

PUBLIC SECTOR REFORM
PREREQUISITE TO ECONOMIC TRANSFORMATION

Dwight Ink, President
Institute of Public Administration

September 19, 1991

In the last several years there has been a rapid movement toward political reform in much of the world and an accompanying movement toward market economies. Greater political and economic freedom for the individual is an aspiration that has stirred the hearts of people with a wide diversity of political, economic, geographical, and ethnic backgrounds. This is an exciting period in which the success or failure of these sweeping changes may have great impact on the modern history of the world.

The reforms required to achieve the benefits of these exciting movements are far more difficult, however, than most people realized when the reforms were launched.

In this paper we will examine the importance of governmental reform in achieving economic restructuring and some of the obstacles which typically have to be addressed in achieving success, together with several techniques in managing reform that have proven useful in some countries.

Comments of the author are based upon experience over a number of years in directing governmental reform in the United States and responsibility for United States economic and technical assistance in support of reform in other countries. This paper is written from the perspective of a manager of reform, and not that of an economist or technical expert.

ROLE OF GOVERNMENT

The value of a market economy in providing the entrepreneurial incentives required for the economic growth required to better provide for the needs of people is great, and recognition of this view is increasing steadily. There is also an increasing understanding that repressive governments that stifle individual initiative and creativity cannot be tolerated today.

What is often overlooked in these days of change is the necessity for major

governmental reforms if economic restructuring is to succeed. Steps toward a market economy cannot proceed very far, greater individual freedom cannot be sustained, infrastructure cannot be built, and corruption cannot be attacked, unless public sector reform and development of market economies go hand in hand. Also overlooked is the effort that has to be devoted to the careful design and professional execution of governmental reform.

One of the reasons for these serious gaps in our planning, in the opinion of the author, is a fundamental mistake made by many because of a widespread notion that a principal objective of economic transformation should be to simply "get government out of the way".

These advocates reason that governments, particularly those having had a command approach, which typically have developed large, costly bureaucratic ministries and nonproductive enterprises, evolved a negative system of laws and regulations which discouraged and often prohibited private enterprise from developing. Therefore, it is reasoned, government is the big obstacle to achieving the goals of reform and, except for holding elections and passing a few laws, should be pushed into the background as much as possible. Above all, this argument continues, no technical assistance should go for government improvement for fear of strengthening institutions already too large and intrusive. Perhaps assistance for democratic processes such as voting systems or the functioning of a legislature is acceptable, these people say, but certainly not technical assistance to the executive functions of government.

This philosophy is wrong and very damaging to successful reform. Yet its acceptance has been surprisingly widespread.

Let us look at why turning our back on an effective government as an instrument for change is a misguided concept.

1. Development of a Market Economy. It is time that the new political environment in many countries will provide badly needed opportunities for private enterprise to contribute heavily to the future of the people through jobs and strong economic growth. Only the private sector can provide this growth.

It is the public sector, however, which will either develop market-oriented policies and provide a positive environment for private enterprises, or conversely, produce policies that inhibit growth of the private sector and present obstacles, such as onerous processing of permits and licenses and inordinate customs delays because of red tape and inefficiency. Divestiture of nonproductive and costly public enterprises obviously requires a public sector partner in the process. The legal system often has to be reformulated through legislative action, and property use and ownership rights have to be

established. Tax systems have to be overhauled.

The emergence of a vigorous private sector will require sustained economic reform and political stability, circumstances which are almost impossible without a stable and competent government. The same is true of foreign investment.

2. Political Reform. Neither the yearning of people for major political changes nor high level policy decisions will, in themselves, achieve democratic institutions and practices that are conducive to developing a broad based business community. This is clearly an area involving drastic public sector changes that can be institutionalized only through careful planning.

The electoral process is a vital component of democratic initiatives, and with committed leadership, can be established rather quickly. Administration of justice that commands the confidence of business and the citizenry, however, involves many other governmental activities, national and local, and requires considerable time and effort to institutionalize. The operation of court systems and the approaches used by arresting officers and prosecutors, for example, face drastic change and a whole new sense of human values.

3. Corruption. Recent history is replete with instances in which repressive governments have been swept away, only to be replaced with well intentioned leadership that lacked the competence to avoid emergence of a new brand of government patronage and corruption. Corruption has long been regarded as an evil cancerous characteristic of many governments that burdens citizens and erodes the confidence of people in their government. Less often recognized is the fact that corrupt governments also create serious problems for the private sector, especially the smaller businesses.

If patterns of patronage and corruption are permitted to redevelop in the early stages of a new government, they will be very difficult to eradicate later on. Merit systems need to be developed, independent auditing needs to be established, accountability for public decisions and actions, including the concept of transparency, need to be woven into the new administrative processes. These are additional areas of government capacity building that should not be delayed and cannot be handled on a piecemeal basis.

4. Governance. Although countries now embarking on basic economic reform have some very able people in the new leadership, their ranks are thin. This means that in most of these countries a handful of people are faced with a very formidable task of quickly (a) developing effective governmental policy machinery, capable of planning and implementing a sustained economic program, (b) establishing democratic institutions and practices, (c) establishing

meaningful local governments and effective relationships between them and the central governments, (d) promoting market oriented incentives and a strong private sector, and (e) establishing procurement, financial and personnel management that will both guard against corruption and yet not inhibit the capacity of a young government to act.

