

# **PUBLIC GOVERNANCE AND UNREASONABLE COMPLEXITY: CAN KNOWLEDGE OVERWHELM ENTRENCHED BELIEF?<sup>1</sup>**

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## **ABSTRACT**

*Using a comprehensive interdisciplinary literature review, this paper attempts to define and explore the many theoretical, conceptual and practical challenges that are encompassed in the notion of 'good' public governance (GPG). Broadly, GPG, is used by dominant governments and supranational organizations (SOs) as a model for the ideal polity. GPG includes the rule of law, democratic processes, and concern for human rights. While largely informed by the rational-normative market-based model (MBM), GPG is constructed, overall, from inadequate and irreconcilable theoretical paradigms, which are unable to address areas of concern, including incompetence and the inappropriate use of power.*

## **INTRODUCTION**

It is difficult to discern overtly from the SOs, such as the International Monetary Fund (IMF) (1997; 2002), the World Bank (2001) and the European Union (EU) (2002, undated) whether their fundamental purpose in promoting good governance (as they call it simplistically), is driven by collective or individualist interests. Is GPG meant to enhance the interests of the subject polity where the introduction of the MBM is negotiated or imposed, or the interests of foreign elite capitalists wanting to gain entry into a developing economy in a way that minimizes business risk? It is easy to assume that the interests of foreign elite capitalists are the primary concern of the MBM and are better served when GPG instrumentalities are in place in developing economies. In developed economies, it can be assumed that the PG structures are already primarily good. This begs the question, though, as to whether dual interests – the polity and big foreign business - can both be served at the same time.

In reality, compliant governments, using the MBM to frame a notion of GPG, reduce their sovereignty by diminishing their participation in economic exchange processes, leaving much of that activity to markets. Nevertheless, governments retain the responsibility for creating the multitude of tangible factors in which the MBM can work and GPG through economic development can flourish. PG responsibilities may include deregulation to support foreign direct investment (FDI), strong financial institutions, facilitating infrastructure and privatization of state assets. With the SOs supporting implementation of this rational-normative, universal market-based paradigm, the more likely it is that global capital will be able to enter these hitherto risky markets where GPG has not been evident previously. The greater the number of countries, with developing or developed economies, that have a

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reasonably functioning MBM-GPG framework, in which transnational businesses can enter, the greater the opportunities for capital accumulation. How the GPG values relating to democratic principles, human freedoms and ecological sustainability can be supported in this paradigm is less clear (Argyriades 2001; Stiglitz 2002).

Nevertheless, two broad governance (corporate and public) objectives, seemingly, are in conflict. Good corporate governance in business supports the ethical and legal opportunity seeking for the benefit of shareholders. Yet GPG is meant to advantage the broader polity, if FDI takes place. However, the mobility of capital through market liberalization policies of governments means that the potential benefits may not accrue to the polity of investment but be taken elsewhere, especially to where company tax minimization schemes are favorable. In this sense, capital interests can be exploitative to a considerable extent as a natural part of the MBM, even when corporate governance and public governance are good. Where bad corporate governance occurs, deliberate exploitation of the investment polity is a critical part of opportunity seeking. Corporate governance then has no inherent public good intentions, but equally, bad public governance, especially with corrupt governments, can be just as exploitative.

## DEFINING PUBLIC GOVERNANCE

Corkery (1999: 14-15), while acknowledging the difficulties of an 'Alice in Wonderland' approach to definition, views public 'governance' as: *the process by which diverse elements in a society wield power and authority and enact policies and decisions concerning public life, and economic and social development. These involve the relationship of individual men and women to the state, the organisation of organs of state, the generation and management of resources for current and future generations, and the relationship between states ... Governance is a broader notion than "government". ... [and] has no normative connotation.*

Thus, in Corkery's (1999) terms, GPG is an all-encompassing ideal state that considers intergenerational utility. However, her claim that there is no normative interpretation of GPG is not consistent with the SOs' MBM support. Their interest is predominantly economic and whether poor PG (misappropriation of public funds, tax and customs fraud, misuse of foreign exchange reserves, abuse of power by bank supervising officials) will be detrimental to macroeconomic performance (IMF 1997, 2002; EC 2001a; 2001b; EU 2000; Sommermann 2001). König (1999) contends that GPG is different from corporate governance but similarly needs to be defined within legal boundaries.

