

WORLD PUBLIC SECTOR REPORT

Globalization and the State

2001



United Nations

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**Globalization and
the State
2001**

DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS



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PREFACE

It is increasingly being acknowledged that the State is a key actor in the development process. It has a major role to play in making globalization work for all; in alleviating poverty and income inequality; in advancing human rights and democracy; in protecting the environment and promoting sustainable development; and in managing violent conflict and combating international crime. Overall, public administration has a vital role to play in the quest for peace, greater freedom, social equity and sustainable development. States can either guarantee people's freedom and a measure of social justice, or can hold back development. How the public sector is structured, administered and operated, as well as what policies are pursued, has therefore a great impact on people's well-being.

In light of the above, and in compliance with Recommendation No. 9 of the Fifteenth Meeting of the Group of Experts on the United Nations Programme in Public Administration and Finance, which was endorsed by the Economic and Social Council, the United Nations Department of Economic and Social Affairs has decided to establish a recurrent publication entitled "World Public Sector Report". This Report, which will be published every two years, intends to review major trends and issues concerning public administration and governance. It will analyze the challenges faced by governments in reforming particular areas of their public sector, and highlight best practices in public administration and/or national reforms, which may serve as a useful reference to other countries modernizing their public administration systems.*

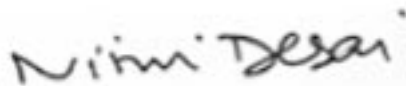
The purpose of the World Public Sector Report is to provide policy makers, scholars, and the civil society with relevant information, data and research findings on issues related to the public sector. It is also intended to facilitate the discussion of relevant public sector issues in the agenda of the United Nations inter-governmental bodies such as the Economic and Social Council. The Report will be articulated in two main parts. The first part will be devoted each time to a specific theme of relevance to public administration and development covering different regions and countries, and the second part will elaborate on the conceptual issues and the measurement of different dimensions of the public sector.

The theme that has been chosen for this inaugural issue of the Report is "Globalization and the State". The choice has been dictated partly by the controversy which still surrounds this subject, and partly by the

* Pursuant to resolution E/2001/45 of the Economic and Social Council (ECOSOC) dated 20 December 2001, the Group of Experts on the United Nations Programme of Public Administration and Finance was renamed "Committee of Experts on Public Administration".

need to underscore the importance of strengthening the State and its institutions in a globalizing world. The present volume is the confluence of inputs from many different sources. It has drawn on the work and views of eminent world personalities and institutions, as well as the reports of the Meetings of Experts in Public Administration and Finance, which bring together a representative group of noted practitioners and scholars from every part of the world. In this way it has been possible to shed, on all the problems reviewed in this Report, the light of different perspectives emanating from different regions.

It is hoped that this Report will enrich the contents of the debate on globalization, and broaden the range of participants. The discussion on this crucial issue and its relation with the development process will continue in the years to come. We believe it is important that in this debate the relationship between globalization and the action as well as reaction of the State be seriously evaluated. This Report is therefore a contribution to this effect.



Nitin Desai
Under-Secretary General
for Economic and Social Affairs

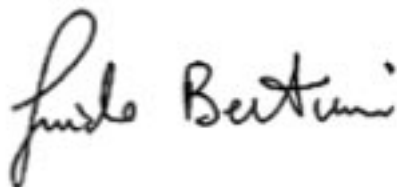
FOREWORD

Managing the public sector in today's environment of constant change, particularly in view of globalization, has become an increasingly demanding challenge for national decision makers, policy advisors, service delivery managers and civil servants at large.

The functions and role of the State have been transformed substantially. The general configuration of its responsibilities has changed and this has introduced important modifications both in the policy arena and in the State's requirements for high-level skills, qualitatively and quantitatively. Overall, the course of change points to a shift of focus away from hands-on management and the direct production of services and goods towards strategic planning with a view to the establishment and maintenance, refinement and reform of an enabling framework for private enterprise and individual initiative. A parallel shift has moved the State's centre of gravity and with it the locus of power. Decentralization, debureaucratization and deregulation are adding to the importance not only of local government, but also of non-state actors on whom significant functions are devolved or outsourced. At the same time, a range of tasks and policy decisions, traditionally handled by national bureaucracies in their respective capitals, is being increasingly transposed to an inter-governmental or supranational level as a result of increased flows between countries of goods, capital, labour and information. Increasingly, the State is called upon to act as "linking pin" of processes of planning, consultation, negotiation and decision-making involving diverse actors, State and non-state, at different levels of governance. The State is the hub of activities connecting multiple partners and stakeholders from very varied fields, regions, cultures, occupations, professions and interests.

It has also become apparent that the benefits of globalization have been so far uneven. Experience suggests that one of the main causes of the crises plaguing developing countries and the inability of some of them to integrate in the world economy is state capacity deficit. Globalization is certainly presenting many opportunities, including foreign direct investment, trade, access to information technology; however, only countries that have in place an effective public administration, solid political and economic institutions, adequate social policies and a committed leadership can ensure that all sectors of society benefit from greater integration into the world economy. In

order to make full use of the opportunities provided by globalization, as Part One of the Report maintains, developing countries need, among other things, to reinvest in their public sector and enhance their capacity for policy analysis, formulation and implementation. Arguably, what countries need most in order to enable people to enjoy the benefits of globalization is to focus on strengthening their institutions, develop human resources capacity, and achieve technological adequacy – with a view to capturing the economic gains which globalization may bring and to mitigating its social costs. As Part Two shows, States with robust and far-reaching public sector activities are those which have best succeeded in achieving both goals. It is hoped that some of the suggestions contained in this Report may assist policy makers in developing appropriate strategies in this direction.

A handwritten signature in black ink, reading "Guido Bertucci". The signature is fluid and cursive, with the first name "Guido" and the last name "Bertucci" clearly distinguishable.

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This first issue of the World Public Sector Report, on Globalization and the State, was prepared by a team of the Division for Public Economics and Public Administration (DPEPA) of the Department of Economic and Social Affairs (DESA). Under the overall responsibility of the Director of the Division, Mr. Guido Bertucci, Mr. Demetrios Argyriades and Ms. Adriana Alberti were editor in chief and editor respectively of the entire Report, and contributed to Part I. A number of staff members of the Division also contributed in various degrees, including Larry Willmore who prepared Part II of the Report. The following external advisors provided valuable material, feedback and advice in the preparation of this Report: G. Bouckaert, Gerald Caiden, Naomi Caiden, O.P. Dwivedi, Joachim Hesse, Michael Illner, Moses Kiggundu, Bernardo Kliksberg, Derry Ormond, José Sulbrandt, and Gérard Timsit. External editing, and layout and graphic design were provided by Angel Antonio García and Adolfo I. Vargas respectively.