Governance in countries in transition must quickly establish effective functioning of the top echelons of government if these basic objectives are to be realized. It will require, for example, the planning, implementation, and coordination of a variety of ministries and agencies on a sustained basis while dealing with a convergence of major issues, establishing a new political system, and operating in the unaccustomed environment of public visibility and open criticism. [borrow from boardroom memo]

5. Infrastructure. A vigorous private sector places large demands upon a government to take a variety of actions necessary to improve the infrastructure of a nation. These are expensive, requiring resources and attention to serving various elements of society to a degree far beyond that which can be provided by private enterprise alone.

Transportation and communication carry the flow of commerce, and make economic growth possible. The basic planning and the financing of these expensive systems, which must serve the public as well as businesses, are largely the responsibility of government. The same is true of most municipal water and sewer systems. Also the postal service is generally provided by a public body. Even though increasingly there are extremely important roles in many countries for the private sector in these activities, they are all affected with the public interest. As a result, some type of governmental entity is involved no matter how heavily we come to depend upon the benefit of private entrepreneurship in their construction and operation.

How well these and other elements of infrastructure are built and operated is of tremendous importance in economic recovery. In countries emerging from command economies, entirely new approaches to modernizing their infrastructure are required as governments move through the transition from command to market economies. Different approaches to whatever functions activities the government retains for itself and new approaches to its relationship to nongovernmental entities are necessary.

6. Promotion And Regulation.

To be effective, steps toward privatization have to be planned carefully, the same as all other components of economic restructuring. Contrary to the

impression often left by many private sector enthusiasts, a vigorous private sector will not develop automatically in countries where there has been little or no private enterprise for two or three generations. The countries of Central and Eastern Europe are playing an entirely different ball game, for example, than Western Europe which emerged from World War II heavily damaged, but nevertheless having retained the knowledge and entrepreneurial experience of industrialized nations with strong private sectors. Much government activity needs to be redirected toward facilitating the emergence of a private sector. Many policies have to be adopted, old government procedures and limitations swept away, and certain tax and other financial incentives developed to facilitate the growth of a private sector. One of the most important roles of government under these circumstances is that of encouraging external donor financing of technical and managerial training for new managers.

Not always recognized, however, is the fact that every country that relies heavily on a strong private sector, including the United States, has in place a surprisingly large body of regulations affecting the activities of private business. They include those designed to protect the health and safety of workers in the factory or place of business, as well as measures designed to protect the public from environmental hazards such as water pollution from plant effluent discharged into streams and rivers. Economic regulations are promulgated for many purposes including prevention of monopolies, increasing competition, and encouraging development of small and micro enterprises.

Discussion of the regulation of business is beyond the scope of this paper other than to stress that this is another complex area in which a governmental role is essential. In this role, governments have to strike a balance that guards against private exploitation of the public, but avoids excessive regulations and procedural delays that destroy the incentives for initiative, innovation and risk taking which make the private sector essential for economic growth.

Governmental Challenge.

It should be noted that although numerous actions which now have widespread support, such as those that move a nation toward a market economy, result in smaller government organizations, as well as, a withdrawal from commercial operations, and a basic shift from micromanagement to macromanagement of the economy; we are not discussing a less important role for government. We are discussing a different role.

This different role is a very challenging one, a role which is more demanding and more interesting to most people than the old. It offers greater opportunity for initiative and creativity. It focuses on leadership, rather than command, a concept

that demands a more sophisticated brand of competence and a higher level of performance. It requires political and career government employees who are concerned with whether program objectives are being met, not just whether the program rules are being followed. Perhaps most important, the new role should look at citizens as resources to involve and whose participation in their government has significance, rather than simply objects to receive orders generated unilaterally by government officials.

IMPEDIMENTS TO ECONOMIC REFORM

With respect to those economic reforms with which the author and his staff have been associated, three particularly serious internal problems have been encountered in country after country:

First is the frequent lack of strong political leadership with the ability and courage to stay the course and move the program of change ahead on a sustained basis. This is not an easy task, because economic transformation is disruptive and painful, not infrequently affecting adversely some of the strongest supporters of those in charge of the reform. Few political leaders relish the idea of leading the charge for transformation if that means being thrown out of office.

We have not yet invented a type of economic transformation that does not have some short term political costs, but we will discuss later some approaches that generally reduce those costs to more acceptable levels.

Second is the frequent failure of economic theories to address the consequences of implementing those theories, particularly with respect to their impact on the poor and those who will become unemployed for a time because of the reform. In various economic models these factors tend to be described in terms of impersonal statistics. The human elements are obscured, and consideration of ameliorating the negative impact of needed restructuring on families and individuals is shortchanged.

One should not blame the economists for this problem so much as the political leaders and their principal advisors for becoming so preoccupied with economic theories they take into account additional inputs that should be drawn from sociologists, managers, and others whose views also need to be factored into the decision making. Having said this, let us also say that the views of these other disciplines cannot be permitted to destroy the basic tenets of the economic strategy developed with the

help of the economists. That would guarantee failure. Rather, they should be utilized more to adjust the manner and timetable in which the restructuring measures are implemented, together with the difficult question of how to address their social impact.

Third is the fact that there is rarely enough attention given to designing the changes in the machinery of government which are so essential if economic transformation is to succeed. No matter how brilliant the economists and other experts who draw up the plans, no matter how committed the political leadership, there will be little meaningful reform without the governmental capacity to implement these reforms. The balance of the paper will be devoted to this theme.

ISSUES FACED BY GOVERNMENTAL REFORMS

The author does not believe that models can or should be developed as guidance for governmental reform from country to country. Each country is different, and conditions within a given country are changing continuously, with the result that the design of reform has to be tailored carefully to the individual needs of a particular country at a particular point of time. The comments that follow simply represent issues that various countries typically have to address if reform is to succeed.

