

## Chapter 14

# The Complexity Surrounding Market Rationale in Public Decision Making in the Twenty–First Century

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### ABSTRACT

*Applying market rationale to public decision making has been in the center of the debates in both political and academic circles. Theoretically, these debates center on the role of government in society and how that role should be played. This chapters shows that applying market rationality to public decision making is problematic for three reasons. First, in reality, neither market nor individuals can be rational as envisioned in neoclassic economics. Second, public organizations pursue broad social goals that are often not measurable by market indicators. Third, the context within which public decisions are made is governed by legal and constitutional mandates that do not always suit market rationale, i.e. utility maximizations. Notwithstanding this, public choice theory can provide public organizations with alternative methods for maximizing social benefits. In doing so, public organizations have been adopting market-based standards as a method to promote performance and manage for results.*

### INTRODUCTION

The question of government's role in society has been a mainstay of political philosophy for centuries. Debates on liberty in terms of individual freedoms from the state control can be traced back as far back as John Locke and later John Stuart Mills. However, the tumultuous event in the first half of the twentieth century not only brought the question to the forefront, but also redefined the role of government in industrializing economies. During this era Ludwig von Mises and Friedrich Hayek coined the term neoliberalism in their exile in Paris in 1938. Both men saw Franklin Roosevelt's New Deal and the

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gradual development of welfare state in Europe as a type of collectivism that underpinned Nazism and communism. Needless to mention that the terminology Neoliberalism came to dominate policy debates in academic circles. In 1944, Hayek went on to publish *the Road to Serfdom* where he made the case that government planning will inevitably lead to erosion of individualism and the rise of totalitarianism. Around the same time, Mises published *Bureaucracy*. From then on, the political right increasingly perceive government interventions or expansion as a threat to individual freedoms, free market and property rights. In the United States, one needs to look no further than the federal housing policies to see how quickly policies initiated during the great depression shifted focus to give the private sector a leading role in executing government goals (Hoffman, 2000).

With economic recession, political crisis, and slow economic growth in the 1970s, it was not a surprise when President Regan uttered the words “In this present crisis, government is not the solution to our problem; government is the problem” in 1981. By that time, the work of James Buchanan on rational choice and the inherent conflict between private and public interests opened the gates for public management theorists to reflect not only on the old question, what roles should the government play in society, but also on how government could play these roles. In theorizing and elaborating on these questions, Osborne & Gaebler published *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector*, which became one of the most widely read books in public management within few years. Consequently, the New Public Management movement established itself in the field of policy science with its favor for deregulation, efficiency and results and delivery of services through private sector (Rosenbloom, Kravshuk & Clerkin (2014). This chapter engages in the debates about the application of market rationale to public decisions, highlighting the problematic nature of market rationality in itself. It begins with providing background about the politics of market rationality and its claimed potential results in public decision making. In doing so, the chapter offers broad examples so as to highlight the complexities surrounding the application of market rationality in public organizations and whether it is optimal to achieving public goals. The discussion also covers the relevance and application of public choice theory in public management literature in general and public organizations in particular. Finally, this chapters give concluding remarks, highlighting the shortcomings of market rationality and its inapplicability in public organizations.

## **POLITICS OF MARKET RATIONALITY**

While arguments about the threat of big government to individual liberties, free market and economic efficiency have evolved in response to complexities characterizing post-industrial societies, the fundamental thesis remains intact. Mainly, individuals left alone can make better choices, which leads to more efficient allocation of resources, better economy in particular and better organization of society in general. Today, the calls for running the government like a business have not dissipated, at least in the political circles. These calls continued despite the lengthy and sound arguments that private and public enterprises differ in their core mission even if they share some similar characteristics. In fact, the promise to bring in business-like management to the government promoted as credentials during the election season and it was largely viewed positively by the populace as reflected in the polls (Kovvali, 2016). While it is tempting to write the calls for running government like a business as only ideologically-driven and a political tactic to mislead, it is wise to remember that such calls left lasting marks in the work of

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