure.

²⁹ For example, Chubais spoke about the necessity to choose popular capitalism, instead of Latin American oligarchic capitalism (Klebnikov, 1998a).

Privatization in Russia had multiple goals, and the goal of higher discourse--the ideological one--has dominated the choice of the form of privatization. Competing values and interests have had impacts on the practice of privatization, but they only modified rather than changed the strategic rationale of privatization.

CHAPTER 8

Conclusion

This chapter will summarize the conclusions of last three chapters on management of privatization in the US, UK and Russia, and will try to outline a theory explaining why different countries choose different strategies of privatization. A brief discussion of implications of such methods for the enterprise of public management will follow.

Our plan of inquiry was to discuss the discourse(s) that framed the debates about privatization in each country-- are they primarily couched in first-order discourse focusing on particular aspects of the program, or are they couched in more abstract terms of second-order discourse, leaving the "particulars" to implementers? Obviously, the issue of privatization is never strictly confined to one level of discourse-- rather, the debate is dominated by one of the discourses.

If the debates are framed in empirical verification and situational validation discourses, it is likely that underlying societal values affecting privatization are rarely questioned. Especially in such a case, the next phase of discussion has to rise to the systemic vindication level (sometimes transcending into ideological discourse), and examine the reasons that shape such a situation. For such a purpose, two sets of factors-- structural and cultural--ought to be examined. Structural factors, in turn, can be further distinguished into two subgroups-- socio-economic (e.g., the size and history of the public sector, the nature of government regulation, etc.) and political-institutional (e.g., the level of fragmentation in the political system, patterns of policy-making, etc.).

Cultural factors can also be further distinguished into two groups--general cultural patterns (e.g., individualism vs. collectivism), and more "ideological" aspects of political ethos (e.g., the role and nature of the government). If the discussion about privatization is already stated in systemic terms, our analysis by default will deal with such issues. And finally, if these issues are explicitly questioned during public debate from an ideological viewpoint, we deal with fourth-level discourse about social choice.

As we have seen in the last three chapters, despite some common objectives (most notably, the desire to increase efficiency), privatization strategies in different countries take different forms. These strategies are shaped by different factors and reflect the predominant discourse in which the debate on privatization in each country is framed. Let us recap briefly the main conclusions from these chapters.

In the United States outsourcing is the most common form of privatization, since it is most appropriate for managing the government in an ideologically stable, politically fragmented and incremental system. In such a situation, privatization is not a tool for systemic change, but rather a means for optimizing limited government. Despite the rhetoric and marshalling of historical statistics by conservatives about the rise of government in the United States (e.g., Savas, 1987, pp. 13-32), there seems to be a broad-based consensus about the mix of public services that government renders. During the last decades, political debates in America have largely been about containing the incremental growth of government services, and only to a much lesser extent about particular programs or overextended government responsibilities. The argument is

confined to first-order discourse. It deals primarily with issues framed in the discourse of empirical verification (is the service efficient and effective?) and situational validation (what is the problem? Is the program relevant to the situation?). In other words, the argument is largely about whether the government should run a particular service or not, and only rarely about whether the government should take responsibility for assuring that the service is provided or not.¹ Judging by current debates, ideologically the issue is settled, and these responsibilities are not likely to change drastically in the near future.

Britain under Margaret Thatcher embarked on a large-scale privatization program. Because of parliamentary sovereignty, the government could pursue controversial policies that aimed to reverse "the corrosive and corrupting effects of socialism" (Thatcher, 1993, p. 676) without much opposition. Fixed-price flotation of the shares of public enterprises with provisions for wider share ownership emerged as the main form of privatization. Among many goals of privatization, it emphasized wider share ownership as the tool for reshaping the society into "popular capitalism." The task of privatization, thus, transcended the discourse of situational validation and was framed in terms of systemic vindication. The problem was not confined to dealing with particular inefficient industries and enterprises any more, but had the aim of changing the societal system as a whole. As Clarke (1993, p. 230) aptly notes:

There is an assumption abroad that Margaret Thatcher engineered an economic renaissance in Britain (Walters, 1985), when it is capitalism which has been restored, not the British economy. The belief that monetarism and privatization together rescued the British economy conceals a modest performance relative to the industrial growth to the rest of Europe, despite the enormous advantage

¹ Government assurance that a service should be provided does not necessarily mean that government will fully finance the provision of service. In many countries businesses may be "asked" to bear full or partial costs. Such a solution, though, is less likely in the American political system.

Britain had in the expansion of North Sea Oil. Though the British economy is undoubtedly now a great deal more efficient than it was in the 1970s, performance has improved in the public as well as in the private sector, and this is due to a very wide range of factors.

In Russia, privatization was an essential part of revolutionary transition from socialism, and was heavily influenced by ideological considerations. As elsewhere in post-communist political space, issues of political transformation were paramount. Among these, the issue of securing the direction of change was crucial (Poznanski, 1995, p. 213):

Whenever anticommunist forces took political control away from the communists, the anticommunist leaders feared that, given this imbalance [disadvantage in terms of organizational resources and intra-party discipline], the communists might launch a comeback. The perception was that there was only a narrow window of opportunity for newly emerged leaders, so that if there was anything to gain politically from reforms--including privatization--it had to be done immediately, which encouraged radical measures.

The revolutionary task of destroying the basis of economic and political power of Communism-- an ideology that the reformers blamed for crippling their country, has had determining influence on the choice of privatization mechanisms. Initially, for various economic reasons, the reformers were opposed to the ideas of both voucher privatization and employee buy-outs as the main form of privatization. But it turned out that exactly this combination emerged as the main form of privatization in Russia. Such a development of events was determined by the fact that, while important, these objections were not central for the overarching political purpose of privatization, and as secondary "details" could be accommodated as a part of political compromise concluded with the Parliament. Competing values and interests (managers, employees, etc.) have had impact on the practice of privatization, but they only modified rather than changed the strategic rationale of privatization. Table 1 below provides the summary of the arguments above.

TABLE 1.
Main Features of Privatization in the US, UK and Russia

	US	UK	Russia
The Practice of Privatization			
Main form of privatization	Outsourcing	Fixed-price flotation on stock market with clauses for wider distribution of shares	Combination of employee ownership with a massive voucher program
Main objective of privatization	Optimizing small government, or minimizing the costs for the taxpayer	Creating "popular capitalism" through wider ownership	Frontal attack on Communist power by demolishing its base—the Soviet command economy
Systemic Factors			
Structural			
Socio-economic conditions	Financial stress on government revenues	Financial stress coupled with increasing subsidies to public enterprises	Recession and severe problems in all spheres of economic life
Political forces	Separation of powers and multiple actors and veto points	Parliamentary sovereignty	Separation of powers and co-optation of regional elites*
Cultural			
"Generic" values	Individualism and egalitarianism	Individualism and class-consciousness	Collectivism and egalitarianism
Ideological consensus	Small government as an implicit consensus	Radical, but non-revolutionary shift of the ideological consensus	Revolutionary break-up with the ideology of Marxism
Discursive Analysis			
The level of discourse	First-order discourse: Empirical verification (Is it efficient?) and situational validation (When is it efficient?).	Transcending from situational validation (how to make public enterprises efficient and effective?) to systems vindication (they should be effective for profits only, not for full employment).	Second-order discourse: From systemic vindication (our society in existing shape is unjust and undemocratic) to social choice (Communism is a false ideology).

* Though later Russian privatization program was regulated largely by presidential decrees, adoption of the founding legislation was a compromise between the executive and legislative branches.

What are the conclusions one can draw from the above cases? First of all, privatization is a very complex phenomenon, where a combination of different forms (tools) pursues a variety of aims. We can see that different forms of privatization reflect priorities (or preference ordering) among many goals that privatization policies generally pursue. Thus, the choice of a particular option is usually decided by the relative importance of the privatization aim that such an option does maximize. The question, then, is what does define the priority of a certain goal over others? Judging from the evidence in the cases discussed, the goal phrased in the higher discourse takes precedence.

Efficiency is a goal usually phrased in first-order discourse. It is dominant only when there is a consensus among political and economic elites about underlying systemic values and structures. In the US, it is the main goal maximized by the practice of outsourcing. Whenever the discussion is framed at a higher level, efficiency takes a back seat to other goals. For example, the discussion about privatizing Social Security in the US raises, among others, questions about resilience and survival (what will happen if the markets go down?), thus delaying privatization. This locates the debate on the systemic vindication level, since it raises issues of unanticipated problems with important societal consequences.

Similarly, when the issue in Britain was construed as reclaiming capitalism rather than reclaiming efficiency, speed and wider ownership took precedence over maximization of budgetary revenues (tender sales would maximize this goal) or increasing efficiency (stricter demonopolization would achieve this aim). In the same

vein, Russian reformers opted for "crony capitalism" (Safire, 1998), since in a larger ideological perspective the issue was seen as a different choice. As the architect of Russian privatization, Anatoli Chubais phrased it, there was no other alternative: "The choice in Russia was not between a criminalized economic transition and a noncriminalized one. It was between a criminalized transition and civil war, which was a real possibility" (as quoted in Klebnikov, 1998a). The highest-order goal dominates, but does not necessarily eliminate other goals. Some may be discarded, but others appear as secondary objectives.²

Thus, our discussion leads us to propose the following theory (chain of hypotheses) about the choice of privatization mechanisms:

1. Privatization policies generally pursue multiple goals, the relative importance of which changes over time.

For example, in Britain reducing the PSBR (Public Sector Borrowing Requirements) and curbing public sector union power were more important during the first phase of privatization, while wider share ownership and employee share ownership became the main goal of privatization during the second phase. Increasing efficiency became an important goal only during the last phase of privatization. All of these goals were always pursued by the government, but had different priorities at different times. Sometimes they goals were contradictory, sometimes complementary.

² The process is along the lines of Morgan's (1997) description of development of "storyline" about an organizational problem--interactive, organic, and relativistic. See Appendix 6 for details.

2. *Usually, such a goal is determined by the dominant discourse in which the topic of privatization is debated in society.*

In Britain, wider ownership became an important goal only after the Thatcher government, on the wings of the Falkland victory, went ahead with large-scale privatization. Large-scale, and somewhat rushed privatization made looking at the systemic issues inevitable. In a situation where load shedding was not perceived as an inevitable financial necessity but represented also change in political values, there was a need for an alternative vision that would compensate the public for giving up their ownership over productive assets (or tools of policy-making). Thus, the discussion transcended the issues of particular industries, and dealt with topics such as the role of the state in society, etc. The debate now was between popular capitalism and the traditional welfare state, and not about inefficiencies of the coal industry or subsidizing regional development through nationalized industries. Privatization in Russia was conceived in revolutionary times. Correspondingly, the issue was framed in revolutionary terms. The policy aimed at creating preconditions for increasing economic efficiency, not about immediately increasing efficiency. Since economic efficiency and freedom and democracy were seen as incompatible, with the all-controlling Marxist-Leninist command economy, the most important prerequisite for this task the reformers deemed to be securing political power. More precisely, they wanted to make sure that Communists would never return to power. In the US, the discussion is always about saving taxpayers money, but not limiting services. As a result, efficiency is the main goal of privatization.

Although the debate is always informed by ideology, the debate usually does not raise to systemic or ideological issues. It is not because ideology does not matter, but because there is an ideological consensus on limited government.

3. The choice of a particular privatization mechanism is usually decided by the priority of the privatization goal that such an option does maximize.

As argued earlier, fixed-price flotation in Britain was primarily aimed at increasing wider ownership. In Russia, mass voucher system compounded with insider control over enterprises does not as much create new market mechanisms and effective owners, but destroys the old structure of economic power. Outsourcing is geared toward providing specified service at the lowest price--i.e. optimizing the delivery of a predetermined scope of services. Although these mechanisms pursue also other ends, they are primarily geared toward the end of securing the goals of the predominant discourse.

4. Objectives phrased in higher-level discourses than the dominant discourse become irrelevant and do not make the list of privatization goals, while the goals phrased in lower-level discourses are relegated to secondary, complementary roles.

In the US, privatization does not pursue systemic goals aimed at changing the balance between the different parts of the societal system. Some groups articulate such goals, but these ideas usually do not become a part of the mainstream discourse. As a result, privatization mechanisms in the US are primarily concerned with more efficient

arrangement of services rather than changing the society, although are often inspired by such a desire. In Russia, one of the goals was creating "serious" owners, who could effectively manage large enterprises. Voucher systems diffused ownership, while employee control made restructuring difficult. Realizing this, the reformers encouraged the creation of large investment funds, hoping that these institutions would transform the diffused vote of individual owners into a single voice of outside control. In Britain, although fixed-price privatization aimed at spreading ownership wider and wider, it also raised money for the government. Thus, fiscal aims were relegated to a secondary role. It was pursued, but not maximized (tender sales would achieve such an objective).

Comparative analysis of privatization, and/or worldwide trends of privatization always generate more questions than answers. Let us discuss one of them. Many researchers and policy-makers search for a global pattern, a trajectory of development that all countries pass at one time or another. Given the topic and selection of our cases (state-dominated economy, mixed economy, limited government economy), we would rephrase this question as "Does the size of the public sector matter?" Or, in other words, will other countries follow the US, and optimize limited government, after they are over the phase of limiting the government? Is there an optimal size of government (supposedly, characterized by the US) that all other governments are (or should be) moving to? The answer seems to be negative. As Simon (1997, p. 9) notes, "the answers to questions of socialization of privatization of particular industries are neither univocal nor simple, and different societies in our day have maintained different balances, and have shifted those balances from time to time." Two factors account for such a state of

affairs. First, the size of government changes over time and the change is by no means unidimensional--there is evidence of nationalization-privatization cycles both internationally and for the US (Siegmund, 1997; Furner, 1998).

