

## Chapter 2

# Understanding the Relationship Between the State and Markets in Public Administration

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### ABSTRACT

*This chapter evaluates several theoretical perspectives to examine the role of the state and its relationship with markets. It divides theories into two groups: macro and micro. The macro theories covered in the chapter include Adam Smith's approach, Keynesian views, the Austrian school of thought, Marxism, pluralist theory, public choice approach, and elite theory. The selected macro theories provide an elaborate perspective on the relationship between markets and the state. In order to have a holistic picture the chapter also discusses several micro theories, which effectively depict the relationship between markets and the state from the budgetary perspective. Incrementalism and punctuated equilibrium are included in the evaluation. The application of theories in relation to specific public policies is provided.*

### INTRODUCTION

Having a solid and well-grounded theoretical foundation strengthens the credibility of any discipline. Since its origin, public administration has been continuously occupied with the goal of developing its own theoretical foundation, but as a social discipline it “borrowed” many perspectives from other disciplines. John M. Gaus (1950) in his seminal article “Trends in the Theory of Public Administration” was one of the first to initiate the debate about the practice of theorizing on government’s work. Already at the end of the 1940s, Robert Dahl (1947) expressed his concerns about the possibility of the science of public administration, which he believed was realistic when certain conditions were met. Some of these conditions included the need for the clarity of normative values in public administration, and a better understanding of the place of an individual in public administration. In general, theoreticians note that public administration suffered from several intellectual crises, including an identity crisis, the problem

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of the politics-administration dichotomy, and its methodological challenges (Haque, 1996). As a result, public administration has been under the constant influence of changing theoretical and philosophical paradigms (Henry, 1975). Different doctrines designated different roles for the state, markets, and civil society.

The goal of this chapter is to evaluate several theoretical doctrines regarding the role of the state and markets in public administration, and demonstrate the implementation of these theories using current policy issues. The discussion of the role of the state and markets in public administration is important, but as numerous researchers stress, American public administration often avoids this exercise (Rutgers, 1994; Stillman, 1990). The discourse can be facilitated by critically examining the state-market relationship using diverse theoretical lenses. In general, most of the existing theories on the state-market relationship are derived from economics or political science.

Typically, Adam Smith is seen as one of the first to evaluate the intricate relationship and interdependence between state and markets. However, Smith's *laissez-faire* approach, and the argument for an invisible hand that correctly manages an economy, became less convincing in the environment of deteriorating economic conditions in market-based economies in the late nineteenth century. As a result, the Marxist doctrine gained popularity among some, but due to its propositions for a radically stronger role of the state in the socio-economic sphere and for equitable workers' access to the means of production, many did not embrace the idea. The 1937 global recession led to reconsideration of the role of the state in regulating the economy and opened the path to the Keynesian theory of market regulation, which primarily implies the active role of the state in incentivizing growth through its fiscal and monetary policies. Following World War II and the influence of the Keynesian perspective, states took on more than they could handle and became ineffective (Evans, 1997). In the 1970s and 1980s, alternative ideas about the role of the state were discussed at the Minnowbrook Conference (Rutgers, 2010).

In the 1980s, the neoliberal doctrine dominated political discourse around the world. In neoliberal doctrine, the state does not give up its coordinating activity; rather it fuses political and economic powers and embraces the integration of state and markets (Dahl & Soss, 2014). A Ronald Reagan-Margaret Thatcher style of neoliberalism of the 1980s led to the reconsideration of the role of the state and a view that markets are socially responsible contributors toward the achievement of societal goals, which were previously considered the government's domain (Sadler & Lloyd, 2009). This attitude has resulted in the increasing use of the new public management doctrine to explain and evaluate administrative decision-making. The new public management doctrine was built on theoretical perspectives such as public choice, transaction cost, and principal agent theory (Hood, 1991). The doctrine provided a different perspective on the role of bureaucracy, using concepts such as user choice, transparency, and accountability, which were different from the traditional military bureaucratic ideas of administration (Hood, 1991). The new public management doctrine also put in doubt the claim that national governments are the major actors in public policy and the economy (Peters & Pierre, 1998). The ideas of network and "hollow" state emerged and became the focus of numerous scholarly studies, where a "networked state" implied a state's efforts to partner with voluntary and private sectors in delivering public services (Peters & Pierre, 1998). Consequently, commentators drew similarities between bureaucracy and individuals with utility maximizing goals and values, where bureaucrats were believed to act as individuals maximizing personal utility (wages) and the agency's budget (Niskanen, 1975). As a result, the new public management perspective challenged the traditional ideas of public values and intrinsic motives common for civil servants.

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