CONTENTS

| | | |
|-------------------------|-------|-----|
| <i>Preface</i> | ..... | iii |
| <i>Foreword</i> | ..... | v |
| <i>Acknowledgements</i> | ..... | vii |
| <i>Contents</i> | ..... | ix |

GLOBALIZATION AND THE STATE

PART ONE

| | | |
|--|-------|----|
| Introduction | ..... | 3 |
| Chapter I - The many facets of globalization | ..... | 7 |
| 1. Globalization: an overview | ..... | 7 |
| 1.1. Globalization: a complex phenomenon, involving a variety of global trends and tendencies | ..... | 8 |
| 2. What is driving globalization? | ..... | 9 |
| 2.1. Trade and investment liberalization policies | ..... | 9 |
| 2.2. Technological innovation and the reduction in communication and transportation costs | ..... | 10 |
| 2.3. The role of entrepreneurship in accelerating globalization | ..... | 13 |
| 2.4. International social networks: increase in number and strength | ..... | 13 |
| 3. The global village: economic and social dimensions of globalization | ..... | 14 |
| 3.1. Economic globalization | ..... | 14 |
| 3.2. Social globalization | ..... | 15 |
| 4. The opportunities of globalization | ..... | 17 |
| 4.1. Greater economic opportunities | ..... | 17 |
| 4.2. Greater global social awareness and opportunities for democracy | ..... | 17 |
| 5. Current trends and challenges affecting public administration in a globalizing world | ..... | 18 |
| 5.1. Alleviation of poverty and inequality | ..... | 18 |
| 5.2. Advancement of human rights and democracy | ..... | 21 |
| 5.3. Protection of the environment and sustainable development | ..... | 22 |
| 5.4. Mobility of workers and migration | ..... | 23 |
| 5.5. Demographic trends: ageing population and impact of HIV/ AIDS | ..... | 24 |
| 5.6. Bridging the digital divide | ..... | 25 |
| 5.7. Combating international criminal networks | ..... | 26 |
| 6. Too much or too little globalization? | ..... | 26 |

Chapter II - The impact of globalization on the State29

| | |
|---|----|
| 1. How is globalization affecting the role and functioning of the State? | 29 |
| 1.1. The role of the State in domestic and international governance | 29 |
| 1.2. The role of the State in multi-layered governance | 31 |
| 2. Redesigning the State in the 1980s and 1990s | 32 |
| 2.1. Privatization and deregulation | 34 |
| 2.2. Market-like mechanisms | 35 |
| 2.3. Decentralization | 35 |
| 2.4. Debureaucratization | 35 |
| 3. New Public Management and its main tenets | 36 |
| 3.1. Let the managers manage | 37 |
| 3.2. Empowering citizens | 38 |
| 3.3. New responsibility mechanisms | 38 |
| 3.4. Introducing business principles into public affairs | 38 |
| 3.5. Downplaying the concept of “public service” | 39 |
| 3.6. Promoting professional ethics in the public sphere | 39 |
| 3.7. Performance management | 39 |
| 3.8. Performance budgeting | 40 |
| 4. Regional perspectives | 41 |
| 4.1. Western Europe | 41 |
| 4.2. Eastern and Central Europe | 43 |
| 4.3. Asia | 44 |
| 4.4. Arab States | 46 |
| 4.5. Africa | 47 |
| 4.6. Latin America and the Caribbean | 50 |
| 5. Lessons learned | 53 |
| 5.1. Failure to take into account history, local institutions and cultural variables | 55 |
| 5.2. Why have some States not been able to seize the benefits of globalization? | 59 |

Chapter III - Reinforcing state institutions and social policies63

| | |
|--|----|
| 1. Making globalization work for all | 63 |
| 2. New global dynamics require a fresh approach to the State | 63 |
| 2.1. What is meant by an intelligent, democratic State | 65 |
| 2.2. The relationship between intelligent, democratic States and free markets | 67 |
| 2.3. The role of the State in creating an enabling environment for the private sector | 68 |
| 2.4. Fostering partnerships between the State and civil society | 70 |

| | | |
|--|--|-----------|
| 3. | Creation of a strong and democratic institutional framework | 73 |
| 3.1. | Democracy, freedom and participation | 73 |
| 3.2. | Making democracy meaningful | 75 |
| 3.3. | The rule of law and public trust | 76 |
| 3.4. | Strengthening and modernizing national judicial systems | 76 |
| 3.5. | Strengthening and modernizing national parliaments | 79 |
| 3.6. | Promoting effective decentralization | 80 |
| 4. | The importance of strengthening social policies in an era of globalization | 81 |
| 4.1. | Reinforcing social capital | 84 |
| 4.2. | Public services for everyone: a desirable goal | 85 |
| 4.3. | Establishment of an information system to design and monitor social policies | 86 |
| 4.4. | Inter-organizational management of social programmes | 86 |
| 4.5. | Toward decentralizing social services | 87 |
| 4.6. | Community participation: a strategic key for renewing the social institutional framework | 88 |
| 4.7. | The focus of social management | 89 |
| 5. | The case for robust multilateralism | 93 |
| 6. | The need for a balanced approach to globalization | 96 |
| Chapter IV - Strengthening the administrative capacity of the State | | 97 |
| 1. | The management of change: the State as a “learning organization” | 97 |
| 2. | Enhancing leadership skills and strategic planning capacities | 99 |
| 3. | Fostering capacity-building | 100 |
| 3.1. | Building cognitive capacity in the face of globalization | 101 |
| 4. | The need for performance standards for management development | 103 |
| 4.1. | Purposes of performance measures | 104 |
| 5. | The need for top-level managers | 105 |
| 6. | Competencies needed to meet the challenges of globalization | 106 |
| 7. | Public service professionalism | 108 |
| 7.1. | Transparency: a generalized demand | 109 |
| 7.2. | Managing diversity | 109 |
| 8. | Organizational responses for human resources development | 111 |
| 9. | Technology and reform | 114 |
| 9.1. | Information technology: its promise and potential for reform | 114 |
| 9.2. | Delivering on promises: coping with the digital divide | 117 |
| Footnotes - Chapter IV | | 120 |

| | |
|---|-----|
| Chapter V - Looking towards the future | 121 |
| 1. What went wrong? | 121 |
| 2. Reforms must be home-grown and made to fit real needs | 121 |
| 3. Making democracy meaningful: the need for a strong, strategic State | 122 |
| 4. The State as linking pin: a strong supportive centre | 122 |
| 5. Building the essential competence for an intelligent, democratic State | 123 |
| 6. Reinforcing core public service values | 124 |
| 7. Assisting developing countries with institution-building | 124 |
| 8. Building networks among public services: the United Nations can help | 125 |
| 9. Helping developing countries to cope with complexity and change | 125 |
| 10. Making globalization an instrument of inclusion | 126 |