Second, different countries have different value systems and traditions that are reproduced over and over. Proponents of small government argue that by and large small governments do not produce less desirable social indicators than big governments, while having better economic and regulatory efficiency indicators (Tanzi and Schuknecht, 1996). But the question is more complex. Small governments usually score low on equal income distribution (Briggs, 1998; *Economist*, 1997), and as an important measure of social cohesion and democratic access this has an impact on growth of government services. On the other hand, some scholars argue that reduced inequality of income stimulates the growth of government, especially, of egalitarian programs (Wildavsky, 1997, pp. 382-385). Such a relationship warrants reinforcing of political-cultural differences that do not reinforce drastic changes.

The situation is not one of a unidimensional static relationship, that can be explained by "neo-Newtonian" covering laws, but one in which "the major variables shaping political behavior and outcomes are in fact dynamically interactive" (Steinmo, 1993, p. 201). Klein (1994, p. 232-233) gives an excellent summary of the problem from the viewpoint of institutional economics:

Institutionalists start with no preconceptions about "the correct size" for the public sector. They start with a notion that technological progress makes many things possible that were not possible in earlier times. The rate at which the technologically possible becomes the accepted depends on the interaction of

technological change with institutional restraints. As such, minimal acceptable welfare standards, along with defense expenditures, expenditures for conservation, and the containment of environmental damage, reflect the current "value floor" of an economy. Such a floor is dynamic, and the role of the public sector is equally subject to constant change.

We have suggested that along with efficiency and security, the value floor reflects changing attitudes toward equity, freedom, and compassion. In each case changing technology not only alters the possible but propels endless societal reconsideration of what collectively we "want."

Policy makers choose various privatization tools to further different objectives that reflect the dynamic "value floor" of the society. Value floors are socially constructed dynamic concepts that are a result of interaction between socio-economic forces and institutional constraints, and do not follow a universal pattern.³

What are the implications of this approach for comparative public management and public management in general? The approach employed here allows us to carry out comparative discussion of privatization one step further. First, it allows comparing the same phenomenon in many divergent forms. Most previous research before has been confined to comparing one type of policy. For example, in his insightful analysis Zahariadis (1995) has compared British and French experiences of sale of assets, but not other forms of privatization. Second, such an approach allows for discussing practices where policies are not drastic policy changes. For example, applying the multiple streams

³ Kornai (1995, p. 52) argues for essentially the same approach for the narrower topic of privatization: "Those who take part in the debates on privatization are frequently asked whether they recommend fast or slow privatization. The question is phrased in the wrong way. No one would call oneself an advocate of slowness. The debate should not be about the speed but about the choice of values, the role assigned to the state, and the assessment of the importance of the various forms of ownership and types of owner. Once anyone takes a position on these points at issue, the speed to be expected arises as a result of this decision. I am a believer in the process of privatization proceeding as fast as possible. But it cannot be accelerated by

(garbage can) model, it would have been impossible to study the practice of privatization in the United States in a comparative perspective. Finally, by incorporating values and norms into analysis, the model allows us to escape the normative determination of a public goods perspective applied to an administrative perspective. Such studies (e.g., Savas, 1987), while arguing very persuasively why services should be privatized, do not say why they *are* privatized, and can never explain why they were nationalized in the first place. The proposed approach is also important for comparative public administration since it offers a method (borrowed from policy analysis) that is not confined to the study of bureaucracy. As the developments in the "non-comparative" public administration/management field have shown, the concept of bureaucracy together with its rival--managerial activity, touted as the center of gravity of the field, are still important, but cannot be considered the intellectual anchor upon which the whole field is based.

Similarly, the approach employed here has implications for "non-comparative" public management studies. The field of public administration and its not yet separated challenger--public management, revolve around the same issues, though emphasizing different aspects of the phenomena under study. This "stress on different syllables"⁴ is a result of social construction of knowledge, whereupon certain norms and values are defining the debate and how the issues are framed. Different visions of society and science always compete, and public administration/management, as an applied social science field, will always reflect these tensions. The task of analyst, in such a situation, is

some artful trick. Finding some clever organization form plus bureaucratic aggressiveness in enforcement are not sufficient conditions for fast privatization.

not the search of norm-free enduring laws, but uncovering the dynamic interactions between governing norms, existing structures and social action. From such a perspective, discursive approach to public administration/management allows to move one step further.

While the drive to apply policy approaches in public administration (resulting in the program of public management) has been progressive, borrowed methodology has been drawn either to "process" or "content" streams of public policy, never managing to combine them successfully, and not paying enough attention to norms and values. This is partly due to the largely non-comparative nature of public management studies that has concealed the issue of values, and the relevance of discourses in which these issues are framed. Not surprisingly, uncritical extension of many public management practices to other contexts has been very successful or useful. Demsetz (1997, p. 10) notes that economic advice in Eastern Europe is confounded by conditions that are not obvious immediately: "As has been made apparent from the lack of useful advice from Western economists to policy makers in Eastern Europe attempting to convert economies from communism to capitalism, we know much less about our institutions, or, at least, much less about creating them, than our predecessors presumed." A comparative approach can help to alleviate some of these problems--both in economics and public management.

⁴ I owe this characterization to Melvin Dubnick.

APPENDIX 1

Perspectives on Global Change

Global change is a different phenomenon to different people. Perhaps, the most common understanding of global change has environmental roots. Although this understanding of global change is also a highly political social construct (it was promulgated by environmental activists for more than three decades and was shaped in the Rio Summit in 1992 and other top-flight political events), it is cast in seemingly neutral, scientific terms, avoiding controversial subjects (ones that may have redistributive implications) like the consequences of climatic change for the rich and poor, North and South, etc. The Global Change Research Act of 1990 defines global change as "changes in the global environment (including alterations in climate, land productivity, oceans or other water resources, atmospheric chemistry, and ecological systems) that may alter the capacity of the Earth to sustain life" (*Our Changing Planet*, 1995). Consisting of numerous programs that monitor and evaluate the environment, and couched in such noble and broad terms, this formulation tries to enlist the support of every group possible. An environmental approach, as touted by activist groups, however, is generally more activist, and calls for change in social structures as well. J. Ann Ticknor (1993), for example, approaching the problems of international political economy from an ecofeminist perspective, sees no solution to world problems until the world is dominated by a male hierarchy. The governmental approach to global change is also not limited to hydrological processes and forestation; it includes social and behavioral programs that primarily focus on how social and environmental changes interact. Three prominent research areas in this domain are: 1) International population trends and human condition; 2) Patterns of trade and global economic activity, and how they affect governmental environmental resources; and 3) Adaptation and mitigation, including environmental resource use and management (*Our Changing Planet*, 1995). Given the progress of recognition of environmental issues on an

international level and creation of international organization (or promulgation of some more or less supranational regime) in this field, along with proliferation of environmental groups, some researchers see environmental policy as the locus for studying aspects of globalization on the state (Khator, 1994).

The next perspective is economic. This approach ranges from pure business concerns of operating in a world with deregulated world markets to a search for an economic policy that will bring jobs and prosperity in an increasingly competitive world to the macro-sociologist world-system approach with North-South type controversies in the focus. All of these approaches operate with such terms as core-periphery, dependency and development, although emphasizing the concepts to a different degree. Of course, the division between subcategories is only suggestive, and many studies are not easily classified into one or another.

All of the economic approaches start with the description of the world economic system and its institutions. For the first two approaches, the starting point in the history of international political economy is the end of WWII and the establishment of the Bretton-Woods system, while the world-systems approach usually goes deeper and discusses the evolution of capitalist economy from the 16th century on. Changes in world economic environment (Eng et al. 1996, pp. 5-12) are seen as the rise and fall of the Bretton Woods system and the proliferation of UN-connected multilateral institutions (IMF, the world Bank Group, GATT); the emergence of the Eurodollar market in 1957 in response to British capital controls imposed on the pound sterling; formation of the EEC in 1958; the move of the US and other Western (also Japanese) corporations overseas beginning in the 1950s; the development of new business opportunities in the Far East since the 1960s; international financial crises of 1971 and 1973 that led to a floating exchange rate system; oil shocks and OPEC pressures; onset of the world debt crisis in 1982; emergence of

Japan as a leading international financial power and source of global capital in the 1980s; G-7 reaching the "Louvre Accord" in 1987, planning to support the falling US dollar by pegging exchange rates within a narrow range and intending to bring their economic policies into line; the drive for Unified European Market by 1992; changes in the communist camp in 1989-1992 and opening of new markets; and the rise of regional cooperation (NAFTA (1993) and the Conference of Asia-Pacific Economic Cooperation (APEC) in the US in 1993). There are also changes in the world economic structure (Eng et al., 1996; Drucker, 1986):

- 1) The changing relationship between the primary-product economy and the industrial economy-- the proceeds from the export of the first are not enough to finance the imports of the second. There was a decline in prices of primary products since 1981 almost by half. Most likely explanation for this is seen in the supply and demand curves. The expectation of shortages in the 1970s led to increases in investment and overcapacity, especially in the world metal industries. Technology changed the demand and also helped to produce more foodstuff in the industrial core.
- 2) A shift within the industrial economy toward greater knowledge requirements in production-- this shift from labor-intensive to knowledge-intensive jobs, with increased automation, computerization and robotization--has resulted in more white-collar and less blue-collar jobs. Labor costs have become less important, while capital investment and human capital have become more important.
- 3) International capital movements become more important than international trade. While international trade has grown with ups and downs, international capital flows have increased dramatically, which is reflected in the Eurocurrency market, international bond markets, and the foreign exchange market.
- 4) Development of more diversified activities by multinational corporations, including joint venture international investment and partnership agreements.

These developments have brought us to globalization of financial markets (Eng et al., 1996, pp. 11-13). The tightening of linkages between world financial centers has produced a financial revolution that has three key aspects:

- 1) **The global presence of international financial institutions.** Increased flows of world capital intensify financial competition among nations. This trend places pressures on national governments to deregulate their domestic markets and liberalize international capital movements. Thus, the result of Japanese and British deregulation in the 1980s was prosperous and rising stock markets in the US.
- 2) **International financial integration.** This refers to the elimination of barriers between domestic and international financial markets, and the development of many linkages between market sectors.
- 3) **Rapid pace of financial innovations.** That is, the creation of new financial instruments and technologies. Financial instruments such as Eurodollar CDs, zero-coupon Eurobonds, syndicated Eurocurrency loans, interest rate and currency swaps, and floating rate notes have become more popular in international financial markets. Since 1991 the term "financial engineering"—the development and use of financial technology to solve problems in finance and to exploit financial opportunities— have become more popular.

All of these developments pose challenges for the governments around the globe, although the challenges are not the same for developed, developing (LDC) countries, newly industrialized countries and transitional economies. The first have to think about deficits and proper investment; the second must think about debt obligations while maintaining social and political order; NICs should restructure their economies as a response to newcomers in the field and prepare to fight protectionism; and transitional economies must get more inflow of foreign capital.

The response within developed countries also varies. For example, some see the rise of "symbolic analysts" (Reich, 1991) as a threat that may either disturb the social fabric or hold back the growth of the economy (Collingsworth et al., 1996; Marshall, 1995; Kapstein, 1996; Godall, 1993) and call for some sort of an activist policy for addressing the problem. Others see nothing here but social "correctness" that tries to erect protectionist barriers to safeguard powerful anti-change, anti-progress groups (Godall, 1993; Drucker, 1994; Steil, 1994), also arguing that it will not be fair for the Third world

countries. For fixing the matters, there are calls both for safeguarding established institutions against going wrong-- e.g. safeguarding regional, established free trade zones against discriminating non-members (Hormats, 1994), and calls for new regulations or regimes (Bergsten, 1996). There is increased talk about the importance of global competitiveness (Inman and Burton, 1990), but competitiveness is also called a "dangerous obsession" and attention is drawn to economic policies that yield different results in terms of employment and growth (Krugman, 1994a; 1994b).

Although a world-system approach has wide-ranging coverage, from analysis of trade networks to the role of transnational corporations in the world to the discussion of presidential behavior (e.g., Wilkinson, 1995; Tieting, 1995), it bears a leitmotif of capitalism's failure. Notwithstanding the collapse of communism and failure of such proposals like NIEO (New International Economic Order), the world-system approach usually sees the capitalist system as in deep trouble. Usually basing their views on the long comparative history of the capitalist economy (Arrigi, 1994; Wallerstein, 1974; 1995), they argue that this system, which is based on "endless accumulation of capital," and "has operated effectively for some 500 years... has now reached the limits of that effectiveness... and various contradictions of the structure are no longer possible to adjust in an easy way" (Wallerstein, 1995, pp. 14). One of the reasons for this failure is that liberal reformism, that was so successful in the capitalist core, could not work in the Third World: there was no Third World for the Third World to pay the costs. Liberal reformism consists of three components: 1) gradual according of universal suffrage; 2) the beginnings of welfare legislation and welfare redistribution; and 3) nationalism of the core zone, with its essential component of racism/sexism (Wallerstein, 1995, pp. 13).

Liberalism is the connecting theme that the world-system approach and the New World Order approaches share together. While some see the triumph of liberalism as an

essential characteristic of the new global era (Fukuyama, 1992; Sachs, 1995), others see globalization as a context to question the premises of liberalism and transcend "the oxymoron of neoliberal 'market civilization'" (Gill, 1995). Others see problems in liberalism's survival— it seems to be outside of the institutions that have created it on the international scene (Huysmans, 1995; Ruggie, 1995). As opposed to the previous perspectives on global change, the New World Order is more political. Of course, the division between political-security studies and international political economy is razor-thin and is often argued to be false (Caporoso, 1995). The New World Order raises more political questions than it answers. For example, does the end of a bipolar world mean an increasingly homogenous liberal world led by the US, or it will be one with zones of peace and zones of turmoil, with differing culture and norms? Will the US continue to be the leader of the Western world (and the globe) and for how long? What will be the role of the United Nations— will it become a supranational world government or will it become an institute of legitimation for punishing "rogue" states, or something in between? Will the UN become more oriented to peacekeeping, or will it pay equal attention to development? The answers here are for any taste. Post-cold war is simultaneously seen both as pretty successful in maintaining world order (Ikenberry, 1996), and still searching for identity (Stedman, 1995). Conflicts are expected to be smaller in scale and intrastate, mostly in the countries of the "third tier" (Metz, 1995), and along the division lines of civilizations (Huntington, 1993). The march of democracy (however defined) is seen as almost given (Fukuyama, 1992; Huntington, 1991¹), but there are also questions raised about its survival in different contexts (Sartori, 1995; Mansfield and Snyder, 1995). The UN and other multi-lateral organizations are often touted as the solution to many problems if it is given authority and resources (Boutros-Ghali, 1992; 1995; 1996; Ball, 1992; Lund, 1995), and are criticized as highly ineffective

¹Huntington's later book on the "third wave" is more balanced and cautious.