Complexity of Reform

The complexity of major institutional change is nearly always underestimated by those who advocate fundamental economic or political reform, thereby jeopardizing their goals no matter how desirable they may be. Institutions are composed of people and the behavior of people does not provide the type of predictability found in models used in other activities such as new water systems or disease control. There are so many more variables, both with respect to the people involved and the environment in which they are organized into an institution. Failure to recognize this complexity leads to underestimating the timetable on which change can be institutionalized, the monetary and human resources required, the issues confronting the political leaders, and the extent of continued monitoring and adjustment required after the reform is launched.

Conversely, those who fear change, or have a vested interest in the status quo, sound cries of alarm about the difficulties involved as they seek to block a restructuring program. Because these problems are frequently greatly exaggerated by the opponents of change, those in charge of restructuring tend to dismiss them as demagoguery, rather than looking at the arguments of the objectors to see if there are some useful warning signs that need to be dealt with.

We would stress that the fact that needed transformation is difficult should not be used as an excuse for delay or lack of action. To the contrary, the author believes that we tend to think and plan too modestly. People deserve a government that has the vision and courage to design and execute basic reforms. Timid approaches that only nibble at fundamental problems will not produce anything the citizens of a country can see as addressing their problems in a meaningful way. Halfway measures are one of the surest roads to failure.

When reform results from strong public demands for reform, a different situation may develop in which it is politically difficult to avoid attempting drastic changes so suddenly that they are not well designed. Success is also placed in great jeopardy by this scenario. In such circumstances for example, the public is not prepared for the inevitable problems which are exacerbated by inadequate planning. Combined with inadequate advance information provided to the public, these problems often reach the point that political support cannot be sustained. Confusion, loss of jobs, and apprehension about the future resulting from hasty and poorly understood actions can smother the reform in its infancy.

Whatever the particular circumstances, it is important for the leaders to be candid about the sacrifices that have to be made over a period of time before benefits of restructuring will begin to be seen. The public needs to understand that greater economic and political freedom carries with it greater citizen responsibilities. This recognition will not develop, however, if the citizenry believes their government does not trust them and is not honest about its intentions. The general public needs to feel it is an important player in the reform and has a stake in its success. In addition, those hit hardest by austerity measures also need to see tangible evidence that their government is at least trying to alleviate their problems, even though they will probably feel that the governmental measures are not adequate.

PHASING BOLD STRATEGIES

It is argued here that success is most likely when the architects of reform have developed far reaching goals and strategies that are sufficiently bold that they will come to be seen by the public as making a difference in their lives. At the same time, these designers must also carefully assess the national capacity for rapid change, and then call for a number of the more ambitious objectives to be achieved through a series of steps or phases, each of which are manageable with the resources that can be brought to bear.

As with other elements in reform design, the phasing has to be tailored to the circumstances of a particular country. Timetables will differ. In virtually every case, soaring inflation has to be attacked quickly and decisively. On the other hand, circumstances have forced some countries to defer full devaluation of currency longer

than one might wish, or to do it on a step by step approach over time. Major reductions in expenditures of ministries and enterprises require careful planning and can rarely be accomplished quickly, although it is generally advisable to give visibility to small actions that can be taken rapidly, even though their initial value may be largely symbolic.

Self discipline is required to assure that the phasing of actions is carried forward within the overall plan in such a way that the basic objectives and general timetable are kept well in mind. Otherwise, too many compromises will be made, and the inevitable problems of implementation will shove the basic goals into the background and the reform will never be completed.

It is suggested that a broad plan or strategy is the starting place for economic transformation. As a specific example, the United States and a number of Latin American countries developed a strategy for transformation in the mid 1980s that proved to be very useful. Within this broad plan, specific actions and timetables were developed that differed widely from country to country. Basic components of this strategy were the following:

1. Strengthening Political Reform. A major program to promote and strengthen democratic institutions was launched in Latin America through an active series of projects aimed at increasing democratic participation, including nonpartisan support for elections, judicial reform, and improvement of legislative processes, as well as a massive scholarship program. Efforts were made, with varying degrees of success, to involve various segments of society e.g. labor unions, businesses, churches and educational leaders in a loose coalition in support of democracy building. The pace and the nature of developing institutions has differed greatly from country to country, but substantial progress has occurred despite continued threats of undue military influence in some countries.

2. Economic Stabilization. This was a necessary response to the economic crisis of the 1980s. It was a precondition to sustained improvement in the quality of people's lives. Poor people in particular are victimized by inflation, and governments heavily burdened by big deficits cannot provide adequate education and medical services. Overvalued currencies hobble private-sector capacity to earn foreign exchange required for jobs and economic growth, and they favor higher-income groups, who consume relatively more imports.

Stopping inflation almost always means sharply reducing fiscal deficits, both by better revenue performance and cuts in spending. This phase of the program was most susceptible to relatively firm timetables, although changing conditions required adjustments at times. In Bolivia in 1985, Costa Rica in 1982 and Guatemala in 1986, governments were able to bring inflation rates down dramatically within six months by staunch control over the government

deficit and by convincing the public that they had the will to make the hard decisions required to succeed.

It must be recognized that these gains required unpopular austerity measures and considerable political risk by national leaders, making them difficult to sustain. Nevertheless, through credible public information programs, leaders can expect a degree of public understanding of the need for action, and public recognition of the adverse effects of bringing inflation rapidly under control. Some form of "safety net" program to cushion the impact of economic restructuring is needed. In addition to its intrinsic value, it also reduces the political cost of reform if people believe their government recognizes that people are suffering and are trying to respond. Recently, President Salinas of Mexico has launched an interesting program to assure that poorer groups are benefitting from their successful economic reforms. Under the Mexican "Solidarity" program, proceeds from privatization of state enterprises are earmarked for clearly defined social purposes. These programs require the coordination of various government ministries and the integration of different professional skills.