BOXES

| | | |
|--------|---|-----|
| I.1. | The world according to Keynes in 1919 | 8 |
| I.2. | Different views on globalization | 9 |
| I.3. | What is globalization? | 10 |
| I.4. | Defining and measuring foreign direct investment | 15 |
| I.5. | Poverty in an unequal world | 19 |
| III.1. | Declaration of the Millennium Assembly of the UN | 67 |
| III.2. | A compact for the new century | 69 |
| III.3. | The Administration and Cost of Elections project (ACE) | 74 |
| III.4. | Information technology and the courts in Australia | 79 |
| III.5. | Yerevan Declaration on Decentralization | 81 |
| IV.1. | The United Nations Online Network in Public Administration and Finance (UNPAN) | 102 |
| IV.2. | How did the internet develop? | 116 |

GRAPHS

| | | |
|------|---|----|
| I.1. | Declining sea transportation costs since 1920 in US\$ | 11 |
| I.2. | Declining air transportation costs since 1930 in US\$ | 11 |
| I.3. | Declining telecommunications costs since 1930 in US\$ | 11 |
| I.4. | Top 15 countries in computers-in-use year-end 2000 & 2001 | 12 |
| I.5. | Tax revenues as % of GDP, 1999 | 20 |
| I.6. | Population living below US\$1 per day in developing countries in 1990 and 1998 | 22 |

| | | |
|--|---|------------|
| II.1. | Taxes as share of GDP (%), 1994-98 | 33 |
| III.1. | Proportion of countries with democratic governments (%) | 73 |
| III.2. | Share of government budget spent on basic services (%) | 84 |
| III.3. | World Health Indicators 1997 | 92 |
| References - Part One | | 127 |

PART TWO

| | |
|---|------------|
| Introduction | 137 |
| Defining and measuring the size of the State | 139 |
| 1. Conceptual framework | 139 |
| 1.1. The State as regulator | 139 |
| 1.2. The State as tax collector | 140 |
| 1.3. The State as producer | 140 |
| 1.4. The State as consumer | 142 |
| 1.5. The State as provider of cash transfers and subsidies | 144 |
| 1.6. Measuring the size of the public sector | 144 |
| 2. Measures of the size of government | 145 |
| 2.1. Government and public sector employment, 1990 and 1997 | 146 |
| 2.2. Government consumption, 1990 and 1997 | 149 |
| 2.3. Central government expenditure, 1990 and 1997 | 151 |
| 2.4. Central government tax revenue, 1990 and 1997 | 153 |
| 3. Determinants of the size of government | 154 |
| 3.1. Economies of scale in government | 154 |
| 3.2. Income per capita | 156 |
| 3.3. Globalization and size of government | 157 |
| 3.4. Changes in the size of government | 158 |
| 4. Conclusion | 159 |
| 4.1. How can the size of the public sector be measured in theory? | 159 |
| 4.2. How can the size of the public sector be measured in fact? | 160 |
| 4.3. What accounts for observed variation in the size of the public sector? | 161 |

FIGURES

| | | |
|-----|---|-----|
| 1. | The public sector in the 1993 System of National Accounts (SNA) | 141 |
| 2a. | 1990 Ratio of government employment to population | 150 |
| 2b. | 1997 Ratio of government employment to population | 150 |
| 2c. | Government employment as % of population | 150 |
| 3a. | 1990 Ratio of public sector employment to population | 150 |
| 3b. | 1997 Ratio of public sector employment to population | 150 |
| 3c. | Public employment as % of population | 150 |

| | | |
|-----|--|-----|
| 4a. | 1990 Ratio of government consumption to GDP (PPP prices, percentages) | 153 |
| 4b. | 1990 Ratio of government consumption to GDP (domestic prices, percentages) | 153 |
| 4c. | 1997 Ratio of government consumption to GDP (domestic prices, percentages) | 153 |
| 5a. | 1990 Ratio of central government expenditure to GDP | 156 |
| 5b. | 1997 Ratio of central government expenditure to GDP | 156 |
| 6a. | Small territory: economies of scale in government | 158 |
| 6b. | Large territory: economies of scale in government | 158 |
| 7. | Openness and central government expenditure (total) | 160 |
| 8. | Openness and central government expenditure (modern state functions) | 160 |
| 9. | Openness and central government tax revenue | 160 |

TABLES

| | | |
|----|---|-----|
| 1. | Government and public employment as a percentage of population | 147 |
| 2. | Government consumption as a percentage of GDP | 152 |
| 3. | Central government expenditure as a percentage of GDP, domestic prices | 154 |
| 4. | Central government expenditure by type and by function, as percentage of all central government expenditure, 1997 | 155 |
| 5. | Central government tax revenue as a percentage of GDP, 1990 and 1997 | 157 |

Technical Appendix

TABLES

| | | |
|-----|--|-----|
| A1. | Dependent variables used in regressions | 163 |
| A2. | Independent variables used in regressions | 164 |
| A3. | Regression of government employment/population ratios on country size and other variables | 165 |
| A4. | Regression of government consumption/GDP ratios on country size and other variables | 166 |
| A5. | Regression of central government expenditure/GDP ratios on openness and other variables | 167 |
| A6. | Regression of central government tax revenue/GDP ratios on openness and other variables | 168 |
| A7. | Regression of components of central government taxes/GDP ratios on openness and other variables, 1990 | 169 |
| A8. | Regression of components of central government taxes/GDP ratios on openness and other variables, 1997 | 170 |
| A9. | Regression of changes in central government expenditure/GDP and taxes/GDP ratios on changes in openness, income and other variables, 1990-1997 | 171 |

**Statistical Appendix
TABLES**

| | | |
|--|---|------------|
| B1. | Government consumption as a percentage of GDP, 1990 and 1997 | 173 |
| B2. | Central government expenditure as a percentage of GDP (domestic prices, 1990 and 1997) | 177 |
| B3. | Central government tax revenue as a percentage of GDP, 1990 and 1997 | 180 |
| Footnotes and References - Part Two | | 183 |

PART ONE

Part One

Introduction

Globalization, although not a new phenomenon, is unquestionably of paramount significance for all countries, developed or developing, rich or poor, large or small. What is globalization? How is globalization affecting the role and functions of the nation-State? Is globalization "good" or "bad"? Is there a universal understanding of its potential or its costs? Can all societies benefit from globalization? Are all States adequately prepared to enable their people to seize the opportunities of globalization while minimizing its negative effects? How should public administration systems be redesigned in view of the changes occurring at the global level?