(Economist, 1993; Lefever, 1993; Pico, 1994; Youval, 1994; Carlsson, 1995; Minton-Beddos, 1995; Ebban, 1994). Very often, though, students of world affairs speak about collective security needs and consciously downplaying sovereignty of the states, e.g. for managing intrastate and ethnic conflicts (Evans, 1995; Howe, 1995; Bogdanor, 1995), but they do not always see the UN as the only solution. There are many other international organizations or "regimes" (Riggs and Plano, 1994; Kergin, 1994). The United States is both seen as just another great power in the history of mankind (one that will decline sometime (Kennedy, 1987)) and a nation that is "bound to lead" (Nye, 1990).

APPENDIX 2

Perspectives on Governance

Governance is a term more and more used in the public administration/political science vernacular, to the extent that a new and successful “transatlantic” journal, entitled *Governance* has been published since 1988. Since governance is an important concept, especially in era where public administration is being reconceptualized into public management, it deserves closer attention. The Oxford American Dictionary defines *governance* as “governing, control.” Basically the same explanation is given to the term *government*, but *government* also has two other meanings: 1) the group or organization governing a country; and 2) the government as an agent. Essentially, the term *governance* is aimed at relieving the *act of governing* (or self-governing) from the implied concrete organizational baggage of *government*. It is often understood as patterns that emerge from governing, which is “all those activities of social, political, and administrative actors that can be seen as purposeful efforts to guide, steer, control or manage (sectors or facets of) societies” (Kooiman, 1993, p. 2).

Much like International Relations scholars discussed earlier (Rosenau, 1991; Ferguson, 1995), the proponents of such an approach consider the state as a very important actor in explaining social, political and administrative choices, but not necessarily the most important one. Actors and their importance may differ from issue to issue, from one sector of economy to another, from one political setting to another. Talk about increased importance of shared governance has been around at least since the 1970s (Carey, 1973), driven by phenomena such as the rise of “competitive federalism” in the US, where different public entities had to compete with each other (Shannon and Kee, 1989); internationalization of domestic politics (OECD, 1996b; Keohane and Milner, 1996); the rise of the non-profit sector (Salamon, 1994), among others. Most

observers now agree that “political governance in modern societies can no longer be conceived in terms of external governmental control of society but emerges from a plurality of governing actors” (Mayntz and Martin, as quoted in Kooiman and Van Vilke, 1993, p. 64). Modern society is characterized as complex, diverse, and dynamic (Kooiman, 1993). In cybernetic terms society is seen not as a predictable system that can be governed from above, but as a complex organism that is governed on a self-regulating and self-steering basis (autopoiesis) (Dunsire, 1996; Dunsire, 1993; Kooiman, 1993). Governance is seen as something larger than top-down administration. In certain instances, for example, governing for public authorities can be conceptualized as an attempt to manage things that are often outside of your direct control. Andrew Dunsire (1993; 1996), for example, argues that regulation and central control are not adequate any more, and sees enormous promise in 'collibration'--steering by making use of opposing forces.

As we have seen, governance is not a very precise concept, and very often is conceptualized quite differently, depending on context. Coming from new institutional economics, Oliver Williamson (1996, p. 11) defines governance as “the science, theory or study of good order and workable arrangements,” with its primary concern being “the means aspect of means-ends relations.”¹ Applying the concept of governance to organizations, Hult and Wolcott (1990, p. 27) have a somewhat similar conception—‘governance’ refers to “politics that is conducted within relatively structured settings, bound for the most part by rules.” The World Bank defines the term closer to the vocabulary of economic development. For them, ‘governance’ is:

- the form of political regime;

¹ Williamson borrows the definition from Lon Fuller’s definition of *economics*.

- the process by which authority is exercised and the management of a country's economic and social resources for development;
- the capacity of government to design, formulate and implement policies and discharge functions (OECD, 1996a, p. 11).

The Commission on Global Governance defines the term as a continuous process that consists of the “many ways individuals and institutions, public and private, manage their common affairs,” as a result of which “conflicting or diverse interests may be accommodated and cooperative action may be taken,” either through formal regimes (empowering or enforcing compliance) or through informal mechanisms (OECD, 1996a, p. 11).

OECD defines governance in terms of relationships rather than structures, and “thus includes more than public administration and the institutions, methods and instruments of governing. It also encompasses the set of relationships between governments and citizens, acting as both individuals and as part or through institutions, e.g. political parties, productive enterprises, special interest groups and the media” (Ibid).

APPENDIX 3

Methodology of Economics and Policy Analysis

Policy Analysis. Discussing the evolution of policy analysis, in her 1996 APPAM presidential address, Beryl Radin (1996) compares the state of and assumptions about policy analysis in early 1960s and late 1990s in five areas. First, in the early days of policy analysis it was assumed that the clients for policy advice were top executives and senior line staffers. “The focus of the activity was upward and the separate nature of the policy analysis unit minimized concern about the organizational setting in which the analysis took place” (p. 2). As the function of policy analysis became institutionalized, the concept of “client” was implicitly redefined, often including program managers, organization members involved in institutional processes within the organization, as well as maintenance of organization. With institutionalization, in many cases policy analysis also lost its direct access to top executives, and communicated instead with multiple layers of bureaucracy. Since policy analysis also proliferated in mushrooming think tanks (many of them with explicit political agendas), in some instances the lines between advocates and analysts became increasingly fuzzy.

Second, political environment of policy analysis (or the awareness of it) has changed since the 1960s. As analysts tried to implement their neutral and technocratically deduced solutions to various problems in an environment of scarcity, they faced problems of political feasibility and ideology in politics. To cope with this conflict between the “culture of analysis and culture of politics,” policy analysts adopt different strategies—from moving to less visible positions to becoming identified with particular political or value commitments to attaching themselves directly to political actors.

Third, analytic methodologies and approaches abandoned the initial ideal of general, technique-driven, top-down, hierarchical conception of rational analysis drawn from positivist social science and normative economics (largely microeconomics and operations research). Soon it was obvious that implementation analysis, organizational analysis, and methods associated with policy evaluation tasks were as important, and that specific program knowledge very often was more decisive than all other analytic tools. Understanding that the “macro-macho” view of analysis did not deliver on its promises, resulted, in Wildavsky’s words, in “the real loss of innocence” for policy analysts (as quoted in Radin 1996, p. 7).

Fourth, the ideas about the availability and use of information have changed significantly. Initially, information was perceived to be both available and appropriate. Soon, “however, it became apparent that the task was much more complex and involved both the problem of framing the conception of relevant data as well as the issue of utilization of information and research findings” (Radin 1996, p. 7). It was argued that fact-value dichotomies are rarely if ever possible in the policy field, that policy-makers often use “ordinary” knowledge, that policy analyst is more often reminding an investigative reporter rather than a natural scientist, and that relative objectivity of analysis often depends on trust and common values (Fischer, 1980).

Finally, the dimensions and forms of policy analysis have changed significantly. Initially, it was presumed that, drawing from abundant resources and positive attitude toward government, policy analysts should come up with new programs and policies to solve problems. Ambitions of policy analysis have become more modest since—inducing marginal changes or even inducing new approaches to framing the problem. In an era of scarcity, they are often taking backseat to budget analysts. Since policy analysis is

becoming available to all parties (increasing in number), policy analysts often engage in policy disputes between each other.

Summarizing, Radin notes that policy analysis is better represented today by a metaphor expressing multiplicity--“speaking truths to multiple powers,” and calls for “*an analysis of our analyses*,” since it is increasingly clear the need for discussing the practice and assumptions of how policy analysis is creating knowledge.

Peter deLeon and E. Sam Overman (1998), discussing the evolution of policy analysis during the last fifty years, distinguish two different streams in policy sciences—the approach of knowledge *of* policy (policy process) and the approach of knowledge *in* policy (policy analysis), one drawing mostly from political science, and the other drawing largely from microeconomics and almost identical to systems analysis. They argue that for successful future development, policy sciences should return to their beginning—i.e., Laswellian conceptualization of policy sciences as: 1) multidisciplinary in nature; 2) contextual and problem-oriented in nature; and 3) explicitly normative. Though during the initial decades of policy analysis these concerns were largely ignored, maturing of the discipline has emphasized the necessity of Laswellian approach for solving extremely complex problems that policy sciences face.

DeLeon and Overman identify two “items of unfinished business” that remain on the agenda of policy sciences since the mid-1980s: 1) how to incorporate values and yield prescriptive advice in the face of “tangled web of social, professional and political ethics and values”; 2) how to overcome the gap between “cognitive and analytical” and “organizational and procedural” aspects of public policy (deLeon and Overman 1998, p. 493). The first problem is being addressed by “new methodological areas focusing on the logic of policy inquiry and the integration of empirical and normative questions of public

policy,” that is increasingly replacing the assumption of public service as “neutral-competent activity self-regulated by democratic-administrative ethos” (p. 495). This vision realizes that multiple rationalities exist within society and that one type of rationality (e.g., economic) does not extend to all spheres of life (Diesing 1962; Hawkesworth 1988; Fischer 1995). The second concern was attempted to address by the emergent field of public management, which was meant to be multidisciplinary, problem-oriented, and explicitly normative, but with a distinct focus on organization, program and individual performance (p. 496).

Finally, deLeon and Overman (1998, p. 497) distinguish the latest trend of a “shift from the policy sciences to policy inquiry to policy design,” which “accepts the premise that knowledge produced by policy research and analysis is not unequivocal as empirical truth. Rather, it represents a definable process of systematic, rational inquiry that results in plurality of knowledge claims; it a priori requires that attention be paid to the underlying assumption and implementation strategies, that is, process and content.” One method of achieving such an objective is policy argumentation or forensic policy analysis (Fischer 1980; Fischer and Forrester 1993; Fischer 1995), which “promises not only meet the goals of set out by a theory of reason in society, but also integrate the process and content divisions that have arisen within the policy sciences (p. 500).

As we can see, policy analysis emerges neither as straightforward and technique-driven, nor as “pure and innocent” and neutral. Laswellian vision of policy sciences came back to haunt the practice of public policy research, making it think about multiple methodologies and explicit incorporation of values. What is also important, understanding of the normative character of the enterprise does not mean that adherence to certain norms (e.g., efficiency or legitimacy) solves the problem. Rather, it means

discussing how different norms and rationalities (and corresponding methodologies) compete, interact, and shape particular policy outcomes.

Economics. Noting that “mainstream economics has evolved virtually independently of explicit methodological analysis,” Sheila C. Dow (1997, p. 73) goes on discussing methodology implicit in mainstream economics¹. Although the field is solidly grounded in logical empiricism, development of the discipline has revealed tensions in “both the logical and empiricist ends of logical positivism, and not least between them” (p. 84). The emerging picture is “one of serious methodological fragmentation in mainstream economics. Theorists, experimentalists, and empiricists are all pulling in different directions, while hopes are expressed for developments which would fundamentally alter the methodological foundations of mainstream economics. What is more, this situation has arisen in a vacuum as far as discussion of methodological analysis is concerned” (p. 84-85). This, in turn, has “allowed a gulf to emerge between professed methodology and practiced methodology. Thus, analysis of the actual practice of many mainstream economics reveals in many cases recourse to knowledge outside the strict bounds of the formal theoretical system” (p. 89). This has been especially apparent since McCloskey’s (1985) seminal work, where he argued that economists appraised theories based on theory’s persuasiveness, and not prescriptive methodology.

Still, economics seems to steadily increase its influence in other social science disciplines. What are the reasons for such a success? Harold Demsetz (1997) tries to

¹ Although there has been substantial work in economic methodology, there has been relatively small amount of explicitly reflective study of epistemology in economics compared to other social sciences such as sociology.

analyze this question in his Western Economic Association International 1996 Presidential Address. Demsetz argues that “imperialist invasive power of economics” does not come from the fact analytical categories of economics—scarcity, cost, preferences, opportunities, etc.--are truly universal in applicability, as Becker (1976) and Hirshleifer (1985) claim. Rather, he maintains, “economics may be judged the more successful social science because it has explained phenomena within its traditional boundaries better than the other social sciences have explained phenomena within their respective traditional boundaries. The primacy of economics may be established in this sense even if economics have never influenced other social sciences” (p. 2).

The success of economics, Demsetz argues, is grounded in particular characteristics that has been central to its inquiry during the last two centuries, and which are not equally present in the problems faced in other social sciences. Essentially, both classical and neoclassical economics was concerned with “the search for an understanding and evaluative judgment of resource allocation in a complex, decentralized system” (p. 3). The characteristics that facilitated the solution of commercial decentralization problem by economists were the following: 1) commercial activities offer the economist commensurate money value measures of activity; 2) commercial activity is guided to a large extent by wealth considerations (p. 4).

The third reason for the success “is that the adroit modeling of its central inquiry by our classical and neoclassical predecessors allowed it to be substantially and successfully completed before World War II began... The modeling avoided

complications that if attended to would have delayed discovery of the principles of decentralized coordination. The avoided complications are those we associate with planning, a legal system, crime, information, cost, and non-commercial activity. No serious attempt was made to deal with the state, the firm, or the household” (p. 4). Rather, economists treated all these concepts as “black boxes” with certain inputs and outputs, which allowed them “to ignore planning, even of the limited sort that takes places within firms and households, and this enabled them to focus instead on coordination achieved through impersonally determined prices (p. 4).