3. Sustained Long-Term Economic Growth. This was regarded as essential for reducing widespread poverty in Latin America, and for financing higher levels of social services. Earlier efforts, which relied too heavily on government-supported activities, were not effective because they failed to energize the private sector --- the essential source of growth. A combination of actions -- removal of policy and regulatory impediments to private-sector led growth, training of private sector managers, creation of credit and banking institutions, investment and export promotion, privatization, and outreach to micro and small business -- were intended to lay the basis for revolutionizing the structure of Latin America economies, provided the policies were sustained and external assistance not cut too abruptly.

Many of these activities were intended to broaden the base of the private sector. In the past, cozy relationships between large firms and government often limited the access of smaller firms to credit, foreign exchange, government permits, and other needed inputs, thereby permitting an over concentration of private sector economics power with a lack of social conscience. Jamaica, Guatemala, the Dominican Republic, Belize, Bolivia and Costa Rica are examples of countries where significant policy reforms were achieved, based on a recognition of the essential role of the private sector in economic growth.

In this area, the Latin American experience has both warnings and hope. Unfortunately, almost no quick results can be expected in jobs or increased export earnings, but the results can at times be impressive in the medium term.

Countries in this region can show rather dramatic rises in nontraditional exports by opening up opportunities for export. Costa Rica, the Dominican Republic and Guatemala each have been able to sustain average annual growth rates of non-traditional exports of 25% or more since adopting appropriate policies. This has meant quadrupling every seven years. Because of their greater human resource base, Central and Eastern Europe may have greater potential in the medium term to break into world markets than did Latin America, provided their programs are well designed and managed. There has to be strong quality control in processing or manufacturing the products to be exported, there has to be the capacity and know how for market analysis, and an understanding of foreign import procedures.

In the early stages such exporting requires linkages with foreign companies knowledgeable about world markets, and a determination by policymakers to single-mindedly eliminate obstacles to exporting. Proper coordination within the government to support the export push is absolutely central. Unless each ministry -- and it is amazing how many ministries have a role in regulating some aspect relevant to foreign investment and exports -- can be convinced to facilitate, rather than attempt to control, new entrants, not much will happen.

4. Spreading the Benefits of Growth. Although economic growth is essential, it is also essential that disadvantaged groups have the opportunity to benefit from that growth, and that the growth not simply enrich a privileged elite. Interventions such as expanded education and training and support for micro-enterprises -- important to broadening the base of participation -- are themselves also a means for speeding growth. The need for access to credit is obvious. Increased access to land can be another important vehicle for growth promotion. Inefficient collectively-owned land cooperatives, were opposed, but voluntary transfers of underdeveloped public land to rural poor, were supported, as well as establishment of secure individual titles to land holdings, and marketing and credit cooperatives. These measures required an effective capacity of project management, often more sophisticated type than existed.

In Latin America, we found that poorer groups, in particular, benefitted from economic liberalization, because the wealthy had found ways around existing government controls which were not available to the poor. Exports also tended to create relatively more jobs for unskilled workers than for the elites. In the early stages of reform special emphasis was on increasing the access to resources and development of skills that enabled poorer people to participate fully in the economic expansion.

Underlying these broad strategies was the belief that political systems that are

responsive to the public are not possible without economic growth to meet the social needs of the citizenry.

People will not all agree on the extent to which this program has succeeded in Latin America. It has experienced setbacks as well as successes. But it illustrates an approach to basic goal setting within which a tremendous variety of implementing plans and timetables can be adopted. In each case, managerial weakness constituted one of the greatest challenges faced by the various governments in moving forward. In particular, delays from problems of government coordination and lack of managerial skills often lengthened the process and placed stresses on the political leaders. At times corruption and human rights issues also weakened the political strength of governmental leadership.

PRIVATIZATION

In recent years, privatization has been used increasingly as an important component of economic restructuring including use as a means to downsize government organizations. It is an especially essential step for countries moving away from a command economy. Most experts also agree that many countries -- often as a result of earlier encouragement from international donors -- have established far too many public enterprises that became costly havens for expensive patronage and payroll padding, propped up by subsidies, and with few incentives for productivity. When they have been viewed as a solution for unemployment, taxpayers throughout the country have borne the financial burden of the costly inefficiencies of those enterprises.

But privatization contains no magic qualities. Neither is success automatic. In fact, it can be a mirage if handled poorly. Divestiture of a public enterprise in the absence of good management or clear cut objectives, for example, is a road to failure.

In some cases where basic human services are provided in a monopolistic situation, such as a water utility, divestiture may not even be desirable. Commercial activities, on the other hand, are virtually all candidates for divestiture. There has to be developed an analytical and policy capacity to determine where divestiture is needed and where, alternatively, contracting out or merely better management is needed.

To begin with, it is strongly suggested that people view privatization as a means to an end, not the end objective itself. In other words, privatization should not be viewed as important for the sake of private enterprise. This view can lead to economic exploitation and a lack of sensitivity to the social needs of a country. Rather, privatization should be viewed as important because of what it can do for the country.

We should support moves toward privatization because the private sector can best provide the vigorous economic growth that will enable a country to realize the revenues required to provide education, health care, and other services required by its citizens. It is needed to stimulate sustained outside private investment.

This list of arguments in support of privatization could go on, but the first point here is that although a basic policy of privatization will help greatly to reduce the burdens of bloated ministries and public enterprises, an important goal in itself, people also need to see the actions towards a vigorous private sector in terms of longer term positive gain for a nation and its citizens, not simply as a way of cutting the government payroll.