Part One of this Report deals with globalization and the State, and comprises five chapters. This Part attempts to answer the above stated essential questions, as well as others, in an objective and clear fashion, based on observed experience and the views of prominent experts on the matter. The following paragraphs present a synthesis of the contents of Part One.

In order to assess the opportunities that globalization brings in its trail, chapter I begins with an overview of the subject. Much has been written on this complex phenomenon in recent years, albeit in contrasting terms. Conflicting views have resulted in a discernible trend to demonize or sanctify globalization, ascribing to it attributes which it clearly does not possess. Chapter I analyzes the significance of globalization, which in essence is still an ill-defined concept, and describes its major facets.

To be sure, globalization offers many opportunities for people across the world - in particular, greater economic liberalization and increased social and political interdependence - but it also implies costs. Economic openness, foreign direct investment, and transfer of technologies promise a number of benefits to both developed and developing countries. Free trade promotes specialization among different regions, allowing them to apply their own comparative advantages. It also expands the consumption opportunities of countries by allowing the efficient interchange of goods and services. Free trade provides opportunities for developing countries in that it opens new markets for export and attracts foreign capital, which aids development. Foreign direct investment can lead to a transfer of technologies and know-how, increasing domestic productivity and employment levels.

As inferred in chapter I, increased interdependence, which has been made possible in part by the advancements in information and communication technologies and the reduction of transportation costs, has provided people with new tools to support and disseminate the universal values of democracy, human rights, transparency, and alleviation of poverty. Information and communication technologies are also contributing to the integration of the fastest growing developing countries in the global economy. It remains to be demonstrated, however, whether information technology has the potential to allow countries to leapfrog stages of economic growth and to modernize. Finally, chapter I highlights the opportunities and costs that globalization entails, as well as the challenges that public administration systems are still facing in a globalizing world.

Despite the great opportunities that globalization presents, not all countries have been able to take full advantage of it. Experience has shown that some countries have fared much better than others, while some have not benefited at all. In view of the uneven distribution of the benefits of globalization worldwide, chapter II explores the impact of globalization on the State and the past reforms in public administration or responses to globalization in Western Europe, Eastern and Central Europe, Asia, Arab States, Africa, and Latin America and the Caribbean. The purpose of this analysis is to assess whether past policy prescriptions, especially in developing countries and countries in transition, have fostered greater development and have allowed people to fully take advantage of globalization. The substance of the regional perspectives included in this chapter has been drawn from studies contributed by specialists in preparation for the Fifteenth Meeting of Experts on the United Nations Programme in Public Administration and Finance, which took place in New York in May 2000.

Chapter II examines the thrust and outcomes of this outreach and related policy transfers. It reviews both the substance of these policy transfers and their effects on the capacity of States to harness globalization. It also attempts a synthesis of lessons drawn from the experience of countries in these regions during the past two decades. The regional perspectives show that while reducing the role of the State in the economic sphere and making public administration more efficient have, in many instances, brought about positive results, the retreat of the State from the social area and the weakening of state institutions have not allowed people to fully benefit from globalization for a number of reasons. States with weak institutions do not provide a stable and suitable environment to attract foreign investment, promote entrepreneurial capacity and favour economic exchanges; they do not create the conditions for the development of a vibrant civil society as they lack the capacity to address the persisting problems of poverty and inequality; they are unable to provide social safety nets to those who suffer

as a consequence of economic restructuring, thus preventing that all benefit from globalization.

The lessons of the past also point to the basic fallacy of top-down, externally-induced, supply-driven reforms, which have been overly influenced by models not always pertinent to the needs of the recipient countries, taken insufficient cognizance of cultural diversity and tended to play down the role of the socio-economic environment in different countries and regions. Furthermore, chapter II underlines that, in order to be successful, reforms must be "home-grown", broadly in tune with the prevalent culture and "owned" by the people concerned. The Report is strongly in favour of a "trade in high-level skills" and an exchange of experience among all Member States of the United Nations. It takes the view, however, that transfers of skills and experience produce sustainable outcomes only when they correspond to an effective demand from the recipient country and when the country's government remains in control of the process of adjustment, adaptation and reform.

Chapters III and IV look to the future, and build on lessons learned from the experience of twenty eventful years. They explore the question of how to make globalization work for all and how to reform the State so that people can fully benefit from greater integration into the world economy. Experience suggests that one of the main causes of the crises plaguing developing countries and the inability of some of them to integrate into the world economy is state capacity deficit. In fact, only countries that have in place an effective public administration, solid political and economic institutions, adequate social policies (especially social safety nets) and a committed leadership can ensure that all sectors of society benefit from globalization, including foreign direct investment, trade, and access to information technology. To fully integrate in the world economy, developing countries need to modernize their public sector and enhance their capacity for policy analysis, policy formulation and implementation. High priority should be given to capacity-building of

three interrelated and complementary State dimensions: institution-building; human resources development; and technological adequacy.

As suggested in chapter III, the response to globalization resides on many levels. It revolves around the concept of an "intelligent, democratic State", which does not imply "big government" and is clearly antithetical to traditional "bureaucracy", qualified as rigid, paternalistic, intrusive and authoritarian. It is fully compatible with the emergence of free markets and a vibrant civil society, both of which are predicated on the existence and development of institutional frameworks that maintain an enabling environment for private enterprise and other individual or collective creative pursuits. Intelligent democratic States, as chapter III and IV show, are doubly necessary: (a) on the national and sub-national levels, to secure the rule of law, promote economic development, foster social welfare and ensure a more even-handed distribution of both the costs and benefits that flow from globalization; and (b) on the inter-governmental or supra-national level, to secure peace and stability, and promote the rule of law in international relations. Related to this concept are the needs for strategic responses to globalization. These include institution-building, reinforcement of social policies, and enhancement of professionalism and ethics. Strengthening state institutions and redefining the role of the State is paramount to development and to enabling people to seize the opportunities of globalization. With or without globalization, the State, especially in developing countries and countries with economies in transition, has a very important role in financing or supplying basic social services, such as health, education and adequate infrastructure (hospitals, schools, roads, etc.). The State should focus on development and redistribution in order to empower people and to give them the instruments to live a dignified life. At the same time, the State should refrain from producing and providing goods and non-social services. The State could, in this respect, establish clear rules and solid economic institutions that allow the market to function prop-

erly. Interventions in the market should clearly be directed at correcting market failures in relation to sound political objectives.

