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GOVERNMENTAL REFORM NEEDED FOR ECONOMIC TRANSFORMATION

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In the last several years there has been a rapid movement toward economic reform in much of the world. It is occurring in many countries with highly diverse 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.

Actions required to achieve the benefits of these reforms are far more difficult, however, than most people realized when the reforms were launched. The author believes that one reason is that, with the exception of the People's Republic of China, most of these countries have had difficulty developing sufficient support and/or professional expertise to move forward with the corresponding changes in governmental structures, systems, and personnel that are required.

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, as well as responsibility for United States economic and technical assistance in support of reform in other countries.

ROLE OF GOVERNMENT

The value of a market economy in driving forward the economic growth required to better provide for the needs of people is great, and support for this view is increasing steadily. Not as universally recognized is the need for governmental modernization that is required for success in economic restructuring and which also addresses the social impact of economic change and the need to minimize resulting social dislocations.

Steps toward a market economy cannot proceed very far, greater individual freedom from poverty cannot be sustained, infrastructure cannot be built, and corruption cannot be attacked, unless

governmental administrative reforms and development of economic restructuring go hand in hand.

One of the reasons for the frequent failure to adequately address the need for government reform, in the opinion of the author, is a widespread notion among many reformers that a principal objective of economic transformation should be to simply "get government out of the way".

These advocates reason that governments which typically have developed large, costly bureaucratic ministries and unproductive enterprises, evolved a negative system of laws and regulations which discouraged and often prohibited competitive enterprises from developing. Therefore, it is reasoned, government ministries are the big obstacle to achieving the goals of reform and, with a few exceptions, should be pushed into the background as much as possible.

This philosophy is wrong and very damaging to successful reform. Let us look briefly 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 true that the new political environment in many countries will provide potential opportunities for market economies to contribute heavily to the future of the people through strong economic growth.

It is the government, however, which will either develop market-oriented policies and provide a positive environment for international trade and investment, or conversely, produce negative policies that inhibit economic growth, as well as present obstacles, such as onerous processing of permits and licenses and inordinate customs delays because of red tape and inefficiency. The legal system often has to be reformulated through legislative action, and property use and property rights have to be established. Tax systems have to be overhauled.

Economic growth requires sustained economic reform and political stability, circumstances which are almost impossible without a stable and competent government.

High level policy decisions and operating practices that are conducive to developing a broad based business community responsive to the public needs often require drastic public sector changes that can be institutionalized only through careful planning and skillful implementation.

2. Corruption. Recent history is replete with instances in which corrupt and ineffective 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 business 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.

3. Governance. Although countries now embarking on basic economic reform have some very able people in the new leadership, their ranks are often 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 institutions and practices that are responsive to the needs of the public, (c) establishing meaningful local governments and effective relationships between them and the central governments, (d) promoting market oriented incentives that help to meet the test of international economic competition, and (e) establishing governmental procurement, financial and personnel management that will both guard against corruption and yet not inhibit the capacity of a government to act.

Governance in countries in transition must quickly establish effective functioning of the top echelons of new governments if these basic tasks are to be accomplished. 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.

4. Infrastructure. Vigorous economic growth 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. They are all affected with the public interest.

How well these and other elements of infrastructure are built and operated is of tremendous importance in economic recovery. In countries emerging from stagnant economies, entirely new approaches to modernizing their infrastructure are required.

5. Promotion And Regulation.

To be effective, steps to modernize business enterprises have to be planned carefully, the same as all other components of economic restructuring. Developing the managerial capacity and acquiring the new technology needed to compete in the international market place is a formidable task. One of the difficult new dimensions to be sorted out is the competing demands for business promotion and the need for regulation.

Not always recognized is the fact that every industrialized country, including those that rely heavily on a strong private sector such as 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.

In this role, governments have to strike a balance that guards against business exploitation of the public, but avoids excessive regulations and procedural delays that destroy the incentives for initiative, innovation and risk taking which are essential for economic growth.

GOVERNMENTAL ROLE

It should be noted that although actions which move a nation toward a market economy generally 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 detailed procedures are being followed.

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 each 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 several of the public administration issues that the author has observed typically creating special difficulties for countries in transition.

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 public criticism confronting the political leaders as painful economic reforms move too slowly, and the extent of continued monitoring and adjustment required after the reform is launched.

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.

When reforms are initiated by strong public demands for reform, as has been the case in Central Europe, a different situation may develop in which timidity and plans for half-way measures are not the problem. On the contrary, it has been politically difficult to avoid attempting drastic changes so suddenly that they are not well designed, and social and economic

dislocations have weakened public support for basic reforms. In such circumstances, the public is not prepared for the inevitable problems which are exacerbated by inadequate planning and the rapid pace of change. Confusion, loss of jobs, and apprehension about the future result.

Whatever the particular circumstances, if a country embarks on sudden changes of a fundamental nature, 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.