The second point is to recognize that privatization is not self implementing. It should be viewed as a program, which like any other instrument of great change, has to be carefully designed and administered to be successful.

In country after country, governments need to withdraw from many activities which can be better performed by nongovernment organizations, but the negative consequences of the government taking an extreme position of simply stepping aside and abandoning the whole field of action are numerous.

New policies intended to help the private sector develop must be adopted in ways that encourage competition. Similarly, the policies need to be developed in ways that encourage small and microbusiness, not just the large corporations. Without a broadly based, competitive private sector, privatization of major enterprises can easily develop a private sector that is dominated by a few, and permits exploitation of the public as noted earlier.

Major programs of divestiture have moved forward before necessary regulations have been developed and installed. The "getting government out of the way" concept discourages thoughtful analysis of what will be required to protect the public interest once major areas have been privatized, particularly instances in which competition is limited or in which the public health or safety is affected. Further, while regulations are being developed, whether early or late, there have been understandable difficulties in balancing the need for industry involvement in the development of the regulations to ensure their practicality with the need for assurance that the system does not provide undue influence by privatized firms on development of the regulatory system without an adequate balancing representation of the public perspective.

The entrepreneurship, the creativity, the initiative, the risk taking, the tough decision making required for a successful business; all these are blunted by overregulation. The balance between overregulation and inadequate protection of the public good is very difficult to strike, and no country does it perfectly. Further, this balance is an ever moving target, requiring constant vigilance and adjustment.

To play a fully productive role in society (and to reduce political pressure for undue restrictions on the private sector), private enterprises need to develop a social conscience. To the extent they are regarded as corporate "good citizens" in their community, a more cooperative and productive partnership is likely to develop between the public and private sectors. Elements of a social conscience needed by the private sector range from measures to reduce pollution in the air, ground and water to the welfare of its employees. Because these measures are often perceived to be dramatically opposed to the profitability of business, this is not an easy concept to embrace. Again, we see the task of balancing the necessity for private business to make a profit in order to survive with the necessity to operate in a way that is consistent with the public good.

DOWNSIZING

Large layoffs often leave in their wake significant management and political problems, some of which are unavoidable. Extraordinary efforts have to be devoted to the morale of those who remain, as well as those who are losing their jobs. For those who become unemployed, the experience can signal the end of productive careers, resulting in greater cost burdens to society through the need for unemployment benefits and provision of other "safety net" social services. The whole family is impacted in many ways by the economic and emotional stresses induced. Healthy diets, health care, and educational opportunities for children are often reduced drastically for long periods, if not permanently. One survey in the U.S. also showed suicide rates of those losing jobs at 30 times that of the national average.

At times large scale layoffs have created difficult political pressures that have forced some countries to back off needed reforms. In most of these cases, more careful planning and management of the cutbacks resulting from privatization and other modernization measures would have at least reduced the pain and the resulting outcry.

Now let us turn to those who are left in the smaller organizations after reductions have taken place. Although no doubt greatly relieved that they still have jobs, these people are likely to have problems, too. These can have a significant effect on the effectiveness of the streamlined ministry or enterprise.

First, their confidence in the future health of the organization may be shaken, and the better performing employees are likely to be more alert to possible opportunities elsewhere. Some will aggressively seek other places of work as a growing private sector makes possible other options. Lower level employees, who often have the least difficulty relocating, tend to have the greatest anxiety because they have few, if any, assets to cushion the consequences of a period of unemployment. Second, a substantial reduction in the size of an organization will

produce some disruption in its operation. It may be surprisingly difficult to distribute the workload equitably among the remaining employees or to redesign processes in a way that will minimize negative effects on operations.

Doing more with less is feasible and a very desirable objective in many cases, but it necessitates careful design, often including the detailed flowcharting of the new processes. Downsizing programs that have resulted in greatly increased efficiency over the longer term have at the same time generally created major short term operational problems that require mitigation quickly. These early disruptions have stopped too many reforms in midstream.

The above observations underscore the necessity of careful advance planning to ensure that the end results of downsizing are positive rather than negative. An American Management Association survey of over a thousand recently downsized companies in the U.S. showed, however, that over half were poorly prepared for the changes that took place. We have found much the same thing regarding the lack of adequate planning for the downsizing of ministries and public enterprises in many countries, especially with respect to personnel issues.

Any management that does not address in a very serious way the circumstances of both the employees who are to leave and those who are retained is jeopardizing the success of the whole effort.

LEADERSHIP

Few things are more obvious than the need for the right leadership to carry major reform forward. There are many events and personal characteristics that result in a particular person having been selected to hold the reins of government in time of economic reform, but these factors do not often have much to do with preparing that leader for the intricacies of a constructive governmental role economic restructuring and the development of a market economy. He or she will have an urgent need to rely heavily on a mixture of technical advisors and experienced managers. But where are they in countries in transition?

Not surprisingly, those who have pressed hardest for reform often lack the experience to contribute greatly to developing the mechanics of how their aspirations can be implemented. Thrust quickly into leadership positions, their enthusiasm and dedication cannot fully overcome their inexperience in translating their goals into implemented programs. On the other hand, incumbents with the most experience may be uncomfortable, or hostile, to basic change, making early success equally unlikely. When existing leadership is dedicated to reform and takes a leading role in seeking fundamental changes, many management problems are reduced, yet they are

formidable under the best of circumstances, and the critical necessity for qualified aides is ever present.