Chapter III maintains that an intelligent democratic State and free markets go hand in hand. In fact, contrary to what may be the common belief, economic globalization (e.g., free trade) does not equal a laissez-faire government. Nevertheless, some political commentators take the position that globalization is incompatible with the Welfare State. Some urge the downsizing of government in order to meet the demands of international competition, while others decry the "race to the bottom" that globalization supposedly entails, and thus oppose globalization. Yet, logic and evidence suggest that these positions may not be correct for two reasons. First, international trade and investment, unlike oligopolistic rivalry, is not a zero-sum game. In effect, trade benefits all countries because it enhances the choices of the consumer and the quality of products. All parties to voluntary exchange gain. Second, the assumption that globalization reduces the size of government is not supported by evidence. The fact is that open ("globalized") economies have larger, not smaller, government expenditure. However, there might be other reasons that explain the higher government expenditure, such as the level of overall development of a country. As shown in Part Two of this Report, the majority of the "globalizers" actually registered increases in expenditure and tax revenue. Therefore, there is no evidence that globalization weakens the State. On the contrary, increased globalization goes hand in hand with higher expenditure. As such, globalization should not be used as an excuse to abandon the role of the government in meeting the basic needs of the citizens.

Chapters III and IV maintain that, while globalization has great potential, without appropriate domestic conditions the adjustment costs may be too high for vulnerable groups in society. Both chapters also underscore that weak legitimization and a "democratic deficit" coupled with ineffectiveness in policy development and implementation

account to some extent for weak representation in global fora, of the rights, needs and interests of a large part of humanity who live in developing countries. Though fully recognizing the many limitations imposed by power politics coupled with vast disparities in knowledge and technology, power and wealth, the present Report argues that assisting developing countries strengthen their capacity could help redress the imbalance which has adversely affected their active participation in global fora and in the world economy.

Chapter IV explores what actions must be taken to raise the capacity level of the developing countries and countries with economies in transition, and highlights the concept of the State as a "learning organization". It focuses in particular on enhancing leadership skills and strategic planning capacities; fostering capacity-building; and strengthening cognitive capacity in the face of globalization. It also emphasizes the need of performance standards for management development; the need for top level managers; the competencies required to meet the challenges of globalization; public service professionalism; organizational responses for human resources development; as well as the promise and potential for reform of information technology.

Chapter V pulls together the various elements of the present Report, highlights its major findings, states its conclusions and underlines the substance of its proposals for action. It also touches on the role that the United Nations and other international organizations can play to further this objective.

In summary, this Report wants to emphasize the importance of the role which the State must assume in the face of globalization both at the national and international levels. As forcefully expressed by the United Nations Secretary-General, Kofi Annan: the many "challenges that we confront today are beyond the reach of any State to meet on its own. At the national level, we must govern better, and at the international level, we must learn to govern better together. Effec-

tive States are essential for both tasks, and their capacity for both needs strengthening" (UN, 2000, Millennium Report, A/54/2000, para. 15). In fact, "notwithstanding the institutional turmoil that is often associated with globalization, there exists no other entity that competes with or can substitute for the State. Successfully managing globalization, therefore, requires first and foremost that States act in a manner consistent with their dual role" – that they are responsible towards their own society and the planet as a whole (ibid., para. 43).

Chapter I

The many facets of globalization

1. Globalization: an overview

Globalization is one of the most debated issues of our times eliciting both great enthusiasm and deep concern. It has engendered images of a peaceful borderless world characterized by prosperity for all, or it has been depicted as the progressive advancement of "frightening" multinational corporations and their control over world-wide natural resources, manufacturing, finance and culture. The image of globalization as a promise or threat is, in fact, one of the most powerful and persuasive images of our times (Veseth, 1998). Yet, despite the vast literature on this subject and the ongoing discussion, globalization remains an ill-defined concept.

Some view it as the international system that has succeeded the end of the Cold War, while others prefer to continue using the term "internationalization" to describe the current changes in the international economy. As the Secretary-General of the United Nations has observed, "some emphasize the increased mobility of factors of production, goods and services across borders and the resulting emergence of a truly global market. Others see primarily the results – and future potential – of an explosive progress in information technology, while still others view globalization primarily from societal and cultural perspectives" (UN, 1999, A/RES/163). It is not clear, therefore, whether the term "globalization" is generally "employed [to refer to] a historical epoch, a process, a theory, or a new paradigm" (Reich, 1998, p. 2).

There is also no common understanding of whether it has produced a quantitative or a qualitative change in global economic and political structures. Furthermore, globalization has often been used as a rhetorical device to advance specific interests or agendas at the expense of others. That is to say, globalization has been invoked by different pressure groups as a concept justifying the ideas and actions of both its proponents and detractors.

Though there is some agreement among scholars and experts that globalization is producing greater interconnections and interdependence, there seems to be little consensus on the degree of integration it engenders and on its pervasiveness. Different views have emerged on this issue. As way of simplification, four different positions can be accounted for: "The first identifies globalization with an increasing homogenization within the global system, which would ultimately lead to assimilation. The second – the 'strong globalization view' – contends that homogeneity remains highly unlikely within the global system, but that a range of qualitative and quantitative changes have combined to introduce a new condition, or set of processes, into world affairs that warrant the novel term 'globalization'. The third position – the 'weak' globalization perspective – maintains that many of the undoubtedly important developments of recent decades signal a significant increase of internationalization within the international political economy that has complex but variable consequences for politics, economics and society, but that has not ushered in a distinctively new era in human



affairs. The final – rejectionist – position defends the view that nothing of any great or irreversible significance has taken place" (Jones, 2000). Most observers have dismissed the most radical views, i.e. that globalization is leading to assimilation or that it is not upon us. The crucial debate is thus between the "strong" and "weak" globalization positions.

This chapter is aimed at shedding light on the concept of globalization, analyzing what it implies, and what opportunities it can bring to people around the globe, as well as the costs it may entail. It also takes stock of the challenges affecting public administration in an increasingly interconnected world. An overview of the main causes and characteristics of globalization will serve to highlight the complexities, as well as the challenges and pressures that States are increasingly facing in a globalized world.

Box I.1

THE WORLD ACCORDING TO KEYNES IN 1919

The world depicted by John Maynard Keynes in 1919 in "The Economic Consequence of the Peace" resembles, in many ways, an account from our times: "What an extraordinary episode in the economic progress of man that age was which came to an end in August 1914! The greater part of the population, it is true, worked hard and lived at a low standard of comfort, yet were, to all appearances, reasonably contented with this lot. But escape was possible, for any man of capacity or character at all exceeding the average, into the middle and upper classes, for whom life offered, at a low cost and with the least trouble, conveniences, comforts, and amenities beyond the compass of the richest and most powerful monarchs of other ages. The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages; or he could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in any continent that fancy or information might recommend. He could secure forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport or other formality, could dispatch his servant to the neighbouring office of a bank for such supply of the precious metals as might seem convenient, and could then proceed abroad to foreign quarters, without knowledge of their religion, language, or customs, bearing coined wealth upon his person, and would consider himself greatly aggrieved and much surprised at the least interference. But, most important of all, he regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement, and any deviation from it as aberrant, scandalous, and avoidable"

Source: Keynes, 1919, ch. 2.