However, as the LSE (London School of Economics) (2002: 5) claims in relation to the EU, SOs can be self-interested and power seeking in their 'benevolent dictator' role. Rhodes' (1997: 15) interpretation, which is lauded in the LSE (2002) report as a definitional benchmark, suggests that PG refers to 'the minimal state; corporate governance; and the new public management.' More importantly, Rhodes defines PG as '*self organizing, interorganizational networks* characterized by interdependence, resource exchange, rules of the game and significant autonomy from the state.' For Rhodes, therefore, there is a clear link between PG and corporate governance. Thus for GPG, there are a number of definitional possibilities which may be prompted or expanded by particular institutional domain perspectives or interests.

## THEORY – THE MBM

In spite of Corkery's (1999) assertion that a normative model of GPG is not advised, it is apparent that theory-in-use involving strong global support for the MBM from the SOs has resulted in this model representing normative interpretation of GPG, for developing and developed economies alike. From the 1970-1980s - the time of the Thatcher and Reagan political regimes - it has been apparent that the opening up of global market opportunities could best be supported by such an approach. The United Kingdom (UK) and United States of America (USA), in promoting the MBM (or Washington Consensus) obviously needed international adoption to support capitalist

interests in those nation states. Undoubtedly, the freeing up of global markets opened up opportunities for other states but the early adopting governments provided their capitalist interests with a competitive edge (Ventress 2002).

The MBM, as a defining paradigm informing current GPG decisions, is fashioned from neo-classical economic theories, such as public choice, agency and transaction cost analysis. The underpinning value of the MBM is individualism, rather than collectivism and requires, as indicated above, a deregulatory posture involving no or a low level of government intervention in markets, a reduction or dilution in the power of trade unions, a competent senior (and partisan?) public bureaucracy with contract employment, and, the privatization of state assets. The MBM is supported further by policy networks of influence, which involve both government and non-government actors and organizations. Theoretically, Rhodes (1997: 36) suggests that policy networks can be explained from pluralist or corporatist perspectives, although elite theory, perhaps, best explains policy networks under the MBM (Clegg 1989). These exclusive policy networks responsible for GPG decision-making will usually involve highly influential business actors and dependent political actors, especially where political parties need resources. Governments, from a GPG perspective, have become increasingly susceptible, in this direction, as they have limited their own capacity, under the MBM, to generate revenue in traditional ways, thus reinforcing their vulnerability in terms of network power (Rhodes 1997: 36).

Network influence also applies to developing economies, where strong SO conditionality, through higher-level power networks, imposes MBM ideas, as GPG theory-in-use. The focus on markets is not new in GPG frames in the development management (DM) environment as the influence of classical economic traditions has been apparent over many years, particularly in post-colonial states. This is especially in relation to Smithian and Ricardian explanations about the challenges of what now may be referred to as economic dualism encompassing both declining agrarianism and escalating industrialization. Yet, Malthusian concepts of population growth and the migratory interest of populations from rural to urban areas meant that the impact of the intensification of labour markets and the opportunity for capital accumulation heightened concerns about wealth distribution and inequality. Thus, humanistic and social variables were seen to be a critical consideration of GPG (Wolfe 1995).

In more contemporary times, Wolfe (1996) contends, however, that any possibility of arriving at a meaningful theoretical paradigm in the DM arena, which could inform GPG, is retarded because of opposing ideological positions and ideas reflected in continuing dialectical argument, a marked lack of intellectual rigour, paternalism and proselytizing. While communitarian theory, for example, can underlie development in a positive sense, with small community endeavours, the aggregation of effort may not create a coherent whole, or attractive investment propositions for foreign capital. Furthermore, while contestability of paradigms and ideologies might occur at the micro level among the donor community, it is apparent that where GPG is supported by the large hegemonic SOs, macro-conditionality of aid is strongly correlated to the assumptions, of the MBM. Government, even if diminished in size and influence, also requires a well-performing public sector to manage its affairs in a way that supports business. However, managerialist capacity in this direction is still attached to principles of the MBM and is at a general level below the optimum required to deal with these issues (IMF 1997; Camdessus 1998; Osborne 1999).

## **OTHER PROBLEMS OF GPG WITHIN THE MBM PARADIGM**

Furthermore, the rational-normative MBM as a construct supporting the development of international competitiveness between states does not factor in the possibility of adverse PG decisions through national or supranational network power issues, or other negative responses, like corruption. Thus for PG to be good, the MBM depends upon the will and responsibility of global and national capital to act responsibly. Furthermore, global and national capital acting through their respective formal organizations needs to be bound by a moral and ethical corporate governance framework that does not reward opportunistic, exploitative and competitive behaviours. Yet such an approach is simply unrealistic as it is obvious that all market actors do not start from an equal position of competition with the same sense of fair play. Therefore, the MBM, even if presented rhetorically as a value neutral model of GPG, is in fact value laden with exploitative and other negative tendencies a natural part of the paradigm. Undoubtedly, developing economies, who open their markets to FDI do so with a considerable degree of risk to their

sovereignty and opportunity for growth. It is difficult to determine which is the greater possible assault on sovereignty: conditionality of donors or possible exploitation by mobile capital (Bartkus, Morris and Seifert 2002).