There also has to be the organizational capacity of the leaders to coordinate effectively the different government organizations involved in economic reform. The control of the money supply, convertability of currency and maintaining its proper valuation, decontrol of prices, the handling of debt, reserves, and interest rates, the reduction in overstaffed ministries and enterprises, establishment of the policies required for a market economy, the elimination of stultifying procedures used in a command system and the development of a public environment conducive to the development of a market economy; these and many other components of economic restructuring demand a level of interagency coordination and managerial capabilities beyond that which is usually faced by government.

One must recognize, that although the top leaders should ensure that the management elements of the reform program are given heavy weight and support, they are too busy with many other pressing matters to spend time personally guiding the details of the reform. In most cases, day to day management and coordination needs to be provided by a small unit in the front office of the chief of state. This function should be lodged with a permanent unit having a continuing responsibility for management improvement, but in the case of fundamental reform the institutional machinery will probably need to be supplemented by to a special temporary group set up for the purpose of helping the chief of state carry out a particular reform. The point is there has to be some mechanism with the primary mission of helping leaders manage the reform.

Drawing upon experienced people to assist the leaders in managing the design and implementation of reform would seem to be one of the obvious requirements for success, but so often it is either ignored or circumstances are such that few experienced people are available and outside help is required.

EXTERNAL TECHNICAL ASSISTANCE

It is useful to look at experiences in other countries before embarking on reform, a practice the author has always followed in the United States in designing reforms much less drastic than many underway today in various parts of the world. When the reform calls for a transition to an entirely new political or economic system, the need for looking at the experience of other countries becomes imperative. How to utilize this information, however, is not always easy.

First of all, no one from another country should ever be called upon to design *carte blanche* any major reform. It is impossible for a foreign advisor to sufficiently grasp the political, economic, and cultural background to be given such a task. In

formidable under the best of circumstances, and the critical necessity for qualified aides is ever present.

There also has to be the organizational capacity of the leaders to coordinate effectively the different government organizations involved in economic reform. The control of the money supply, convertability of currency and maintaining its proper valuation, decontrol of prices, the handling of debt, reserves, and interest rates, the reduction in overstaffed ministries and enterprises, establishment of the policies required for a market economy, the elimination of stultifying procedures used in a command system and the development of a public environment conducive to the development of a market economy; these and many other components of economic restructuring demand a level of interagency coordination and managerial capabilities beyond that which is usually faced by government.

One must recognize, that although the top leaders should ensure that the management elements of the reform program are given heavy weight and support, they are too busy with many other pressing matters to spend time personally guiding the details of the reform. In most cases, day to day management and coordination needs to be provided by a small unit in the front office of the chief of state. This function should be lodged with a permanent unit having a continuing responsibility for management improvement, but in the case of fundamental reform the institutional machinery will probably need to be supplemented by to a special temporary group set up for the purpose of helping the chief of state carry out a particular reform. The point is there has to be some mechanism with the primary mission of helping leaders manage the reform.

Drawing upon experienced people to assist the leaders in managing the design and implementation of reform would seem to be one of the obvious requirements for success, but so often it is either ignored or circumstances are such that few experienced people are available and outside help is required.

EXTERNAL TECHNICAL ASSISTANCE

It is useful to look at experiences in other countries before embarking on reform, a practice the author has always followed in the United States in designing reforms much less drastic than many underway today in various parts of the world. When the reform calls for a transition to an entirely new political or economic system, the need for looking at the experience of other countries becomes imperative. How to utilize this information, however, is not always easy.

First of all, no one from another country should ever be called upon to design *carte blanche* any major reform. It is impossible for a foreign advisor to sufficiently grasp the political, economic, and cultural background to be given such a task. In

addition, if the reform is perceived as being focused upon a government by the IMF or other donor, there is likely to be resentment of imposition of outside concepts. Further, those in the host country who have the responsibility for carrying out the reform are not likely to have an adequate understanding of what went into the design, and they will have little sense of ownership and therefore less incentive to solve the problems which inevitably arise. When problems become serious, people are tempted to blame them on the "foreigners" and want to start over again even if the design simply needs better management or more tailoring to meet indigenous circumstances.

At the same time, external advisors, both individual experts and institutions, can be of tremendous help when properly selected and utilized. The possessor of numerous press clippings and an impressive vita may or may not lead to the right person or institution. Much more important may be the extent to which consultants have in the past functioned as an ad hoc member of the host country economic team rather than aspiring to become the prima donna at the opera.

Much of the usefulness of a consultant, in the view of the author, is through facilitating the client's access to experiences in other countries and helping the client think through its own solution, as opposed to having an outsider somewhat unilaterally prescribe what should be done, in which case the country is more or less presented with a "take it or leave it" situation. For complex reforms, experiences from different sources in various countries need to be examined.

To be effective, external assistance must be teamed with host country counterparts. Technical assistance can be very effective for improving "things", such as reducing pollution from a factory, but technical cooperation is a more acceptable concept for institutional change. The role of the host country has to be sufficient to develop a sense of ownership in the recommended changes. [check with earlier version also Mongolia]

When to use individual consultants and when to use institutions as advisors is a question that continues to trouble both donors and recipients of grants and loans. There are many ways in which individual consultants offer the necessary technical assistance more cheaply than can institutions. Nevertheless, only a consulting institution can provide the breadth of expertise, and reliability the continuity of support, and continuing relationship needs for most industrial reforms.

Balancing costs against other factors in the selection of consultants; either indigenous or outside, is not easy. Resources are rarely adequate. Yet overemphasis on the lowest bid tends to encourage the parachuting in of those who have preconceived models developed in a foreign country, with only cosmetic changes in substance and labels. It also handicaps the consultant in efforts to develop a meaningful level of involvement people in the organization requesting the assistance. A follow-on relationship to help ensure implementation is often eliminated through the

cost negotiation process.