1.1. Globalization: a complex phenomenon, involving a variety of global trends and tendencies

Globalization is not a new phenomenon. Interdependence and interconnections among nations and peoples have a long history, which can be dated in parts of the world as early as the XVI century, or even earlier during the time of the Roman, Hellenistic and even Persian Empires. The present process of increased international interconnections and technological innovation may be compared, in some respects, to the transformations of the mid XIX century to early XX century. During that period governmental policies as well as new technologies such as the telegraph, the steam engine, the railways and steam-driven vessels brought about a dramatic increase in world trade, international competition and interdependence (ibid.). Viewed from this perspective, globalization may be considered as an advanced stage of the historical process of interdependence, which although currently accelerating with unprecedented momentum, is by no means irreversible, as it was not in the 1920s. Two world wars abruptly reversed the progress made in fostering international trade as autarchic systems came to replace open economies, and, for decades, a political and ideological divide separated peoples on all continents. Though, as with any historical process there may be a sudden change in the direction of events, in the next few years increased interdependence and cross-border integration, especially in specific economic areas, are more likely than not to continue given the commitment of many countries to further trade liberalization.

Although it is not easy to define globalization, we shall refer to it as increasing and intensified flows between countries of goods, services, capital, ideas, information and people, which produce national cross-border integration of a number of economic, social and cultural activities. Thus, globalization includes a variety of trends and tendencies. It is not a single process, but a combination of different processes. It has increasingly taken on a multidimensional character: not on-

ly economic, but also political, social and cultural. As such, we may speak of different globalizations or dimensions of globalization.

2. What is driving globalization?

The forces that lie behind globalization and which have interacted among them producing greater interdependence and integration, may be summarized as follows:

- Trade and investment liberalization policies;
- Technological innovation and the reduction in communication and transportation costs;
- Entrepreneurship;
- Global social networks

2.1. Trade and investment liberalization policies

Technological innovation and entrepreneurship cannot alone explain the process of globalization. We should not forget that the impetus towards greater economic integration has stemmed from the efforts of governments to remove barriers to trade and investment. Increased global integration in a number of economic areas began to intensify in the 1980s when many governments supported economic liberalization. "The latter has included financial sector deregulation, the removal of controls over foreign exchange and enhanced freedom of trade. Financial deregulation has resulted in the progressive elimination of capital controls, the removal of controls over interest rates, and the lifting of traditional barriers to entry into banking and other financial services" (Cable, 1995, p. 3).

State efforts to uphold free trade and to encourage the reduction of trade barriers have been reflected in the eight successive negotiating rounds of the General Agreement on Trade and Tariffs (GATT), which culminated in 1995 with the establishment of a mul-

tilateral trading system – the World Trade Organization (WTO). The latter has not only led to the reduction of barriers to trade in goods, but has also proceeded to liberalize services and capital flows. The WTO has also focused more closely on an ever-growing range of policy measures affecting the terms and conditions of market access, such as standards and regulations, subsidy practices, and intellectual property rights (WTO, 1998 Annual Report).

It is of great importance to underscore the political source of economic globalization in order to avoid interpreting this phenomenon as a deterministic force about which little can be done. Economic globalization is not a blind force. It is still individual governments that are setting the policies and the rules of the globalized economy. Thus, we should not forget that the State has played a pivotal role in allowing greater interdependence and economic integration of specific activities

Box 1.2

DIFFERENT VIEWS ON GLOBALIZATION

"Globalization is the inexorable integration of markets, nation-states and technologies to a degree never witnessed before -in a way that is enabling individuals, corporations and nation-states to reach around the world farther, deeper and cheaper than ever before. Globalization is not simply a trend or a fad but it is, rather, an international system." (*Friedman, 2000, p. 9*).

"Globalization is an increase in interconnections, or interdependence, a rise in international flows, ... such that the world is, in some respects, becoming a single place." (*Mittleman, 2000, p. 3*).

"Globalization is the internationalization of finance and production; accelerating applications of transformational technologies; and the growing interconnections among the people of the world." (*Jones, 2000, p. 21*).

"Globalization is the growing interdependence of the world's people. And globalization is a process integrating not just the economy but culture, technology and governance." (*UNDP, 1999, Human Development Report, p. 1*).

Economic globalization is "the increasing integration of input, factor, and final product markets coupled with the increasing salience of multinational enterprises (MNEs) cross-national value-chain networks." (*Prakash and Hart, 2000, p. 2*).

"Globalism is a phenomenon with ancient roots and globalization is a process of increasing globalism, now or in the past" (*Keohane and Nye, 2000, p. 108*).

"The economy is predominantly international, not global and therefore states, although in a slightly different way, still play a central role in its governance." (*Hirst and Thompson, 1996, pp. 178-189*).

through the elaboration and adoption of market-oriented policies and regulations, at both the international and local levels. Economic globalization can be said to result from policy decisions made by individual countries that allow global market forces to operate.

The problem is which countries set the rules, whom do they favor and how can the least powerful also influence policy-making in the international arena, and do it in ways that will benefit them. Some countries do not have as much leverage as others do in setting the international economic and political agenda due to significant power imbalances among nations that are reflected in international institutions. As a consequence, the present form of globalization is largely shaped by the rules advanced by one part of the world – namely the most influential – and these rules do not necessarily favour developing countries and countries in transition.

2.2. Technological innovation and the reduction in communication and transportation costs

Technological innovation, as well as the constant reduction in transportation and communication costs is responsible for drastically transforming the ease, speed, quantity, and quality of international information flows, as well as physical communications (Cable, 1995). In particular, information technology and multimedia communications are producing shrinkage of distance and acceleration of change. Due to technological ad-

vances in the past 70 years, transportation and communication costs have declined drastically. The end of State monopolies - where and when it has happened - and thereby the introduction of greater competition in the telecommunication sector, is also responsible for a sharp decline in communication costs.

As shown in graph 1 below, the average cost of freight and port charges per ton has decreased from over US\$ 90 to approximately US\$ 30 constant dollars between 1920 and 1990. The decrease in average revenue per passenger mile between the years 1920 and 1990 has gone from US\$ 0.7 to US\$ 0.1 as shown in graph 2 below. Moreover, a three-minute call between New York and London has decreased from almost US\$ 300 to less than US\$ 1 dollar over that period, as shown in graph 3 below, or it can be free over the Internet. The cost of computers has also dramatically decreased over the past years, as well as that of wireless communications. This implies that many transactions can be processed in no time and at relatively low cost.