This resulted in a very contextual knowledge, and restricted inquiry to “that of understanding coordination in a *private propertied, competitive, unplanned commercial system characterized by specialized activities and populated by well-informed, law-abiding, self-interested, rational persons who are strangers to each other but who exchange goods and services*” (p. 5). Arguing that “the truly useful theory is a mixture of realistic and abstract representation,” Demsetz asserts “the neoclassical conceptualization, contrary to what its critics say, is a realistic portrayal of those characteristics that are important in an inquiry into the commercial activities of large, decentralized economic systems” (p. 5). This, in turn, “enabled neoclassical economists to draw conclusions that have been sustained empirically for a wide range of situations. The gathering of evidence was aided substantially by the commensurate measurability of commercial activity. Useful theory and supporting evidence contribute to the solution of a problem that in its nature is of great importance to both economics and policy”(p. 7).

Other social sciences, on the other hand, did not have these characteristics of economic inquiry (p. 9):

- 1) they do not contain a problem that is as important in the totality of their disciplines as decentralization is in economics;
- 2) measurements in other social sciences generally are specific to the problem being studied and are not commensurate across different problems, which makes useful generalization difficult;
- 3) there is a reluctance on behalf of other social sciences, as well as general population, to credit wealth with having great explanatory power for non-commercial behavior studied in these disciplines.

As a result, it is difficult to apply a single analytical framework to the set of problems on which other social scientists work (which in most cases are non-commercial by their nature), and it raises a major obstacle to the development of a single commensurate unit of measure (p. 9).

On the other hand, the logic of microeconomics, although extremely powerful and complete for the problem of allocation of resources in a decentralized commercial environment, is unable to comprehend the system as a whole even in economics. The more or less unified microeconomic theory fails to convert into unified macroeconomic theory on the systemic level, resulting into scores of competing schools (Snowden, Vane and Wynarczyk 1995). Despite significant advances in economic theory, current economic theory does not answer many perplexing questions of public management, for example, the size and the role of the public sector, thus failing to provide a normative basis for many policy questions. In their magisterial analysis of the development of economic thought, Robert Heilbroner and William Milberg (1995, p. 119-20) pinpoint

this issue as essential not only for public administration or politics, but for the discipline of economics itself:

What, then, might constitute the underlying framework for a new period of creative consensus in economic thought? The answer seems to us to lie in area of concern absent from both earlier periods, but of central and unmistakable importance in our own. It is a recognition of the necessity for a widening degree and deepening penetration of public guidance into the workings of capitalism itself. Today, and as far ahead as we can see, neither the class dynamics of the first period, nor the problems of a universe of competitive agents seem likely to constitute the background assumptions from which will emerge the visions and analyses needed to frame relevant economic thinking. That assumption, rather, will be a newly appraised balance between the public and private sectors in which the role of the former is considerably elevated over its earlier status. To put the matter in a more political manner, the essential background will involve a general recognition of the need for expanded public intervention to protect a capitalist order from the difficulties and dangers with which it will have to contend. It is the legitimacy of the public sector within capitalism that lies in the core of contemporary crisis of vision.

APPENDIX 4

New Public Management: How New?

Popularized mainly through insightful analysis of Christopher Hood (1991; 1995; Dunleavy and Hood, 1994), new public management can be seen of consisting of seven essential traits:

1. Active and discretionary professional management;
2. Focus on explicit standards of managerial performance;
3. Greater emphasis on output controls;
4. Shift to disaggregation of units in the public sector;
5. Shift to greater competition in the public sector;
6. Emphasis on private-sector methods of management;
7. Emphasis on greater discipline and parsimony in resource use.

Owen Hughes (1998, p. 1489) defines NPM as "concerted program of public sector reform aimed at replacing administration by management, replacing formal bureaucracy by markets and contracts as far as possible, and reducing the size of the public sector." In their analysis of NPM from culturalist perspective Dunleavy and Hood (1994) argue that NPM constitutes a move from what the dominant paradigm--what they label Progressive Public Administration-- in two cultural directions. First, it is the lowering the density of rules limiting the freedom of public officials handling resources (money, staff, contracts, etc.), and second, it is the weakening the "insulation" of the public sector from the private sector in personnel, structure and business methods.

Reinventing Government movement is the less radical cousin of NPM in the United States. Launched on David Osborne and Ted Gaebler's bestseller *Reinventing Government* (1992), and embraced by incoming Clinton administration in their efforts to formulate both innovative, fiscally conservative and yet pro-government administrative

agenda in concert with their quest of renewing of the Democratic party in the US, it is the most popular paradigm of public administration in the 1990s. This agenda which Vice-President Albert Gore and the National Performance Review adopted in *Creating a Government that Works Better and Costs Less* (1993) and subsequent publications of the NPR. ReGo has ten tenets (Osborne and Gaebler 1992):

- 1) government should act as a catalyst-- it should "steer," rather than "row";
- 2) government should empower rather than serve;
- 3) government should be competitive;
- 4) government should be mission-driven rather than rule-driven;
- 5) government should be result-oriented, and should not base its actions on inputs;
- 6) government should be customer driven;
- 7) government should be enterprising;
- 8) government should anticipate rather than cure social ills;
- 9) government should be decentralized; and
- 10) government should be market-oriented.

The "reinventing government" paradigm is a rather eclectic synthesis of different approaches. One line of argument here--decentralization-competition--derives from the public choice school of thought, although as distinguished from public choice, this new current of thought is more pro-government. Emphasis on clients is reminiscent of the pluralist perspective, proactive stance can be traced to the notion of "managerialism" popularized by Peters and Waterman (1982), etc. (Gabrielian, Holzer and Nufrio, 1998).

Except obvious similarities in message, both NPM and ReGo have other similarities. First, both of them are embraced and, to a certain extent, legitimized by politicians trying to find an answer to ever-growing demands for services in the age of diminished resources. Second, the paradigms are neither very coherent nor equivocally accepted in the academic communities even after government endorsement. James Q. Wilson (1994, p. 668) calls "the near absence of any reference to democratic accountability" the most striking feature of the National Performance Review-- a report

prepared by the staff of Vice-president Al Gore (NPR Report, 1993). Instead, the Gore Report stresses agency responsiveness to clientele and increased discretion both for managers and employees. The NPR report was criticized on the institutionalist grounds of disregarding the public law foundation of public administration and endangering accountability process in the government (Moe, 1994; Moe and Gilmour, 1995). NPM, in turn, is argued to contain competing principles derived from two streams of thought-- "managerialism" and public choice theory, that often results in contradicting remedies regarding centralization and decentralization, regulation and deregulation (Aucoin, 1990; Gray and Jenkins, 1995).

Before assessing the "revolutionary nature" of NPM as a paradigm, there are two interrelated questions still to ask. Is NPM (and ReGo) a universal phenomenon? Is it a direction that everybody is moving to? And second, what are the differences between different "versions" of NPM, and what does account for these differences? On first account, one cannot but help to notice that NPM-type reforms are popular in Anglo-American countries, which, as has been argued before, share a lot of cultural and legal characteristics. In their analysis of public sector management in general and financial management in particular, Guthrie and Olson (1996) provide the following levels of reform in 11 OECD countries:

- Group A. Rapid change at all levels (New Zealand, Australia, UK, Sweden);
- Group B. Medium change at some levels (Norway, Switzerland, USA);
- Group C. No significant reforms at all levels (Germany, Spain, Japan, France).

Though acknowledging a "global trend" in reform, Guthrie and Olson (1996) find that reforms vary in terms of political and administrative context, political power, agents of change (e.g., OECD in Sweden, Treasury in New Zealand). And with regard to the most

radically reforming country--New Zealand, there is no conclusive evidence that government reform brings about better overall economic performance (Guthrie and Olson, 1996; Lynn 1996b).

Dunleavy and Hood (1994) show that even in European context the move from traditional "Public Bureaucracy State" (high volume of regulations, isolation from the private sector) to "Minimal Purchasing State" (low level of regulations, less isolation) is by no means unilateral. There may be almost no change, as in Germany. Administrative subsystems may also move to states they label "Gridlock Model" (high level of regulations, less isolation), such as the US healthcare system in the 1980s with ever increasing costs, and "Headless Chicken Model" (less regulations, high isolation), such as the UK higher education system with no centralized policymaking. Though acknowledging the advance of NPM in English-speaking countries, other studies also point out the immense variety and often eclectic approaches taken by other (European (East and West) and Middle Eastern) governments in their efforts of administrative reform (Verheijen and Coombes, 1998; Galnoor, Rosenbloom, and Yaroni, 1998).

It appears that even in countries that have actively pursued reforms, there are differences. In broad terms, analysts distinguish between reforms that "*let* managers manage" (Australia and Sweden) and reforms that "*make* managers manage" (New Zealand and Britain) (Kettl 1997; Nagel 1997). The latter reforms concentrate on measuring performance in terms of outputs and controlling performance through specific contracts. The former ones have more benevolent view of managers and assume that in order to achieve better performance in terms of outcomes managers should be given more flexibility to respond to environment in more systematic manner. One can argue that these two trends represent the dominance one of the two streams of NPM-- "managerialism" and public choice (principal-agent theory)--over the other. Some

students of reform also discuss the gradual movement of reform into strategic coordination, outcome-oriented "let managers manage" direction in the flagship country of NPM New Zealand (Pallot 1996; Kettl 1997).

In his critical dissection of NPM, Lynn (1996b) points out that many tenets of New Zealand and British reforms, including the emphasis on program outputs, have been widely tried, and, to a certain extent, abandoned or absorbed into administrative practice in a significantly less radical form in the US since the 1960s. These reforms were both analytic (PPBS, ZBB, MBO) and ideological and explicitly parsimonious (Grace Commission) in their essence. As opposed to output-oriented countries, the Government Results and Performance Act in the US particularly has emphasized outcomes as measure of success of government activities. Drawing extensively both from history of reform practice and ideas of reform in the US, Lynn (1996b) is quite skeptical about claims of NPM proponents that NPM constitutes a new paradigm in thinking about the role and functions of the government. Some see NPM as a new paradigm because it constitutes a move towards post-bureaucratic, commercial, contractual state rather than a technique and implementation oriented subset of Public administration (Hughes, 1998), while others argue that it constitutes a new paradigm because two epistemic communities (traditional public administration and (new) public management) are engaged into a dialogue within but not among their respective communities. Lynn (1996b), on the other hand, mentioning the heterodoxy of practices, ideological and political contexts of administrative reforms around the world, argues that if a community of practitioners and academics (if there is a community) does not have an accepted theoretical cannon and accepted methods of application, can be hardly claimed to possess a paradigm even if the arguments are couched in some general meta-language. Questions about "paradigmatic" nature of NPM are also raised by Aucion (1990), who convincingly shows that the two streams of NPM introduce a "measure of tension, even contradiction" with regard to three

essential issues of public management: (1) "different ways in which the "bureaucracy problem" is diagnosed and the remedies prescribed; (2) the different understandings attached to policy/administration dichotomy; (3) different approaches taken to representation/responsiveness conundrum."

APPENDIX 5

Inevitability of Multiple Perspectives: The Systems Theory View

Geert Hofstede (1996, pp. 532-533) employs General Hierarchy of Systems (Boulding 1956; Von Bertalanfy, 1968) to argue for multiple interpretations of the social world and assert that "universal approval of any theory of organization is impossible." The hierarchy contains nine levels, with each level being one degree more complex than the previous level. It starts with level 1, "where parts are fixed within the whole, such as in a table (both hardware and software)." The next level (clockwork) contains also movement, but "only according to a fixed pattern." Level 3 (cybernetic) system can alter its movement (input) in order to control its output. From level 4 we move from mechanical systems to various forms of life. Level 4 is homeostatic: it adjusts the settings of its own controls for survival and growth. Level 5 is a collection of cells can diversify and procreate. Level 6, in addition to level 5, also has a brain that can store and process information. Level 7, man, "is an animal that not only knows, but knows that it knows: it possesses language and symbolism." Level 8 is the assembly of "interacting humans," and level 9 (supernatural) "transcends social reality." The position of social systems at level 8 has more complexity than any other system before since it accounts for aggregation of reflective humans who exhibit learning behavior by using language and metaphors. Because of this, Hofstede argues, Kuhn's (1970) paradigmatic theory of science does not fully apply to social sciences, where "there are several competing paradigms at the same time, and the effects of new paradigms are less revolutionary than in physical sciences." Such a state of affairs makes Hofstede to claim "it is an illusion that any theory of social processes would ever gain universal approval. An author's claim to have developed a universal theory of organizations is as unbelievable as an inventor's claim finally to have found the Perpetual Motion device."

TABLE 2. General Hierarchy of the Systems

Level	Physical Sciences (levels 1-4) The domain of mathematical models	Biology (levels 4-6)	Medicine	Social sciences Competing paradigms
9				Super-natural
8				Social
7			Man	
6		Animal		
5		Plant		
4		Cell (homeostatic)		
3		Control (cybernetic)		
2	Clockwork			
1	Framework			

Adapted from Hofstede (1996, pp. 532-533).

APPENDIX 6

Reconciling Different Frames

We can distinguish four basic groups of theories of how to come up with a new, integrative narrative. The first group consists of variations on the famous 'garbage-can' approach, with random coupling of solutions, actors, problems and resources. The second group, let's call them 'enlightened positivists,' basically argues for enriching a particular, for some reason (often articulated) better and dominant, framework with insights from competing frameworks. The third group, let's call them 'pluralists,' suggests examining the situation at a deeper level, and based on this analysis, suggests some guidelines on what framework to choose. Finally, the fourth group--whom we will name 'argumentative post-positivists,'¹ does not prescribe very specific guidelines for choosing a frame, rather offers some heuristics and describes how different frames work together and what normative and objective factors affect the choice.