There is certainly a global, corporate movement towards greater accountability with strong initiatives encompassing corporate social responsibility related to financial, social and environmental outcomes. Recent spectacular corporate failures, however, indicate that corporate governance systems cannot be relied upon as moderating and reliably ethical influences for GPG. In global competition, transnational businesses are going to exploit whatever opportunities they can. Another difficulty is that both governments and corporations may act covertly, sometimes for legitimate security or commercial in confidence reasons. This does not necessarily involve deviant behaviour but requires a recognition that the MBM, if informing the GPG framework, is a potentially elitist model with highly differentiated results (Rhodes 1997; Camdessus 1998; Bartkus et al. 2002; Dawkins 2002; Hulnick 2002; Weintraub, Grover and Gogoi 2002).

The utility of the MBM as the basis for a development management theory of GPG is an issue also taken up by Stiglitz (2002). As a former key supranational actor of the IMF and now critic, Stiglitz suggests that powerful but paternalistic, supranational donor organizations, such as the IMF, have failed to understand the consequences of imposing their universal GPG frameworks on developing economies. Neither accepting nor addressing the criticisms, the IMF has attempted to discredit Stiglitz's views (Rogoff 2002), which clearly raises issues about debate, dissent and argument over ideal model approaches to GPG. Overall, Stiglitz (2002) attributes much of the problems of development management and the donor-aid approach to a global system of GPG which is limited in its own democratic accountability, is uncoordinated and driven by an uncertain and inequitable set of ideological and economically derived principles. The primary interest is financial and the focus is on indicators of monetary and fiscal policy, such as inflation, rather than related to concerns of unemployment and the like. The ideological interest, on monetary and fiscal policy, then creates a highly bounded vision of what GPG could or should involve beyond neo-classical economic concerns.

Indeed, Stiglitz (2002) proposes, that countries, especially in Asia, that have determined their own governance structures from within the polity have done better economically than those countries that have had a universal model of governance imposed by a powerful external supranational force. One of the key positive determinants of successful economic and social development, Stiglitz (2002: 3) argues, is the extent to which governments maintain control, leverage their own in-country knowledge (especially knowledge obtained through technology and globalization), facilitate industry development and innovation (particularly through exports), rather than depend upon the potential opportunities provided by FDI. Kotler, Jatusripitak and Maesincee (1997: 51) also indicate that there are many economic and social 'pathways to development', some of which will be defined through donor arrangements and others through greater self-determination by governments of developing economies.

There are also many theoretical and conceptual possibilities for examining additional and essential aspects of GPG that touch on issues of democracy, and human and civil rights. However, as Wolf (1996) and Argyriades (2001) contend the MBM leads governments to relinquish responsibilities for the social well-being of citizens, which is as flawed an approach as the former inefficiencies of the welfare state. In this sense, markets are not self-regulating and the greater private interest is involved the higher the likelihood that PG will not be good. This does not deny the fact that many, ostensibly, pluralistic and democratic societies are marked by complexity and conflict in a range of areas and issues that make policy making by governments extraordinarily difficult. In Wolfe's (1996: 178) terms, ... *every day in diverse national settings, even the pursuit of relatively restricted sectoral policies, in which the executive has a coherent idea of what it wants to do and enjoys majority approval, encounters endless problems in formulation, mobilization of support, overcoming of obstruction, compromise and execution.* It is not surprising, then, that the MBM creates, at the same time, inclusivity and exclusivity; potential consequences that are particularly damaging to civil society.

## MORE THEORETICAL POSSIBILITIES FOR DEFINING GPG

The failure of the MBM/Washington Consensus has led to a recognition that government intervention, albeit considered, is important in terms of GPG. 'Efficient markets' can only work with 'effective states', even though the mix of these arrangements and issues of universality of approach remain unresolved. Where government intervention does not address basic GPG needs and issues, then devolution to local community organizations may be advised although this can reduce the responsibility of the state to provide a working GPG framework. As Wolfe (1996) points out, however, communitarian ideals are as utopian as the ideals of the MBM. Communitarian theorists, as Ehrenberg (1999) argues, may accord community relations with a level of morality and success that simply does not exist. Community organization can be as dominated by minority power coalitions as higher-level decision making policy networks. Therefore, egalitarianism, as an ideal of GPG within democratic states, using a communitarian paradigm, is still largely unattainable (Wolfe 1996; Ehrenberg 1999; LSE 2002).