Indeed, there is no field of technological progress, which has evolved more rapidly, in the past 20 years than information technology (IT). Taking shape through the convergence of semiconductors, computers, telecommunications and software technologies, the information revolution has produced rapid and sustained falls in the cost of processing, storing and transmitting information. Thus, it promises to make the information and knowledge base of humankind available anywhere, anytime, in any language. Businesses and individuals, mainly in the developed world, can now perform a wide number of activities through the information highways in a matter of seconds. The growing interest in this relatively new channel of communication is reflected by the number of Internet sites, which rose by 118% in only two years, i.e. between 1997 and 1999 (NUA, 1999).

During the past decade, two significant developments have greatly accelerated the globalization of information flows. The first is that computers have invaded millions of households. The second is the emergence

Box 1.3

What is Globalization?

- Globalization is increased global integration and interdependence.
- It is not a totally new phenomenon.
- It has a multidimensional character: economic, political, social and cultural.
- It is characterized by unprecedented rapid flows of goods and services; private capital; circulation of ideas and tendencies; and the emergence of new social and political movements.

Source: DPEPA/DESA, 2001.

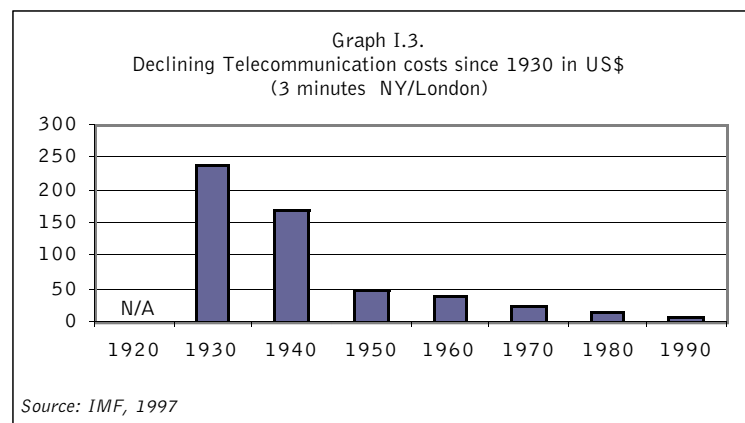
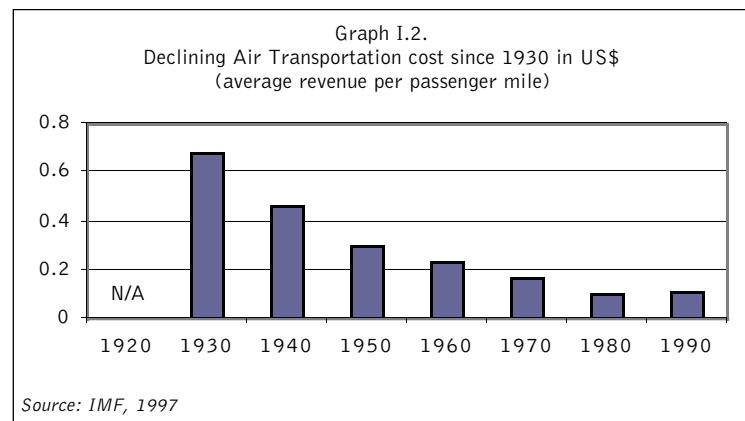
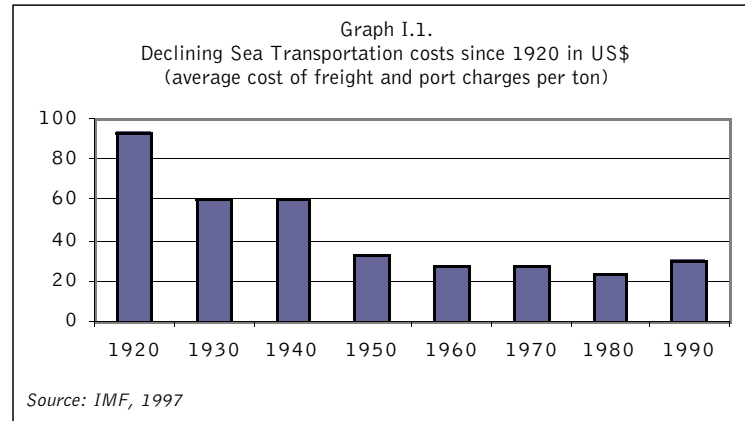
and development of the Internet technologies. The former demonstrates that the role of computers has been extended dramatically, not only as a tool for state and business organizations, but also as a household electronic appliance for information retrieval and processing, for education, for entertainment and for communication. The latter leads to a great leap in the technical and human ability to access, interpret and use information. It presages the advent of a national information infrastructure (NII) and a global information infrastructure (GII) in the coming information age.

It has been estimated that in March 2000 there were 400 million personal computers and about 1 billion telephones in the world; 276 million Internet users worldwide with a growth rate of roughly 150,000 persons per day; 220 million devices accessing the World-Wide Web with almost 200,000 devices being added every day. Total world bandwidth (transmission capacity of computer networks or other telecommunications systems worldwide) in 1996 amounted to 200 trillion bits per second. In 2001, there will be a bandwidth of 9,000 trillion bits per second. It is also estimated that, 10 years from now, there will be 1 billion personal computers and 3 billion telephones in the world.

Governments, organizations and business enterprises are seeking to harness the Internet to advertise and disseminate information. There are millions of web-sites, homepages and diverse documents on the Internet, which cover thousands of subjects. At present, web pages total 1.5 billion with almost 2 million pages being added every day. IT has greatly stimulated the globalization of information. Information flows on topics ranging from politics and business to sports circulate among organizations, cities, nations, regions and individuals day and night.

The Computer Industry Almanac has reported that:

- By the year 2002, 490 million people around the world will have Internet access, that is 79,4 per 1,000 people world-wide;



- By the year-end 2005, 765 million people will be connected to the Internet, that is 118 people per 1,000;
- By 2010, Chinese online users are expected to outnumber US users;
- NUA reports that 60 per cent of the world online population will be outside the US by 2003.