First, there is the 'garbage can' model. Based on Cohen, March and Olsen's (1972) model of organizational decision-making, the most famous interpretation of policy agenda development using this framework is elaborated by John Kingdon (1984). The model is also called "multiple streams model," since according to this model, public policy agendas are formed by random coupling (as in a garbage can) of three streams: solutions, problems and participants (with their resources). Among participants, a special

¹ While some of the scholars discussed in this perspective subscribe to the 'argumentative' (or discursive) label, others do not follow it explicitly. The term is used to underscore their common emphasis on studying underlying frames of thinking and their possible interactions, and rhetoric and persuasion in policy and

kind of actors--"policy entrepreneurs" or brokers are, perhaps, the most important, since they often build coalitions that result in change. Since the coupling is random, it is hard to predict a change. Change usually occurs in a period when, often facilitated by some external events (new situations, catastrophes, etc.), the three streams join in a "window of opportunity." The garbage-can model is quite popular and usually gives fuller explanation of past events, but has little predictive power, since the argument hinges on strategy of opportunism, or attaching preferred solutions to the hottest problem of the day. The meta-narrative in this model happens almost by accident--the linear story of problem leading to a solution can be reconstructed only after the fact of synthesis that happens in the "window of opportunity." Normatively, though, the question seems to be clear: advocates stick to their solutions, modifying it to the extent that they fit to new problems. Since only the time will show whether this combination will be persuasive or not, the normative question of communication with and persuasion of other actors in this seemingly chaotic process is out of the focus of query. So is the question of formulation of initial solutions. Why certain things are effective and why they should be applied to one (original) particular problem is not discussed. Ideas are always floating around, and each can be traced back at least several decades. As a result, planned change is rather rare, and in many cases the model tackles major issues (change), rather than ordinary and incremental events.

Such portrayals of loose structures of policy processes are often criticized on the basis that they disregard the institutional basis of politics, because "institutions are more

management arguments. Defining statement for this approach in policy analysis and planning can be found in Fischer and Forrester (1993).

than simple mirrors of social forces" and "political institutions define the framework within which politics takes place" (March and Olsen, 1989, p. 18). Another problem with this model is its usability for problem solving. While positivist research makes existing (more correctly, analytically proven) practices and structures normative, and thus offers a method of constructing a solution for the problem at hand (follow this pattern since it is the way it works), garbage can model does not offer such a guidance. For example, a novice practitioner without a pet solution will have a hard time to suggest a method for solving the problem at hand if he is armed only with the multiple streams model. The model helps to tailor solutions to problems, but it lacks normative (prescriptive) power.

In the second group, the best-known approach from policy sciences is Advocacy Coalition (AC) framework proposed and elaborated by Paul Sabatier and his collaborators. Advocacy coalitions are defined as "...people from a variety of positions (elected and agency officials, interest group leaders, researchers, etc.) who share a particular belief system--that is, a set of basic values, causal assumptions, and problem perceptions--and who show a nontrivial degree of coordinated activity over time" (Sabatier and Jenkins-Smith, 1993, p. 25). Advocacy coalitions employ different strategies trying to translate their belief systems into policy choices by the "sovereigns" within a policy subsystem. So-called "policy brokers" mediate the level of conflict within subsystems. Policy subsystems, of course, exist within a larger context that can be characterized by the nature of the problem (or good), the basic distribution of natural resources, fundamental social and cultural values and social structure, and the basic

constitutional structure. They can be altered because of external events, such as changes in social and economic conditions, systemic transformations, major policy decisions, etc.

The model also pays attention to policy-oriented learning, which refers to "relatively enduring alterations of thought or behavioral intentions that result from experience and are concerned with the attainment (or revision) of policy objectives" (p. 19). The model concentrates on shared beliefs of elites as the central thread in politics. Sabatier and Jenkins-Smith (1993) suggest three levels of elite belief systems: 1) a deep core of normative and ontological axioms; 2) a near core of basic policy positions and strategies; and 3) secondary aspects of an instrumental and informational nature. Policy change occurs as a result of two different processes. The first is the strategic maneuvering among coalitions to influence policy and form it closer to their near and deep-core beliefs, while often compromising on items of an instrumental nature. Second type of change occurs when deep-core beliefs change. This usually happens during systemic disturbance (e.g., major socio-economic changes).

Advocacy coalition framework has commanded quite some attention in the 1990s. It helps to explore (through quite rigorous methods) how policy formulation is being changed and what is affecting it. Among its merits have been mentioned that it takes the focus away from institutions, rejects economic self-interest as the primary motivation (beliefs are more important) and pays attention to the process of policy-oriented learning and the role of policy analysis in this process (Krane, 1995). Still, one can argue that the model has still some important shortcomings. It has been accused of "curiously ignoring

the wealth of empirical and formal work on coalition behavior and bargaining," not being very unique and completely new (Krane, 1995), being geared towards North-American style of policy process in a subsystem (open, structured, interest-group liberalism), and ignoring non-elite beliefs (Parsons, 1995, pp. 194-203).

For our purposes two further criticisms of Wayne Parsons are important (1995, pp. 201-202). First, although it is billed as a "testable empirical model," it has normative connotations what a policy-making system ought to be. Second, which is more important, "the model posits that there are 'events' and 'stable parameters' which set the constraints and resources for the 'subsystem' and its actors." Parsons argues persuasively that these things, such as 'macroeconomic conditions,' are cognitive constructs, and don't exist 'out there' in the real world, and it is very often the elites who define the outside world. So, as the mental activities and social processes are becoming more and more blurred, the question of how these elites recognize, learn and classify their environment, and how do they change their belief systems because of environmental changes, still looms large. Because of this, the model has explanatory power directed towards past, but lacks reconstructive (i.e., not only predictive but also normative) power—it would not tell to a politician, an interest-group member or a bureaucrat what to do if there is a systemic change. Since the model is based on beliefs rather than interests, it will be against this exact principle to recommend political actors to join a newly dominant advocacy coalition, since the losing actors will have opposing beliefs that in their core cannot change because of someone else's victory. In a sense, this is ironic, since the structure (content) of the newly dominant advocacy coalition is the main outcome that the model

will predict. Thus, AC model repeats the same shortcoming of the 'garbage can' model-- while it has high explanatory power, it lacks prescriptive power. As such, its usefulness for practical problem-solving is still an issue to be resolved.

Lex Donaldson's (1995) organizational model is more helpful in this respect. As an organizational analyst who works in a management school, Donaldson (1995, p. xi) argues that "much organizational analysis at present is neither valid nor suitable for organizational schools." He sees his overall mission "to advance an organizational theory that draws upon more traditional academic disciplines (sociology, psychology, economics, etc.), but is not subservient to them and is sovereign in its own territory. This would foster the construction of an organization theory that studies organizations in their own right, addresses managerial concerns and can hold a useful dialogue with management."

For Donaldson, the problem is not only the localized level of particular theoretical proposition or methodology or study, but is far more serious:

The field is constituted by several mutually incompatible theoretical paradigms. They each negate rather than build on earlier work, especially of the structural contingency theory sort. *The first problem is the fragmentation of into distinct paradigms and consequent lack of an integrating theoretical framework. The second problem is that each of the paradigms is itself limited and flawed. The third problem is that the rejection of the previous paradigm of structural contingency theory which each newer paradigm makes is overdone and in error*" (p. 5).

Donaldson urges to return to structural contingency paradigm for several reasons. First, it is "good breeding," since it is a result of synthesis in the early sixties of two traditions in

the organization/management studies—classical management models and human relations movement (pp. 11-12). Second, structural contingency theory is empirically valid (pp. 32-41). Finally, there is the issue of values. Structural contingency theory seems to be the only theory among competing theories that has strongly positive views of managers, organizational adaptability and functionality of organizations in society.

TABLE 3. Positive or Negative Views Taken by Organization Theories.

Level	Characteristic	Structural Contingency Theory	Institutional Theory	Resource Dependency Theory	Organizational Economics	Population Ecology Theory
Societal	Functionality of organization for society	Positive	Moderately positive	Negative	Positive	Positive
Organizational	Organization makes adaptive change	Positive	Positive	Positive	Positive	Negative
Managerial	Managers further interests of their organization	Positive	Positive	Positive	Negative	Negative

Source: Donaldson, 1995, p. 26.

Noting that aforementioned theories have markedly different and mutually contradictory answers to the question “How should I organize my company (or government department)?”², Donaldson argues for selective integration of these theories on the basis of empirically sound structural contingency theory. Though, “since the paradigms contain dramatically opposed theoretical statements there can be no complete

² “Structural contingency theory advises the organization to fit the structure to the task contingency to yield operational effectiveness. Institutional theory advises that organizational management should build a facade structure which panders the encircling institutions and their expectations. Organizational economics advises tight control of managers by owners and headquarters. Resource dependency theory advises avoiding fixation upon internal organization, which little affects performance, and instead concentrating on external relations with other organizations. Population ecology theory states that organizational survival is a function of ecological factors over which managers have almost no control, such as whether the organization is in an industry with many or few other organizations” (p. 27).

integration of theories as they stand.... It would hardly be desirable to retain all of the weaker elements of each theory; it would be desirable to draw selectively on each theory to build synthesis" (p. 202). To this end, Donaldson (p. 205) suggests employing disproportionate amount of different theories in different phases of organizational life: founding, life, and death. Organizational founding, for example, is "affected by ecological factors which influence the need for such an organization and opportunities. These factors include the availability of resources in the environment, customers, suppliers and financial support... Organizational founding will also be more likely where the type of organization is better understood and seen as legitimated and this also is part of ecology." Thus, in this phase, the integrated theory can draw from institutional and population ecology schools. In essence, this approach argues for enriching one basically true (correct) approach with limited insights from others. But unlike similar frameworks, it has more prescriptive power. Donaldson sees the first three schools coming from organizational sociology and the last ones (agency and transaction cost)—from economics. A somewhat similar approach is employed by the theorists in the third group, who often conceptualize different values as different disciplinary (academic) orientations and seek guidelines for their most appropriate application.

In of the best efforts of this kind, Davis Bobrow and John Dryzek (1987) discuss seven frames of policy analysis in their *Policy Analysis by Design*.³ Analyzing certain features of each model (positivistic or not; forensic or not; accomodationist or not, etc.), they conclude that "each of the various approaches we have discussed facilitates the

pursuit of certain values rather than others and can be fruitfully applied only in a specific range of contexts" (p. 190), and that "with one or two minor exceptions, the authoritative application of any of our technical approaches requires a set of circumstances that will never be met fully" (p. 192).

Rejecting both a single approach to policy analysis (both epistemologically and actor-wise) and "multicourse menu of dishes from several frames and epistemologies," Bobrow and Dryzek propose an approach they label "policy design" (p. 200). Policy design involves addressing values, capturing context and prescribing relevant frames. Values are addressed along three dimensions: timing, amount, and priority. Context is of two types—external and internal, and can be assessed along the following dimensions: complexity and uncertainty; feedback potential; control; stability; and audience. Finally, "an appropriate approach addresses the relevant values and the factors that, given the context, determine policy results" (p. 206). For example, for a policy issue with consensus on values, moderate complexity, high feedback potential, high control and stable interests and actors, one might "reasonably apply piecemeal social engineering, individual social structure, and synoptic information processing" (p. 206). Bobrow and Dryzek don't see the process as mechanistic cook-book approach, recognizing several constraints (messy and unspecified contexts, recursive nature of policy process, criticism, etc.), and see their aim mostly as the improvement of the quality of policy debate. The main idea of the policy design approach, though, is still the matching of an appropriate tool of analysis to the specific context.

³ They propose the following frameworks: 1) welfare economics; 2) public choice; 3) individual social structure; 4) group social structure; 5) optimistic information processing; 6) pessimistic information

Lee Bolman and Terrence E. Deal employ a similar approach in their *Reframing Organizations: Artistry, Choice and Leadership* (1997). They discuss four frames to look at organizations: structural, human resource, political, and symbolic. Again staying away from mechanistic understanding of multiframe vision, they assert the art-like nature of reframing, since multiframe thinking is both "challenging and counterintuitive." But, like Bobrow and Dryzek, they provide list of questions that help to "match frames to situations."

Table 4. Matching Frames with Situation

Question	Frame if answer is yes	Frame if answer is no
Are individual motivation and commitment essential to success?	Human resource, symbolic	Structural, political
Is the technical quality of decision important?	Structural	Human resource, political, symbolic
Are there high levels of ambiguity and uncertainty?	Political, symbolic	Structural, human resource
Are conflict and scarce resources significant?	Political, symbolic	Structural, human resource
Are you working from bottom up?	Political	Structural, human resource, symbolic

Source: Bolman and Deal (1997, p. 271).

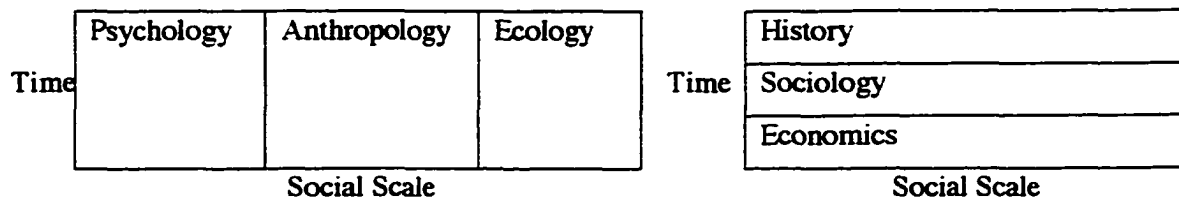
Richard Wilk (1996) distinguishes three traditions in economic anthropology--neoclassical microeconomics, social and political economy, and cultural economics. As he argues, each approach rests on certain assumptions about human nature. The first sees humans as rational utility maximizers, the second--as social beings, and the last one--as moral beings. Which one is correct? Drawing from Donald Donham's (1990) framework, he suggests some vague guidelines. According to Wilk (1996, p. 146) Donham proposes

processing, and 7)political philosophy.

a kind of "Bosnian partition," which seeks reducing conflict by giving each theory a territory. Microeconomics is an effective microtool for short-term decisions where cultural values and social structure is given. Marxian anthropology, with a focus on power and social institutions and the role of ideology, is the theory of choice for the medium scale and the longer term. Finally, on the largest scale we need to understand cultures as wholes, as well as global economics and international politics as part of the construction of history.