Nevertheless, theorists such as Giddens (2000) and Putnam (Ehrenberg 1999; and the OECD undated) have sought to find a compromise theoretical and conceptual GPG position, which addresses the inadequacies of the MBM and the criticisms of social welfarism. As Giddens (2000) recognizes, Third Way concepts, which have been adopted by the Blair government in Britain and attempt to leverage social (and human) capital (Kotler, Jatusripitak and Maesincee 1997), have evolved from the inadequacies of the MBM as theory-in-use, especially as social democratic parties in Europe have attempted to renew political ideals. Social capital, as Giddens (2000:78) explains relates to 'trust networks that individuals can draw upon for social support ...'. The strong underlying value of social capital is 'civility' which allows GPG networks of influence to be stimulated by ideas, which lead to positive learning, innovation and renewal. This is essential for the contemporary knowledge economy as 'shared norms', rather than government regulation, reduce 'coordination costs' and provide the vehicle for change and dynamism.

Ehrenberg (1999), however, is critical of what he refers to as Putnam's rather simplistic view of social capital (in northern Italy) and his analytical exclusion, to a large extent, of more political and economic factors. As Giddens also warns, trust networks can be overshadowed by corruption and cronyism. However, as Cohen (1989) acknowledges, it is the political sphere that mostly determines and supports democratic principles and human rights, often through constitutional means. Yet there are obvious GPG problems if government is incompetent or corrupt (Argyriades 2001; Kaul 2001). Therefore, in addressing civic aspects of GPG, a more tangible theoretical construct relates to the rule of law. As Sommermann 2001: 77) acknowledges the rule of law needs to offer ... *a dynamic concept of institutional and procedural principles which are to protect human dignity and to foster the free development of the personality of each citizen*. However, Konig (1999) indicates that deregulation and the active reduction of the state in public affairs de-emphasizes the value of the rule of law as the basis of action and control.

Similarly, within the MBM, there is no GPG framework for addressing the strategic role of the state in relation to issues that put the polity at risk, beyond economic management. As Weiss (1998) argues, governments always have broadly categorized policies, and thus there are GPG, accountabilities in the economic, social and military arenas. Osborne (1999) indicates, too, that governments have GPG responsibilities at times of crisis related to issues across a wide spectrum, especially where probability prediction is difficult. This is a theme addressed by MacDonald (2002) who suggests that GPG, importantly, needs to include the management of risk through contingency planning.

This GPG aspect involves the more deliberate management of complexity and uncertainty using both quantitative and qualitative approaches. While sovereign political domains are the primary focus of interest, governments may need to consider risk management beyond national boundaries. This might involve managing risk in diverse areas associated with global trade; corporate governance failure; immigration and refugee programs; global capital markets and flows; technological innovation and advances especially in rapid transportation and communication; terrorism; war; and, transnational crime. To militate against risk, Pauchant and Mitroff (2002 also Mitroff 2002; Schaffer 2002) suggest that the impact of foreign policy, especially where there is potential humiliation of policy recipients, needs to be better understood and accounted for in the GPG system (Cohen, Emicke and Horan 2002; Lenain, Bonturi and Keon 2002; MacDonald 2002; Schaffer 2002; Wojcik 2002).

It is also apparent from this analysis, that the inadequacies of the MBM and related GPG paradigms, mean that governments, business and civil societies cannot be relied upon consistently to be moral, ethical and self-regulating. As O'Toole and Hanf (2002: 4) imply the present system of 'transnational cooperation' and governance through a complex range of agreements, interdependencies and treaties is not highly efficient. Therefore, according to commentators (Kaul 2001; Stiglitz 2002), it is time to consider the establishment of a global organization that would have transnational responsibility for the oversight of GPG. This might be a global system of government, similar to the EU, or a global system of governance, like the World Trade Organization. However, in Rhodes' (1997) terms, another defined and legitimate SO charged with coordinating global GPG responsibilities, might provide yet another and higher level of opportunity for unsupportive dominant coalitions of power to form.