ROLE OF THE BUREAUCRACY

An extremely important factor contributing to economic transformation success or failure involves the role of different levels of the governmental bureaucracy in the affected ministries and enterprises. Much is to be gained by giving higher priority to this part of the action plan than it is usually accorded.

Techniques that some have found useful in reducing bureaucratic opposition or foot dragging include:

- **Honesty** in stating what is intended. It is tempting to minimize the extent of changes that are contemplated, on the theory that full knowledge would lead to widespread concern and increase opposition. This sugar coating of true intentions is generally counterproductive. Deception is quickly discovered, adding to the natural tendency of the bureaucracy to be suspicious of change. In an environment of secrecy, rumors of what is to happen are nearly always worse than what is actually contemplated. And once employees find their leaders are not telling them the truth, it is virtually impossible to gain their confidence and their cooperation. In the end, forthright statements then gain respect, even though they may not produce agreement.
- **Explain** the reform clearly and fully to the employees at the outset, particularly what is expected of them. If supervisors and their employees do not fully understand the policy objectives and the plans for implementing those objectives, they are faced with a dilemma. If they wait for clear instructions which filter down slowly or incompletely, they are likely to be regarded as either foot-dragging bureaucrats or as conspiring to block the reform through inaction. If, however, they possess initiative and take action before becoming fully informed, they risk moving in directions not consistent with the policy objectives of their leadership and are looked upon as saboteurs of the reform.

The explanations need to be repeated, orally and in writing, with ample opportunity for questions and employee discussion in a non-threatening environment. Unfounded rumors flourish among the uninformed, and they are usually more threatening to the bureaucracy than the facts. The lowest level employees need to be brought into the discussions, although the focus has to vary with the different groups. Even when employees are not persuaded of the wisdom of the reform, and often they are not, they should at least see that there is a credible rationale for new approaches and that their leaders value them as individuals and regard

their concerns as warranting top level attention. If a candid explanation of the reform objectives has been provided, the amount of disagreement will probably be narrowed and the intensity and emotion of their opposition will be lessened in most cases.

- Men and women in the various levels of bureaucracy should be made to feel that they have an important role in attaining the goals of the reform. And, in fact they do! To the extent they feel they have a significant part in the undertaking, and that their efforts are appreciated and recognized, their support is much more likely to develop.

One excellent way in which to bring about this sense of being a part of the reform team is to enlist their participation in developing the plans for carrying out the objectives which have been established by national leaders.

Short term internal task forces with diversified members may be useful. Workshops are often held. Such actions not only give employees a sense of "ownership" in the program, and therefore some commitment to its success, their input improves the quality of the implementation by giving the reform leaders the opportunity to draw upon their knowledge and practical experience. In these discussions a distinction should be made between the basic objectives which have been already established by the leadership, and for which the time for debate has passed, and the means of implementation which is the area in which their input is solicited. The author has often solicited advice from lower level managers before setting objectives, but once the objectives have been established, the discussion shifts to means of implementation.

These and other techniques can make a tremendous difference in how employees approach reform. In short, genuine cooperation of the bureaucracy has to be earned; it cannot be ordered.

Training: Foundation for Reform.

The most casual observer would label as ridiculous the suggestion that an experienced automobile driver could fly a modern airplane without considerable training. After all, take-offs and landings are not exactly maneuvers for which automobile driving provides much understanding, not to mention major differences in how to turn, the significance of radio communication, how to deal with stormy weather, and so on. These differences are so obvious and basic that no one would question the need for extensive training before anyone should take the controls of an airliner.

It should be equally obvious that there is also an urgent and critical need for extensive training and retraining of those who are to operate a government that is entering into fundamental reform. This is particularly true when a nation changes from a command economy to one that is market oriented, requiring privatization and basic economic reforms, in combination with transformation from a centralized political system to a multi-party system. These are drastic changes intended to bring about nothing less than a transformation of the nation.

Political reforms that move toward transparency and public responsiveness are more complex and very different to operate than those of a centralized type. Employees have to learn how to talk with the public, be sensitive to their needs, and respond to them to the extent possible. This may be in sharp contrast to their prior training which has been often focused on responsiveness to party leaders in the nation's capital, with little regard for the impact of delays in service or lack of responsiveness to the citizens. Middle and high level managers have to learn how to make more decisions on their own, take initiative, be creative, delegate effectively, have their work opened up to external scrutiny, and be held accountable for their actions. Where governments are in transition, much has to be learned by their employees with respect to how to listen, and how to communicate within the bureaucracy and with the public.

The transition to a market economy requires a wide range of actions for which managers trained in a command economy have no experience. Policies that foster the development of a strong indigenous private sector are only the beginning. Most privatization steps require ministry leaders who understand what incentives are necessary for a private sector that can truly provide the engine of economic growth. They also need to understand the disincentives that must be removed or avoided by the government if private business is to thrive. The lowest levels of the bureaucracy are not likely to understand these matters, but they need to learn how their day to day handling of such seemingly routine matters as issuing of licenses and permits, and the expeditious processing of customs can make a big difference in the success of private enterprises, especially the smaller ones.

INNOVATION

When the need for major reform is urgent, the need for innovation is also critical. The management of economic reform calls for examining a range of approaches relatively new to the country that have been useful elsewhere, and determining whether elements might be adapted for experimentation or pilot projects.