But this leaves the question of human nature unanswered. Is it a mix of three--selfish, social, and moral? Wilk then proposes to examine human motives instead of assuming them. He argues that all three types of human action are rational, "but at different scales and in different contexts" (p. 147). He also admits multiple and often conflicting motives. Wilk proposes to classify human actions (and social sciences) on a two-grid model: time and social relevance. Time reflects the time frame of human interest (from immediate gratification to deferring it indefinitely). Social scale reflects the group of people taken into account when making decision (from self to the whole society). In such a framework, social sciences come out like these:

Figure 4. Different Foci of Social Science Disciplines



Source: Wilk (1996, p. 152).

Wilk, like the previous authors in our "pluralist" group, does not offer cookbook solutions, but is rather intent to clarify what type of "ideological traffic" is there when economic anthropologists try to examine their radically interdisciplinary field. Although the authors in this group are quite different, they have several common characteristics. In

a sense, they subscribe [although they don't mention this] to what Sir Isaiah Berlin has called pluralism (hence the label for the group), and distinguished it from relativism (Berlin, 1998; Lukes, 1998). Pluralism, according to Berlin, or "the incommensurability and, at sometimes, incompatibility of objective ends" is not relativism, since these values are of finite variety, are objective, are part of people's being, and are bridgeable. Thus, the argument is that we are dealing with multiple, but objective realities, and the task is to fully appreciate all of them, finding a right way of using them appropriately. Second, writers in this group offer some heuristic guidelines as for distinguishing applicability of different theories in different situations. Though none of them proposes a cookbook approach with rigidly determined solution and finite number of classifications, here lays the major weakness of the approach. As discussed above, this flaw was also pinpointed by Wayne Parsons (1995) in his critique of advocacy coalition framework. The questions that are supposed to clarify the context (e.g., Are individual motivation and commitment essential to success? Are there high levels of ambiguity and uncertainty? Are we interested in long-term or short-term success?) are themselves seen through frames, and may have different answers depending on underlying framework, the position of the person asking the question, etc. In a sense, they are helpful as heuristic guidelines for more reflexive social science analysis, but fall short of their cherished, if untenable task of matching a framework to a situation and being more prescriptive.

Finally, the fourth group of authors differs from "pluralists" exactly in this aspect. They discuss multiplicity of frames and values, and offer heuristic guidelines for dealing with the problem at hand, but shy away from matching framework to a situation. The

heuristic guides are also eclectic and multidisciplinary, but they do not attempt to recognize an 'objective' picture (even many of them) of world outside of frames and then match frames to this picture(s). Rather, the heuristics are more open-ended and exploratory, with theories geared towards generating insights and uncovering paradoxes under conditions of inherent ambiguity of social action rather than unearthing universal covering laws.

The best-known organization theorist in this tradition is Gareth Morgan (1997). Morgan (1997, p. 4) aims at exploring and developing "*the art* [italics added] of reading and understanding of organizational life. It is based on a very simple premise: that all theories of organization and management are based on implicit images or metaphors that lead us to see, understand, and manage organizations in distinctive yet partial ways." Metaphors always produce one-sided insights, and also always distort reality to some extent. As a result, we have to accept "that any theory or perspective that we bring to the study of organization and management, while capable of creating valuable insights, is also incomplete, biased, and potentially misleading," and realize that "no single theory will ever give us a perfect or all-purpose point of view" (p. 5). Morgan identifies eight images of organizations that we employ (usually unconsciously) while thinking about organizations or trying to make sense of them:

1. Organizations as machines;
2. Organizations as organisms;
3. Organizations as brains;
4. Organizations as cultures;
5. Organizations as political systems;
6. Organizations as psychic prisons;
7. Organization as flux and transformation;
8. Organizations as instruments of domination.

While using metaphors we learn that "insights of one metaphor can often help to overcome the limitations of another. This, in turn, encourages us to recognize, and indeed, search for the limitations of existing insights: So that we can use them as springboards for new insight" (p. 363). The question that arises, then, is how to deal with this array of simultaneously conflicting and complementary visions of an organization? The problem is aided by changing the normative emphasis on the task we are pursuing--namely, "reading" situations (organizations) and taking relevant actions. Morgan holds that, "if we dwell on the impossibility of achieving an all-embracing understanding or comprehensive insight, we will surely be depressed and overwhelmed. But, if we turn the problem around and focus on what *can* be achieved by refining our interpretive skills, a much more positive message emerges" (p. 371).

Cases (situations) are interpreted in two, not always temporally separate, stages: (1) *diagnostic reading*, where we seek to gain as comprehensive as possible understanding through discussing insights generated by different metaphors; and (2) *critical evaluation*, that integrates key insights (p. 359). While the first stage is more or less clear, the stage of critical evaluation cannot be easily structured, since it ultimately depends "on the point of view and set of interests that we bring to the task of understanding in the first place" (p. 361). This stage involves "creating what may be described as a kind of *storyline* that can advance our ends" (Ibid.). In a storyline, which usually emerges, rather than is designed or rationally chosen through some design, we give priority to insights generated by one metaphor (e.g., organism metaphor with

emphasis on congruence between external environment and internal structure), with insights from the other metaphors brought in as subsidiary themes. Respectively, our actions are shaped by our "readings" (e.g., if our dominant metaphor is political, our actions should be political as well, structural reshaping will not do). The whole process is organic (as opposed to mechanistic) and highly relativistic, with person's "reading" being influenced by prior knowledge, purpose and interests. The process is also interactive--"in trying to discern the meaning of a situation, we create an interplay between the situation itself and the frames through which we are trying to tie it down" (p. 373). Now, in such a situation, where not-perfect metaphors compete, and solutions (readings) emerge, the question arises, what is a good solution? The criteria, according to Morgan, are not objective, but pragmatic. Effective "readings" are "generative. They produce insights and actions that were not there before. They open action opportunities. They make a difference" (p. 372).

Donald A. Schon and Martin Rein offer an epistemologically similar approach in their *Frame Reflection* (1994), which can be considered a "fruitful synthesis" of their earlier work--"Rein's ideas about frame-critical policy analysis and Schon's ideas about the reflective practitioner" (Hoppe, 1996, p. 70). Discussing "intractable policy controversies," they question the validity of three traditional models of policy making to solve these problems: (a) the rational actor model; (b) the political model, and (c) the consensual dispute-resolution model. They argue that all three of these models are based in "a core microeconomic model of instrumental rationality" (p. 21), when intractable policy controversies are usually about policy disputes in which "the contending parties

hold conflicting frames" (p. 23), and hence, conflicting versions of relevance and rationality. Frames are defined as "underlying structures of belief, perception, and appreciation" (Ibid.). Frames are non-falsifiable, since if "objective means frame-neutral, there are no objective observers" (p. 30), and testing certain ideas makes sense only within frames (p. 36). Schon and Rein distinguish between rhetorical frames and action frames, the latter having three levels: (a) policy frame; (b) institutional frame; and (c) metacultural frame. Frames are tacit and have inherent difficulties to construct and operate with (discrepancy between rhetorical and actual frames; problems of implementation, etc.).

On this background, the problem is to have a dialogue between frame(holder)s that will facilitate problem-solving, although, as they acknowledge, "the relationship between "frame reflection [i.e., reflection in action about own and other's frames], reframing [seeing the problem through a new frame], and resolution of policy controversies are anything but straightforward" (p. 40). The question that is a matter of controversy for multiple-frames approaches is whether the articulation of multiple frames leads to epistemological relativism. Following James March (1972), Rein and Schon propose that policy decisions need to be judged on the criteria of truthfulness, beauty, justice, but also add criteria of coherence and utility. Truthfulness is whether the propositions implied by the frame premises can be verified. Beauty is expressed through eloquence and parsimony. Justice has to deal with ethical evaluation of judgments of right and wrong that the frame leads to. Coherence refers to inclusion of a large number

of conflicting frames into a "single, self-consistent perspective" (p. 44). Utility reflects whether problems can be solved as framed.

Utility and coherence, as well as the emphasis on *situated* [italics added] policy analysis puts "frame reflection" in the tradition of pragmatic "Deweyan strategy of inquiry that shuttles back and forth between theory and practice. This reflection-in-action controls the action and corrects the thinking and, thus, feeds both. It is a continuous dialectical, iterative process between the designer, the design, and the environment in which the design is supposed to have intended effects, independent from the designer" (Hoppe, 1996, p. 70). Approaching epistemology from such a perspective, Schon and Rein see cooperative reflection as a venue to overcome relativity, and call for policy practitioners to step back and become "reflective inquirers" in partnership with policy academics. Among several avenues suggested for such an inquiry is situated policy inquiry, which recommends facilitating intervention by mediators and educators, whose main aim should be to encourage trust building and consensual dispute resolution.

APPENDIX 7

Comparative Research Traditions in Economics, Management, and Political Science

Economics. For a long period of time comparative economics was preoccupied comparing capitalist (market) and communist¹ (centralized) economies, sometimes discussing variations on the theme (e.g., Yugoslavian communism), but usually not discussing in great detail differences between two economies in the same camp. The content of textbooks varied with time, reflecting preoccupations of the day.² Since centralized economies were based on variations of the ideology of Marxism, among "non-economic factors" affecting the economy ideology was stressed, and this was reflected in "non-comparative" economics as well.³

Collapse of the Soviet Union brought an interesting twist to the situation. Main differences now were not between capitalism and socialism (with only two poorly performing "pure" socialist countries--Cuba and North Korea--surviving into the 1990s), but between the varieties of capitalism. In addition, globalization showed that even capitalist economies are not static, but are evolving dynamically. Marxist ideology and centralized power were not sufficient any more explain differences between different economies. Concepts like culture, that have been long disregarded by economists because

¹ Actually, countries practicing this type of centralized economic system called themselves socialist.

² For example, Loucks (1957) discusses fascism, and examines in detail "British socialism," while later textbooks pay more attention to Western European corporatist models (Germany and Sweden) and Japan, as well as some Asian "tigers," with considerably less attention to Great Britain (e.g., Gregory and Stuart, 1992).

³ For example, Douglas North, discussing economic history from transactions cost perspective, writes: "No theory of institutions will be complete if it excluded ideology... It is costly to measure performance and people's behavior and therefore performance can be influenced by their conviction about the fairness or justice of the contracts... In that sense, ideology, as a device by which to deal with the multiple problems of everyday living that confront one, economizes on the amount of information that people must have. ... It also involves a judgment about the fairness or legitimacy of the contractual arrangements within which individuals live and act" (1991, p. 206).

of "softness" and difficulty in measurement, suddenly started to draw attention (Temin, 1997). Building on its insights from economic history, institutional-evolutionary economics started to offer most promising approach to comparative economics. Such an approach allows to analyze not only the performance of current, but also historic economies. Institutional-evolutionary approach denies the assumption that there is a "metasystemic mechanism that selects the most efficient system" (Groenewegen, 1997, p. 334), and is based upon five themes (Angresano, 1996, pp. 7-12):

1. Economies are best understood within an historical context;
2. Studying both economic and non-economic factors is necessary.
3. Economies are characterized by ongoing process of dynamic transformation.
4. The study of comparative economies should place emphasis upon the philosophical underpinnings shaping participants' values.
5. Working rules and institutions from a successful economy cannot just simply transplanted onto a different nation with similar favorable performance.

Institutional-evolutionary approach allows analysis of differences between "shareholder" and "stakeholder" versions of capitalism, emphasizing how different systems emphasize different sets of interests (e.g., shareholders) and values (e.g., individualism vs. cooperation), and how under these systems different mechanisms are employed to solve problems (e.g., voice vs. exit) (Groenewegen, 1997). Such an approach closely parallels efforts in public policy and administration, as we will see below, where issues are not only seen in terms of "bare facts," but analyzed through situational validation (what corresponds to particular situation) and systemic vindication (does it promote instrumental values for the society).

Management and Sociology. Comparative management has been one of the most important topics of the 1990s in the field of organization studies and business management. Since the 1980s the field succeeded establishing separate identity from international business. Although both had impetus from the rise of global economy and

international competition, their focuses are different. As Min Chen notes, "comparative management focuses on studying the similarities and differences among management systems of different countries while international business is interested in the study of issues and problems that involve the management of multinational corporations. Thus, comparative management is not primarily concerned with the specific issues arising from transnational business activities" (Chen, 1995, p. 2). The focus on differences and similarities in management systems brings the discipline back to its roots in sociology (and partly, psychology), and it deals with issues of culture, power, attitudes, motivation, organizational roles, etc.

There are more than one varieties of comparative research in sociology (sometimes also called "macrocomparative"). Content analysis shows some topics drawing more attention (political sociology), some designs being more popular in journal articles (cross-sectional), and some issues still remaining problematic (measurement and control) (Bollen, Entswile and Anderson, 1993). Melvin Kohn (1996) identified four types of cross-national research in sociology, depending on the role of nation prescribed in the research design. In the first case, the nation is the object of the study (e.g., we have a specific interest in Germany). In the second case, the nation is the context of the study-- "one is primarily interested in testing the generality of findings and interpretations about how certain social institutions operate or about how certain aspects of social culture impinge on personality" (Kohn, 1996, p. 29). In the third case nation is treated as the unit of analysis, establishing how different characteristics of nations correlate (e.g., GDP with the size of firms), abstracting from nations completely. And finally, there are transnational studies (e.g., Wallerstein's (1974) world-system research). For sociologists, Kohn argues, second strategy holds the most promise.

Geert Hofstede's (1980) ground-breaking study of analysis of work-related values was in this tradition. It escaped most problematic issues of comparative research (Bollen et al., 1993)-- i.e. it controlled for industry type and size and having consistent measurement, and studied more than 100,000 copies of the same questionnaire of employees of one corporation over 40 countries. The study had defining influence over the field of comparative management studies (Redding, 1994; Sondergaard, 1994; Adler, 1997; Hickson and Pugh, 1995). Hofstede (1991) brought culture to the forefront of comparative management studies, by defining it along four (later increased to five) dimensions: power distance (how people handle status inequality); uncertainty avoidance (the extent to which people are threatened by uncertainty); masculinity vs. femininity; individualism vs. collectivism; and long-term vs. short-term orientation. Other researchers also deal with dimensions of space (e.g., Adler, 1997), analysis vs. integration; inner-directedness vs. outward-directedness; universalism vs. particularism, etc. (Hampden-Turner and Trompenaars, 1994).