## **GPG – BELIEF OR KNOWLEDGE?**

It is now clearly established that the MBM, in practice, creates inequitable opportunity and growth, which seriously disadvantages those not able to participate well, or at all, in the market economy (Stiglitz 2002). Having to some extent recognised the inherent flaws of the MBM as a guiding paradigm of GPG, the SOs, relevant governments and public interest groups, for example, within complex actor networks of influence have now widely promoted the importance of social responsibility (Stiglitz 2001). However, rather than resolving the inherent conceptual and theoretical flaws of the MBM, largely incompatible paradigms informing GPG practice coexist in uncomfortable ways, even though the MBM remains dominant. The call for a more formalized transnational PG system amongst the array of elaborate global alliances and treaties is also testimony to the MBM's deficits (Stiglitz 2001, 2002). The question now is whether notions of GPG are driven by belief or knowledge.

The presenting evidence suggests the former as the MBM, of itself, fails to provide an environment in which GPG, on an inclusive public interest test, can be achieved. The fact that the MBM is simplistically presented as rational-normative within such a highly complex and problematic global environment reinforces such an assertion. So too does the adoption mode. To a large extent, the MBM, effectively, has been imposed through coercive mechanisms (donor conditionality) by powerful SOs. Even in the absence of conditionality and in spite of criticism, there has been a mostly universal mimetic and isomorphic adoption of the MBM (Powell and DiMaggio 1991). The critical question then becomes whether global adoption of the MBM has been supported through a belief system fundamentally directed by power or incompetence, or both. If the view is taken that the SOs primarily act in the interest of transnational capital, then power is the likely driving force (see Clegg 1989: 16, 105-115 for discussion about power 'circuits' and 'pluralist', 'elitist' and 'class dialectical' power models). As Hood (1998) asserts new ideas may be seeded through persuasion and metaphor rather than real science or knowledge. To this end, it is possible to construct a speculative scenario as to how the MBM belief system has developed and been supported.

In this sense, and using ideas from Plato (1960) and Aristotle (1995) about the primacy of belief over knowledge, elite capitalists with transnational business interests, and other intellectual advocates, can promote a preferred paradigmatic set, as belief, using a powerful rhetoric to convince (obtain trust, be credible, derive appeal through emotional appeal) potential, significant early adopters, such as governments and SOs, to adopt (Carey 1994). If the potential adopters accept the ideas and, in turn, act to support more general adoption, the belief system will be reinforced. In fact, a cascade of principal-agent relationships, can be constructed or can occur, osmotically, to reinforce paradigmatic belief. The greater the economic problems facing potential implementing actors, the more likely it is that the belief system, as promoted, will resonate and be reinforced.

Given that any attempt to address the enormous complexity of presenting issues related to GPG is extremely challenging, it is, perhaps, not surprising that the ideas of the MBM may be taken at face value and be found not to be implemental in rational-normative form. However, to begin to address some of the most problematic aspects of the MBM and other attached concepts, from a GPG perspective, would require concerted deep analysis and advanced intellectual capacity. In this sense, belief may be related to ignorance or lack of knowledge in the area and thus a response of incompetence is virtually inevitable in such a complex environment. On that basis, Lindblom's (1959) 'science of muddling through' is likely to inform action. Thus, incompetence

potentially becomes embedded as another dependent variable, with power, strongly influencing the outcomes of GPG in practice. A vicious circle of power and incompetence, which supports belief rather than knowledge will inevitably ensue. This suggests that for a belief system to transform into a knowledge system, governments and other key actors will need to have the will and the capacity to begin to address these complexities. Only then will there be opportunities for conflicting objectives and interests to be better reconciled so that the knowledge system for GPG can develop and grow.

## CONCLUSION

This paper has attempted to address many complex issues relating to the continuing viability of MBM concepts for determining what GPG might be. The analysis of PG reveals that the MBM and its add-on paradigms will continue to create a high level of conflict and contestability about fundamental values and assumptions if GPG is to be more than a rhetorical ideal. While some of the negative affects of the MBM may be ameliorated through good corporate governance, private (shareholder) interest rather than the wider public (stakeholder) interest likely will be the focus. Furthermore, the evidence suggests that the MBM represents a strong belief system, which is supported by a powerful and convincing rhetoric from key self-interested actors, so that paradigmatic primacy for supposed GPG is reinforced. To develop a knowledge system, with deep analysis and synthesis to inform GPG, would require an honesty and preparedness to address these seemingly intractable issues related to GPG. This is not an impossible task at least to make some strategic incremental advances. However, to argue that a more logical rational response to the inadequacies of the MBM can be achieved is as unrealistic as expecting that the MBM can address all the GPG challenges that currently exist.

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