Possible examples include export processing zones or enterprise zones as a concept that has potential value in countries in transition where there is great uncertainty at the present time. The essence of the concept is that of establishing a

It should be equally obvious that there is also an urgent and critical need for extensive training and retraining of those who are to operate a government that is entering into fundamental reform. This is particularly true when a nation changes from a command economy to one that is market oriented, requiring privatization and basic economic reforms, in combination with transformation from a centralized political system to a multi-party system. These are drastic changes intended to bring about nothing less than a transformation of the nation.

Political reforms that move toward transparency and public responsiveness are more complex and very different to operate than those of a centralized type. Employees have to learn how to talk with the public, be sensitive to their needs, and respond to them to the extent possible. This may be in sharp contrast to their prior training which has been often focused on responsiveness to party leaders in the nation's capital, with little regard for the impact of delays in service or lack of responsiveness to the citizens. Middle and high level managers have to learn how to make more decisions on their own, take initiative, be creative, delegate effectively, have their work opened up to external scrutiny, and be held accountable for their actions. Where governments are in transition, much has to be learned by their employees with respect to how to listen, and how to communicate within the bureaucracy and with the public.

The transition to a market economy requires a wide range of actions for which managers trained in a command economy have no experience. Policies that foster the development of a strong indigenous private sector are only the beginning. Most privatization steps require ministry leaders who understand what incentives are necessary for a private sector that can truly provide the engine of economic growth. They also need to understand the disincentives that must be removed or avoided by the government if private business is to thrive. The lowest levels of the bureaucracy are not likely to understand these matters, but they need to learn how their day to day handling of such seemingly routine matters as issuing of licenses and permits, and the expeditious processing of customs can make a big difference in the success of private enterprises, especially the smaller ones.

INNOVATION

When the need for major reform is urgent, the need for innovation is also critical. The management of economic reform calls for examining a range of approaches relatively new to the country that have been useful elsewhere, and determining whether elements might be adapted for experimentation or pilot projects.

Possible examples include export processing zones or enterprise zones as a concept that has potential value in countries in transition where there is great uncertainty at the present time. The essence of the concept is that of establishing a

INSTITUTE OF PUBLIC ADMINISTRATION

TRUSTEES

LYLE C. FITCH, CHAIRMAN
HENRY COHEN, VICE CHAIRMAN
ALAN K. CAMPBELL
MARK W. CANNON
LOUIS J. GAMBACCINI
LUTHER GULICK
PEARL H. HACK

DWIGHT INK, PRESIDENT
LOUIS WINNICK, TREASURER
WILLIAM JAY LIPPMAN
FLORETTA DUKES MCKENZIE
ALFRED C. NEAL
JOHN S. SUMMERSKILL
ANNMARIE WALSH

55 WEST 44TH STREET
NEW YORK, NY 10036-6652

(212) 730-5480
TELEX 220437 IPA UR
FAX (212) 398-9305

PUBLIC SECTOR REFORM

IN NICARAGUA

The free elections in Nicaragua have created an unusual opportunity for the government to establish democratic institutions, and develop the machinery for economic recovery and resurgence of private enterprise.

Taking advantage of this opportunity will not be easy. A small group of incoming leaders will be faced with the formidable task of quickly (a) developing an economic team capable of both planning and implementing a sustained economic program, (b) establishing democratic institutions and practices, (c) promoting a market economy with a strong private sector, (d) establishing meaningful local government and effective relationships between Managua and other communities, (e) strengthening public administration to make government more responsive to the needs of the people and more attractive to business investors and (f) establishing financial, procurement, and personnel management that will guard against corruption and yet not inhibit the capacity of a new government to act.

A total revamping of the public sector is required if Nicaragua is to recover from its current crisis. This is an extremely formidable task that will need to include these critical actions:

1. Organization. The new government will need to quickly determine at least an initial structure to provide a basis for appointing ministerial leadership in the new government and launching much needed government reform.
2. Presidential Support. The need for rapid decisions on increasingly complex decisions will require institutional support for the President and the Ministers, including machinery to assist in the coordination of planning and operations. Coordinating structural adjustments and economic planning, for example, will involve the National Bank, the Planning and Finance ministries and other elements of the government including the National Assembly. Implementation presents even greater coordination challenges.

limited geographical area in which property rights are clearly defined, where for most other purposes the zone is outside the regulatory framework of the country. Private developers run the zone, and are able to set up their own infrastructure and communications links with the rest of the world. This may be an interim means for getting more activity happening and gaining experience with exporting while the complicated process of redefining property rights and government regulatory framework for the country as a whole proceeds gradually over a period of time. The author is not prescribing enterprise zones, but simply listing them as an example of the type of innovative developments in transition countries that are worth serious examination.

One warning: successful innovation requires a particularly sophisticated brand of management. Where possible, such as in the enterprise zones just mentioned, pilot operations should be employed. The People's Republic of China, for example, has extensively employed phasing and pilot approach in civil service reform and the transition from central micromanagement to a more efficient macromanagement which permits greater initiative and accountability. Where crisis conditions require urgent action, the reform will have to take many actions without waiting for the results of pilot projects, yet they may be very useful for the longer term plans.

CONCLUSION

Discussion of changes that are necessary to increase the capacity of government to achieve economic restructuring could be quite lengthy. As indicated at the outset, this paper is simply intended to discuss the critical role of governmental change in achieving change, and to list the problems the author has encountered most often with respect to managing reform in the United States and in a number of other countries. The way in which these problems are addressed is necessarily different in every nation, but in virtually every case, there has been failure to fully recognize public sector reform as an essential of instrument in addressing economic reform. As a result, the task of managing the reform has been underestimated and the reform become unnecessarily difficult and often placed in jeopardy.