Despite the unifying work of Hofstede, the field of comparative management, as its sister in public administration, still lacks consistency and unity, inviting barrage of disparaging labels (ostrich, fossil dinosaur, jungle, etc.) (Adler, 1997; Redding, 1994). Other researchers, discussing different schools (or models) of research in the field of comparative management (e.g., models based on economic development, behavioral models, environmental models) argue for more open-systems approach to research (Chen, 1995, Tung, 1986; Nath and Sadhu, 1988). The main virtue of such models is seen that they combine both macro- and micro-orientations (i.e., have multiple levels), are multi-faceted, and are dynamic rather than static. Areas identified for future research, among others, mention building medium range theories that will connect largely ideographic research with Hofstede's "grand theory," as well analyze more closely the societal origins and organizational consequences of such value clusters (Redding, 1994).

Finally, a very recent and notable development in the field is the analysis of knowledge generation in management. It has been argued that popularity of certain theories of management is due not only to socio-economic conditions such as modernization, but also to national origins of theorizers (Hofstede, 1996) and institutional aspects of social science disciplines shaping management thinking (Guillen, 1994). And since such relations are neither static nor unidirectional, what emerges is a complex picture of ideas and events influencing each other. Thus, analysis becomes more reflexive, drawing from many disciplines (sociology, anthropology, psychology, economics), and dealing with several levels and foci of analysis.

Political Science. Perhaps, from all fields of social sciences, comparative method has the longest history and received most attention in political science. Although there is a large body of literature on comparative political science, that is very often much rigorous than the research in comparative administration, comparative political scientists as well complain about "the field of comparative politics remains in flux" (Macridis, 1996). Almost any article or book on comparative method explicitly mentions what is *not* comparison (Sartori, 1993; Dogan and Pelassy, 1990; Rose, 1991; Lijphart, 1974). The list of pitfalls is long: from misspecification, "degreeism," parochialism and conceptual stretching (Sartori, 1993) to not using generic concepts (Rose 1991) to concentration on inputs (Macridis, 1993) to failing articulate theories that can be falsified (Lijphart, 1974; LaPalombara, 1974), etc.

One important aspect that majority of "comparativists" seem to share is the acceptance of the usefulness of middle-range theories and avoidance from the 1960s style grand theorizing along Parsonsian lines (LaPalombara, 1974; Marcidis, 1996). Atul Kohli (1995, p. 46), summarizing the *World Politics* symposium on comparative politics,

mentions two common threads in the opinions of the participants: 1) the field of study is diverse and problem-driven; and 2) causal generalizations are important. Two participants of the symposium expressed their extreme skepticism toward "grand" theorizing. The feeling of the field as problem-driven was facilitated after the rise of comparative policy analysis, with its concentration on the problems instead of systems and structures was only natural. Because of this, most of comparative public policy approaches are heuristic in their nature. For example, Heidenheimer, Hecllo and Adams (1990) provide the following methodology of approaching policies across the countries: 1) scope of the problem; 2) choices of policy instruments; 3) choices of distribution; and 4) choices of restraint and innovation.

Comparative research is seen by some as special case for statistical method, when the number of variables is larger than the number of cases (Lijphart, 1974), while others may see it as more generic method that systematically compares different countries or deals with generic concepts (Rose 1991). Almost everyone acknowledges the importance of case studies in the comparative method. Lijphart (1974) distinguishes 6 types of case studies: 1) atheoretical; 2) interpretive; 3) hypothesis-generating; 4) theory-confirming; 5) theory-infirming; and 6) deviant. The types here are classified not according to the method implied in the actual case (it varies, but is usually unobtrusive study of secondary sources) but their relation to theory-- i.e. whether using theory and whether they are contributing towards the development and refinement of the theory.

Some researchers (Dogan and Pelassi, 1990; Rose, 1991) emphasize "the need to segment" (i.e., identify the part of the system) before proceeding with comparison. Dogan and Pelassi (1990) also find that it is meaningless to compare similar structures with different functions. Sartori (1993) chastises the authors, who engage in "concept-stretching," like discussing single-party regimes in Japan, the former Soviet Union and

Mexico as similar phenomena, when they are different organizations in different systems. Such an approach is likely when one discusses polities in functionalist terms and downplays the role of ideas, without paying attention to value systems and overarching ideologies of systems that shape patterns of interaction such as those in party-systems.

The normative aspect of comparative research is especially emphasized by authors that study comparative public policy. Thus, Teune (1978, p. 54) argues that "most similar" comparative design is more fruitful for policy analysis, because "the primary purpose of comparative policy research is not to establish the universality of relationships," but is "to enhance the credibility of specific predictions about specific cases." Anderson (1978, p. 41) argues that comparative policy analysis is "condemned to be part of the argument over desirable policy." Because "the deliberation of public policy takes place within a realm of discourse," Anderson (1978, p. 23) proposes the "logic of evaluation" as a unit of analysis. The most elaborate statement of normative analysis in public administration and public policy is offered by Rose (1993), who defines the concept of "lesson-drawing" and identifies most beneficial conditions for it.

In general, comparative politics "has been less influenced by behavioralism than other mainstream fields of political science," and is "more inclined towards interpretation than explanation" (Cantori, 1988, p. 418). Asserting that "the political science discipline has to a degree recognized that its approaches are in fact value-laden," Louis Cantori argues that "the well-trained student of comparative politics now has to be, for analytical purposes, sufficiently conversant with each of the liberal, radical and conservative

paradigms.⁴ The aim, of course, is not intellectual virtuosity for its own sake, but rather, greater competency in political analysis" (1988, p. 419). But how does one find the right paradigm? It is a "complex and intellectually subtle" task that defies easy answers. Students of comparative politics find themselves juggling and adjusting "personal predilections, paradigmatic normative and empirical content, and the normative and empirical dimensions of actual political behavior," unbiased examination of which will strengthen final political analysis (Cantori, 1988, p. 420). As in the case of comparative management studies, for a fuller explanation and elaboration of theories comparative political studies also turn to reflective analysis of knowledge generation to complement empirical findings.

⁴ Cantori (1988) distinguishes three main approaches to comparative research, each of which has its own normative base. He writes, "the normative value principles of liberal pluralism do indeed underlie behavioral "scientific" social science, just as Marxism underlies the radical approach, and conservatism the radical approach" (1988, p. 419).

APPENDIX 8

Forms of Privatization in the United States

Several forms of privatization are practiced in the US. Traditionally, because of the historically limited character of public sector and other forms of privatization in the U.S. (Vickers and Wright, 1989, p. 11), outsourcing in the U.S. is generally identified with privatization (e.g., Kemp, 1991).

Outsourcing is generally hailed as a key to increased effectiveness and efficiency, and is becoming a more popular practice in both the private and public sectors. Proponents argue that companies should concentrate on activities (and not on the product) they are good at as their core business and outsource everything else, while opponents criticize outsourcing on the grounds that it erodes organizational capacities (Gabrielian, 1998). Based on the argument of critical activities, contracting out for services is often analyzed from the viewpoint of degrees of relevance to the mission (core) of the organization (Halachmi and Holzer, 1992). There are six degrees: 1) none; 2) contracting ancillary services unrelated to the mission of organization (e.g., cafeterias); 3) contracting support services related to the mission (e.g., clerical staff); 4) contracting part of mission implementation (e.g., prison guards); 5) contracting core components of mission implementation (e.g., social services); and 6) contracting aspects of mission determination (e.g., private prisons). Thus, analysis of effectiveness of contracting out soon boils down to managerial and institutional aspects of the situation rather than the public-private dimension of the issue, and covers such aspects as the strength and

relevance of competitors, the extent of the regulation in the field, relevance of the contracted service to the core (mission) of organization, etc. (Gabrielian, 1998).

Loan guarantees became very popular in the 1980s. The outstanding loan commitments in 1988 reached \$550 billion from \$ 200 billion in 1975 (NAPA, p. 16). One of the reasons of their rapid growth is that they involve no direct, up-front outlays of government funds. Loan guarantees differ widely how and what part of the loan they cover. Loan guarantees not only increased in scale, but also in scope of the policy areas they are applied to-- initially promoted as a tool to make low-cost home mortgage financing available, they now apply to fields from education to promotion of exports. The S&L scandal seems not to have a profound impact on the scope of the use of this instrument.

The government-sponsored enterprises are "separately chartered entities that enjoy certain exemptions from regular government rules and regulations, e.g. on hiring, but yet enjoys many of the powers and privileges of government agencies" (NAPA, p. 17). Examples on the federal level include the Federal National Mortgage Association (Fannie Mae), the Student Loan Marketing Association (Sallie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), etc. This definition and examples are more consistent with the term "quangos," since in other countries government-sponsored enterprises are usually understood also as manufacturing firms, and not only financial firms created to carry out certain policies. In France during the 1980s, for instance, the state or relevant agency was negotiating a contract on behalf of the state with the state-

owned (nationalized) manufacturing firm for the output of relevant production, and evaluates the often non-competitive agency by a model called "total factor productivity measure" (Shirley, p. 30). All these entities are extremely diverse, and differ in their purpose--profit seeking or non-for-profit; in their ownership--publicly owned and traded in the stock market or closely held, in their relation with the agency--with bureaucrats or political appointees or only businessmen on their boards, etc.

Vouchers are "a form of privatization" that provide a subsidy to the consumer of the service as opposed to the provider of the service" (NAPA, p. 19). Examples are the Food Stamp Program, Medicaid, Medicare on the federal level, and school vouchers on the local level. The idea behind the vouchers is that it allows the person receiving the voucher to choose between different providers of the same service, which leads to competition and thus gives the consumer both opportunity to choose and cost-effective services. Currently, school vouchers are one of the hottest topics of educational reform in the US. Since 1990 there have been over 30 experimental programs in school voucher programs, serving more than 13,000 students (Petersen, 1997). The programs are mostly experimental, with results still widely debated. School voucher programs, though, may not necessarily involve private provision of educational services. Often, students are allowed to choose among several public schools.

Deregulation is often considered another form of privatization. This basically consists of breaking up the government monopoly in certain field, allowing alternative providers of the service to appear. There has been significant amount of deregulation of

service industries in OECD countries, including the US, during last two decades in three main aspects of regulation--ownership, price control, and entry barriers (Hoj et al., 1995). American experience, though, stands out in one aspect. Whereas there has been significant amount of deregulation in both price and entry regulation, there has been virtually no change with regard to ownership regulation. Since the US initially placed almost no restrictions on ownership, even without any changes during last twenty years, it still remains most liberal in this aspect of regulation (Ibid.).

APPENDIX 9

Federal Privatization: A Libertarian Agenda

Congress should:

- sell all federal energy enterprises;
- convert air traffic control, public broadcasting, and various research and development laboratories to self-supporting nonprofit corporations;
- privatize Amtrak [Government-operated Railway] and the U.S. Postal Service via worker-management buyouts;
- gradually sell off commercial lands and buildings;
- auction off all remaining nonmilitary frequency spectrum;
- sell federal loan portfolios;
- sell remaining commodity stockpiles.

Table 5. Projected Overall Savings from Privatization (\$ billions)

Type of Sale	One-time Proceeds	Annual Deficit Reduction		
		Interest Savings	Subsidy Elimination.	Federal Corp. Tax**
Enterprises	81.1	6.08	4.8	2.76
Assets	443.6	33.27	5.0	15.08
Total	524.7	39.35	9.8	17.84
* Interest calculated at 7.5 percent on Treasury bonds.				
** Federal corporate tax rate of 34 percent on revenue equal to 10 percent return on asset value.				

Source: Edward H. Crane and David Boaz (eds.). 1997. *The Cato Handbook for Congress*. Washington, DC: Cato Institute.

Table 5.1. Salable Federal Enterprises

Asset	Sales Revenue (\$ billions)	Annual Savings (\$ billions)
Tennessee Valley Authority	8.5	1.0
5 power marketing administration	14.0	1.2
Dams*	10.0	?
Energy Facilities*	10.0	?
U.S. Postal Service	8.1	-
Air traffic control	3.5	-
Global Positioning System	7.0	?
U.S. Enrichment Corp.	1.0	?
National Weather Service	2.5	0.4
U.S. Geological Survey	0.5	0.6
4 NASA aeronautics labs	5.6	0.3
USDA Agricultural Research Centers	4.0	?
Department of Energy labs	6.1	?
Amtrak	-	1.0
Corporation for Public Broadcasting	0.3	0.3
Total	81.1	4.8
*Under the Army Corps of Engineers and the Bureau of Reclamation.		
**Under the General Services Administration, Veterans Administration, and Department of Defense.		

Source: Edward H. Crane and David Boaz (eds.) 1997. *The Cato Handbook for Congress*. Table 27.1.

Table 5.2. Salable Federal Assets

Asset	Sales Revenue (\$ billions)	Annual Savings (\$ billions)
Spectrum	150.0	?
Commodity lands (Forest Service, BLM)	160.0	3.0
Loan portfolio	108.0	2.0
Naval Petroleum Reserve	1.6	?
Federal Helium Reserve	-	?
Defense stockpile	1.0	?
Strategic Petroleum Reserve	13.0	?
Government buildings and land	10.0?	?
Total	443.6	5.0

Source: Edward H. Crane and David Boaz (eds.) 1997. *The Cato Handbook for Congress*. Table 27.1.

APPENDIX 10

Arguments For and Against Privatization

The most common cited reason for privatization is the desire for cost savings. Though, many argue, cost savings are only one aspect in the line of arguments for privatization. Johnston classifies the arguments for and against privatization as either ideological or practical (Johnston, 190). The ideological arguments are coming from commonly held American beliefs that the private sector is more dynamic and productive, while public bureaucracies produce nothing but waste. Ideological arguments include the following (Johnston, 1990, p. 190, Henig, 1991, pp. 651-656):

- smaller government is better, and privatization reduces the size of the government;
- privatization can help stimulate the economy and lower the taxes;
- government agencies are less efficient than private firms;
- private sector managers manage better;
- government agencies, being monopolies, lack incentives to manage well;
- government should not deliver services provided by private sector,
- government managers work for reelection, and may choose to please special interests, neglecting efficiency, while private managers are always striving for efficiency in order to survive in the market.