Further, governments are faced with difficulties in quickly developing the capacity for complex economic decision making and the inter-ministry coordination necessary for effective implementation. Timetables for economic restructuring will differ from country to country and timing for various components of the economic plan will differ within the same country. In virtually every case, for example, 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 devaluating on a step by step approach over time. Major reductions in expenditures of ministries and enterprises require careful planning, and moving too rapidly can be quite counterproductive.

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.

The broad plan or strategy that constitutes the starting place for economic transformation should include some form of "safety net" program to cushion the impact of economic restructuring. Governmental changes will likely be required to support such a program which may differ greatly from earlier social programs. In addition to its intrinsic value, such a program also reduces the political cost of reform if people believe their government recognizes that people are suffering and are trying to respond. But this is true only if the government's delivery system is perceived as effective and reasonably free of corruption.

These are only some of the dimensions to sound economic growth that pose difficult challenges to governments in transition.

PHASING BOLD STRATEGIES

With respect to governmental restructuring to meet the needs of fundamental economic change, 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 in the end they will eventually 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 changes in governmental structures and systems, 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.

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.

DOWNSIZING

Large layoffs in public enterprises and government ministries 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.

In most cases, careful planning and management of the cutbacks resulting from modernization measures can at least reduce 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, particularly if the reductions are made suddenly.

Doing more with less is feasible and a very desirable objective in many cases. In fact, it is often an absolutely essential step. But a meat axe approach is costly. Downsizing, or "rightsizing" as it is now sometimes called, necessitates careful design, including the detailed flow-charting of the new processes and clear statements of responsibility. Downsizing programs with which the author is familiar that have resulted in greatly increased efficiency over the longer term have nevertheless generally created short term operational problems that require mitigation quickly. These early disruptions have stopped some reforms in midstream.

An American Management Association survey of over a thousand downsized companies in the U.S. showed that over half were poorly prepared for the changes that took place. My Institute of Public Administration has 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, or group of persons, 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 needed to support 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 to be found 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 developed 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 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 far beyond that which is usually faced by government.

Special Management Unit. One must recognize, that although the top leaders should ensure that the management elements of the reform program are given heavy weight and support, most of them are too busy with many other pressing matters to spend time personally guiding the details of the reform. Day to day management and coordination needs to be provided by a small unit in a strategic location, such as the front office of the chief of state or a council of ministers. The author cautions against arrangements in which management is placed in the same organization that handles resource allocation because the pressures of budgeting scarce resources subsume management, generally rendering it impotent.

Wherever its location, it should be a permanent unit having a continuing responsibility for management improvement. In the case of fundamental reform, the institutional machinery may need to be supplemented by a special temporary group set up for the purpose of helping the chief of state carry out a particular reform. The point is that there has to be some mechanism with the primary mission of helping leaders manage the reform. Too often this step is taken too late. China, on the other hand, wisely established its own type of implementing machinery at the outset, thereby enjoying the advantage of professional leadership throughout.

EXTERNAL TECHNICAL ASSISTANCE

It is useful to look at experiences in other countries before embarking on new reforms, 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. And if the reform is perceived as being virtually forced upon a government by the IMF or other external entity, there will be resentment. 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 reformation 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 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. Again, the role of the host country has to be sufficient to develop a sense of ownership in the recommended changes.

When to use individual consultants as advisors, in contrast institutions, 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 needed for most 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 consultants in their efforts to develop a meaningful level of involvement of 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, in the judgment of the author, is 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 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, and its full commitment to success, 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.

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 basic economic restructuring and major governmental changes. Securing the resources needed for massive retraining may be the single most difficult challenge of all.

Where governments are in transition, much has to be learned by their employees with respect to how to listen, how to persuade, how to take the initiative, and how to communicate within the bureaucracy and with the public.

INNOVATION

When the need for major reform is urgent, some will argue that there is not time for innovation. The author, however, agrees with those who say that the need for innovation is especially critical in such circumstances. The management of economic reform calls for examining very quickly 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 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. Special developers run the zone, and to varying degrees 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 more 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 and which require innovative approaches regarding governmental structures and approaches.

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 wisely employed phasing and pilot approaches in civil service reform and the transition from central micromanagement to a more effective 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 in even these situations.

SUMMARY

Discussion of changes that are necessary to increase the capacity of government to achieve economic restructuring could be quite lengthy. This paper is simply intended to discuss the critical role of governmental change in achieving change, and to list several 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 far too many cases, there has been failure to fully recognize public sector reform as an essential instrument in addressing economic reform. As a result, the task of managing the reforms has been underestimated and the reforms have become unnecessarily difficult and often placed in jeopardy. Because the People's Republic of China has given so much serious attention to administrative reform as it moved ahead with impressive economic gains, it is particularly interesting to learn more about the approaches being pursued in this country which has taken on the greatest challenge of any country in the world.