Practical reasons are centered around the concern of cost savings. They include:

- filling short-term project needs;
- adjusting for limited resources;
- lowering the cost of services;
- improving the quality of services;
- improving the operations of government.

Opponents of privatization argue both against the ideology and practical arguments for privatization. The ones who argue against ideology, maintain that smaller governments are not compatible with welfare state, and that private sector does not automatically mean

competition and efficiency. They maintain that private single large providers of services are no good than public agencies having monopoly or who are assumed to have monopoly. The only difference is not cost savings, but the underpayment and unemployment of employees doing the same work. Other line of the argument holds that while privatization emphasizes the value of efficiency, it overlooks the values of accountability, equity, service equality and governmental capacity. Paul Starr (1987, p. 129) argues that privatization studies don't provide data about impact of privatization on quality of services, thus making it difficult to judge whether the cost savings come from increased efficiency or lower quality of services.

The other argument against privatization is that there is a possibility of "creaming"-- when private providers of services tend to overlook "unprofitable" customers, and that privatization will result in no service or low quality service for this "disadvantaged population", who happen to live further, be poorer, etc. It is argued also that significant part of savings from privatization comes from lower wage levels and greater use of part-time workers, which reduces the fringe benefits of employees.

Critics warn against taking contractors' bidding prices as real on the following grounds. Economists distinguish between marginal costs and fully distributed costs. Marginal costs are the costs when the firm calculates only the direct costs of providing a service, usually an extension of existing operations (e.g. servicing new communities along the same railroad), and fully distributed costs are the costs when the service is assigned a "fair share" of the firm's total costs according to some formula. When firms in

market compete in prices that are close to marginal costs rather than to fully distributed costs, it can lead into snowballing negligence of infrastructure and capital assets, and can eventually lead to a self-destructive competition (Baumol and Blinder, 1988), or to decreased safety and service quality (Thayer, 1987). The possibility of self-destructive competition, along with economies of scale and scope, the desire for providing universal services for all parts of population; and protection of the consumers are the rationales economists provide for justification of regulation (Baumol and Blinder, 1988).

Thus, critics of outsourcing argue, in case of bidding that is close to the marginal cost of the service (which is usually the case when government contracts out services and is a result of the monopoly of the government as buyer), two consequences are possible: 1) inattention to assets, and as a consequence, lower safety and lower quality of services; and 2) transfer of the costs from one product to another or from one group of consumers to another.

In many cases of contracting, they claim, there is no real competition. Usually, the government requires that services should be contracted if there is a "reasonable fit" of the bidder to perform the wanted job. In most cases, because of large investments required to perform the large-scale government contract, there is only one firm having the capacities in place to provide the service (usually the firm previously having the contract), or the bidding firms have to negotiate a common price (which can be a violation of law) for parts of the contract (instead of the whole contract) in order to be able to survive the possible loss of renewable contract, which will be impossible if the firm having the whole

contract builds up massive capacities for which there is no demand otherwise (Thayer, 1987). Thus, the argument goes, in cases when we have either monopoly of demand or monopoly of supply, contracting may end in two extremes: either a private monopoly or competitive bidding which leads to low safety and service inequality.

Another line of criticism of contracting out services is that competitive bidding leads to corruption of public officials, because managers of private companies have incentives to bribe both public institutions (e.g. gifts to the agency) and public officials in order to assure their firms' survival (Thayer, 1987).

The proponents of privatization answer to these charges that privatization studies usually control for variables such as the size of the municipalities, wage levels, amount of the work performed, quality levels, etc. They, in turn, argue that in ordinary, common-sense comparisons overlook some problems and deflate the real costs of the services provided for government agencies (Savas, 1992, pp. 93-95). For instance, they argue, that in most cases the in the cost estimates of services performed by the government the cost of the buildings the services operate in is not included, which significantly lowers their cost. They also argue, that opportunity costs for the assets the government uses (e.g., the same buildings) is not taken into consideration while calculating the cost of the services.

Another criticism is that some agencies in the government use general services provided by the municipality, which they again fail to include into costs. They also argue that in many cases studies mention figures for the costs of government-delivered services,

which are drawn not from actually spent budget, but from forecasted one, and that the latter figure is usually lower. The proponents of privatization refute the idea that the scheme of "law-ball bids" works. The "law-ball bid" idea maintains that a firm will offer a low competitive price, than make the government dependent on the firm, and then raise dramatically the price when the terms of the contract are renegotiated. And finally, the argument goes, if every other condition is equal, and the private firm and government agency bid for the same price and promise the same quality of service delivery, it is always preferable to award the contract to the private firm. This is because the private firm will also pay taxes and thus, contribute to public welfare to a greater extent.

APPENDIX 11

Table 6. *The Scale of Privatization in OECD Countries 1979-91*

Country	Privatization Period	Privatization Proceeds as Share of Average Annual GDP over the Privatization Period (%)
Austria	1987-90	0.9
Canada	1984-90	0.6
France	1983-91	1.5
Germany	1984-90	0.5
Italy	1983-91	1.4
Japan	1986-88	3.1
Netherlands	1987-91	1.0
New Zealand	1987-91	14.1
Portugal	1989-91	4.3
Spain	1986-90	0.5
Sweden	1987-90	1.2
Turkey	1988-91	1.6
UK	1979-91	11.9

Source: Cook and Kirkpatrick, 1994.

APPENDIX 12

Table 7. Major Enterprise Sales in the UK

Enterprise	Date of first sale
British Petroleum	1977
National Enterprise Board Investments	1980
British Aerospace	1981
Cable and Wireless	1981
Amersham International	1982
National Freight Corporation	1982
Britoil	1982
British Rail Hotels	1983
Associated British Ports	1983
British Leyland (Rover)	1984
British Telecom	1984
Enterprise Oil	1984
Sealink	1984
British Shipbuilders and Naval Dockyards	1985
British Gas	1986
National Bus Company	1986
British Airports Authority	1987
Rolls Royce	1987
British Airways	1987
Royal Ordnance Factories	1987
British Steel	1988
Water	1989
Electricity Distribution	1990
Electricity Generation	1990
Trust Ports	1992
Coal Industry	1995
Railways	1995-97
Nuclear Energy	1996-97?

Source: Parker 1995 (as quoted in Cook, 1996).

APPENDIX 13

Table 8. Regulatory Watchdogs in Great Britain

Agency	Date formed	Industry	Statute
Economic Regulators			
Civil Aviation Authority	1971	Airports	Airport Act 1986
Office of Telecommunications	1984	Telecommunications	Telecommunications Act 1984
Office of Gas Supply	1986	Gas	Gas Act 1986
Office of Water Services	1989	Water	Water Act 1989
Office of Electricity Regulation	1990	Electricity	Electricity Act 1990
Office of Rail Regulator	1993	Railways	Railways Act 1993
Quality Regulators			
National Rivers Authority	1989	Water	Water Act 1990
HM Inspectorate of Pollution	1987	All	Environmental Protection Act 1990
Independent Television Commission	1991	Terrestrial, Cable and Satellite Television	Broadcasting Act 1990
Radio Authority	1991	Radio	Broadcasting Act 1990
Broadcasting Standards Council	1990	Broadcasting	Broadcasting Act 1990
Competition Regulators Office of Fair Trading	1951	All	Fair Trading Act 1973
Monopolies and Mergers Commission	1948	All	Fair Trading Act 1973, Competition Act 1980

Source: Cook, 1996.

APPENDIX 14

Table 9. Major Indices of the Privatization Process in Russia, 1992- 1997

Cumulative results from January 1, 1992	Jan. 1 1993	Jan. 1 1994	July 1 1994*	Jan. 1 1995	Jan. 1 1996	Jan. 1 1997	Jan. 1 1998
1. State- owned enterprises with independent balance (units)	204,998	156,635	138,619	126,846	90,778	89,018	88,264
2. Applications submitted (units)	102,330	125,492	137,501	143,968	147,795	149,008	155,660
3. Applications denied (units)	5,390	9,985	11,488	12,317	13,295	13,642	15,607
4. Applications currently fulfilled (units)	46,628	24,992	19,308	17,491	13,214	12,327	10,305
5. Applications, fulfillment completed (units)	46,815	88,577	103,796	112,625	118,797	123,744	126,825
6. Offer price for equities (RUR bln., "the former" prices)	57	752	1,107	1,867	2,510	3,230	5,723
7. Value of the equities as per the fulfilled applications (RUR bln., "the former prices")	193	653	958	1,092	1,618	2,205	2,875
8. State- owned enterprises converted into joint- stock companies, the stocks of which were placed for sales (units)	2,376	14,073	20,298	24,048	27,040	29,882	30,900
9. The enterprises leased, including the lease under the terms of redemption (units)	22,216	20,886	20,606	16,826	14,663	14,115	11,885
	13,868	14,978	15,658	12,806	12,198	11,844	10,413

* The official date of the completion of the voucher privatization.

Source: Institute for Economic Transition, 1998.

APPENDIX 15

Table 10. Consolidated Government Revenues and Expenditures as a Percentage of GNP Soviet Union (1986-91) and Russia (1992-94)

	Revenues	Expenditure
1986	52.5	52.2
1990	47.2	51.3
1991	35.1	50.8
1992	33.6	42.5
1993	25.8	35.3
1994 (% GDP)	27.3	37.3

Source: Skidelski, 1996, p. 91.

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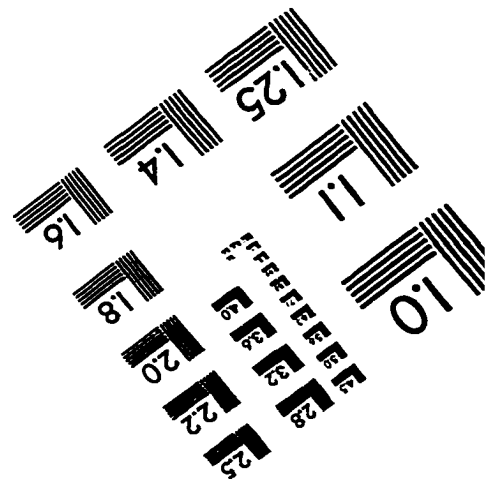
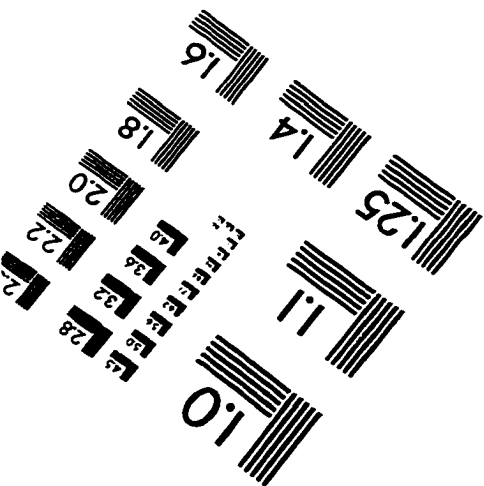
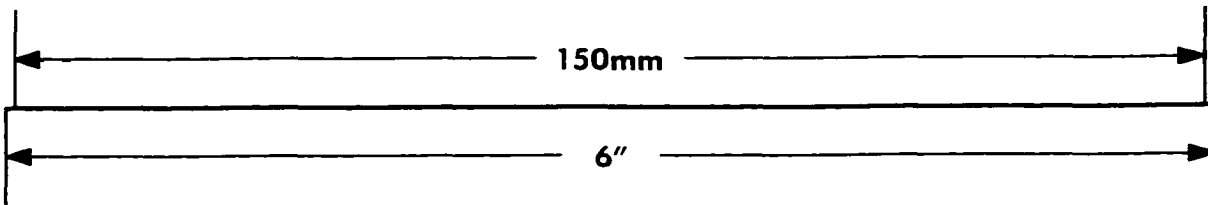
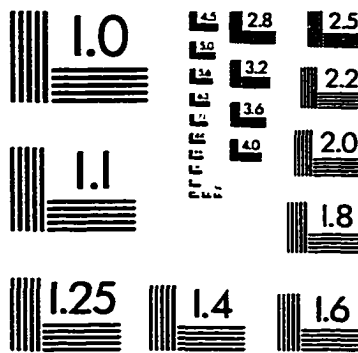
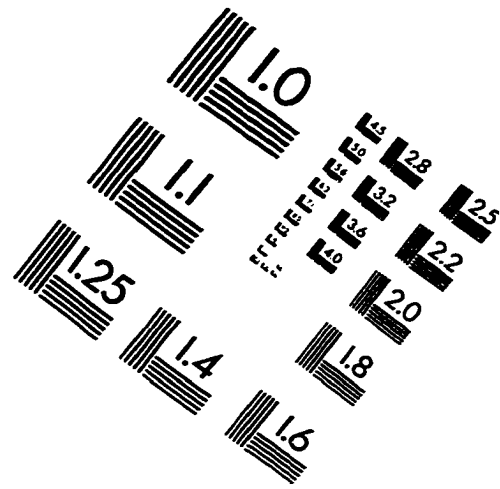
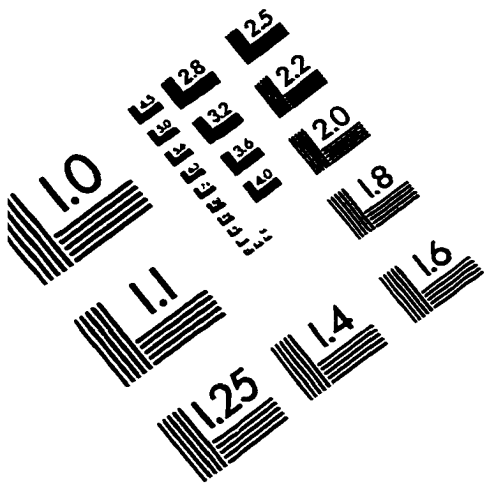
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IMAGE EVALUATION TEST TARGET (QA-3)



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