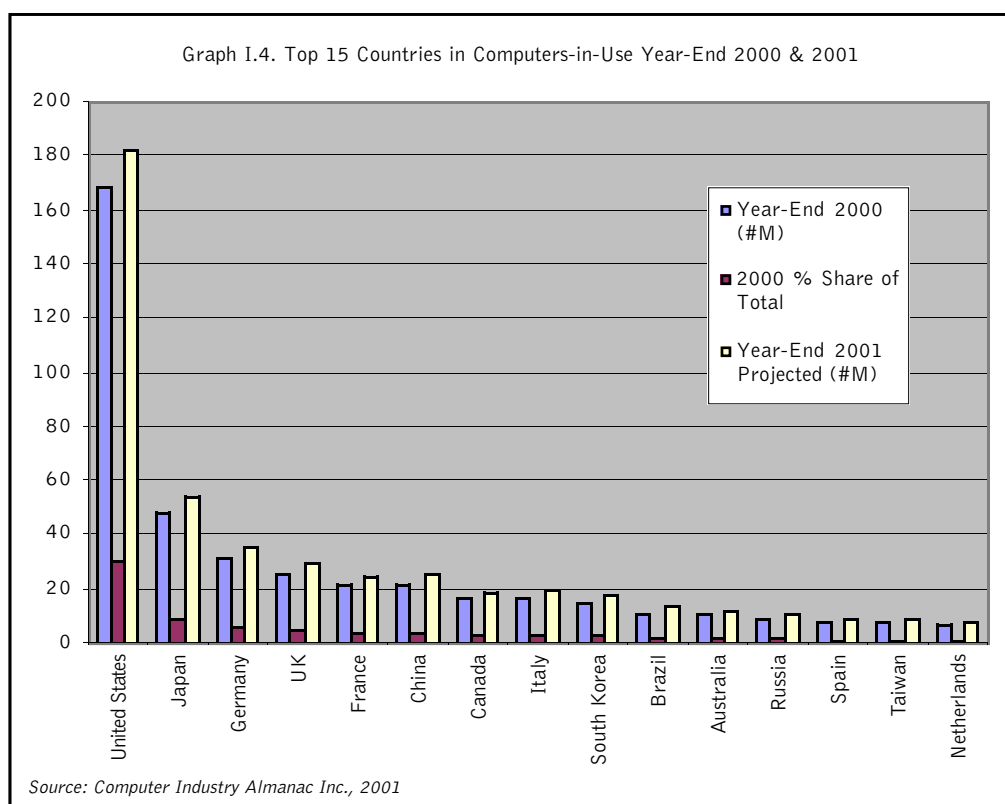
The Internet (see graph I.4 below), as well as other communication devices, such as the cellular phone and fax machines, have contributed to shrinking distance and time, and have allowed people to connect and communicate instantaneously. The option of being able to access the Internet from special models of cellular phones may also represent a breakthrough in the communication sector, especially for developing countries that have not developed an extensive cable system and are now able to use cellular phones in their daily work activities.

However, as in the case of economic globalization, there is nothing deterministic about globalization via the spread of IT technologies and the Internet. It takes proper public policy frameworks to make it happen. For example, as mentioned above, States have a policy choice to make in the area of deregulating their telecommunication sector. And, increasingly, geo-locating and firewall technologies allow them to shape the freedom of the spread of the Internet. A careful trade-off between perceived advantages and disadvantages is needed here. How to handle the IT revolution promises to constitute one

of the most important policy decisions that a State will have to take at the beginning of the new millennium. The so-called digital divide is a by-product of underdevelopment, and lack of financial and human resources. It must be stressed though that public policy is also instrumental in the present magnitude of this divide and in the pace at which it can be bridged.

IT opens new opportunities for increased government transparency, efficiency and effectiveness of its services. It gives the citizens a powerful tool for conducting the public discourse, organizing themselves and challenging, as the case may be, the existing political parties, professional associations, non-governmental organizations, and agencies of State administration – both locally and globally.

IT is rapidly transforming all the sectors of the global economy. It helps to redefine such concepts as competitiveness, quality, delivery, responsiveness and innovation. IT has opened the way to advances in productivity by minimizing waste of raw materials, labour and time. With modern transporta-



tion means such as jumbo jets and container vessels and computerized reservations systems, the globalization of production and services has become a reality. Global information networks are rapidly transforming the ways an enterprise operates. In the last 20 years, both manufacturing and services have become increasingly globalized – a global production system has emerged. It goes without saying that IT is the central driver of this new world trend.

On the negative side, it must be said that the Internet is also being used in detrimental ways. It has become an easy communication device for all sorts of criminal and terrorist activities. This shows that the Internet can be used both in social and "anti-social" ways. The Internet in fact, as any other device, is not a "good" or "bad" tool per se. It is a facilitator. Whether it has a positive or negative impact on society depends on how it is used – perhaps abused – and how its use is regulated.

2.3. The role of entrepreneurship in accelerating globalization

Thanks to technological innovations and greater economic liberalization, entrepreneurs, especially multinational corporations, have taken full advantage of more open markets to spread production processes all over the world (WTO, 1999, Annual Report). The opening up of economic opportunities allows the movement of foreign capital, technology and management, largely from transnational corporations (TNCs), to host country entrepreneurs and corporations. As national economies open, mergers between businesses from different countries and purchases or investment in equity of businesses in one country by owners from other countries are becoming more common. Although TNCs are not new economic actors, what has dramatically changed is the way they operate around the world and their increased level of economic power. According to the Commission on Global Governance, the number of TNCs is presently estimated at 37,000 worldwide (Commission on Global Governance Report, 1995).

2.4. International social networks: increase in number and strength

Modern technology, transportation, and telecommunications are transforming, in many ways, how organizations and people operate, cooperate and interface. From a social point of view, new technologies have facilitated greater global integration and awareness through the establishment of worldwide networks. Concern for democracy, human rights, the environment, and poverty is being enhanced by the birth of cross-border social and political networks, whose members are non-state actors such as non-governmental organizations (NGOs) as well as private persons who want to participate in public matters, locally and globally.

To be sure, the growing role of non-state transnational actors adds a novel dimension to globalization. TNCs are becoming increasingly powerful actors within the international arena due to their growing economic power. The creation of international organizations, such as the WTO, brings about new influential institutional actors in the global landscape. Furthermore, the greater role of global civil society is another distinctive feature of globalization, particularly if we consider its increasing relevance in the international policy agenda and process (Ostry, 2000). International NGOs work to aggregate global values and interests like the protection of human rights. Some NGOs work to protect the interests of national groups affected by global forces.

The increased relevance of non-state global players, such as TNCs and international social networks, has set in motion much discussion about the role of the State and its governance capacity in a globalized world, and whether it will be able to manage effectively a diverse range of pressures. In fact, the State is increasingly being pulled in different directions, and must respond to demands, which come from local, as well as transnational groups. Strengthening the State's networking capacity will be crucial in a complex and interconnected world. Some see an emerging role for the State as an "or-

The State is increasingly being pulled in different directions, and must respond to demands, which come from local, as well as transnational groups

Declining transportation costs have led to a greater mobility of people across borders and have significantly augmented tourism world wide, as well as a growing migration of workers

chestrator", catalyst of ad hoc alliances of diverse capacities and of diverse skills possessed by these many actors for achieving ad hoc developmental goals.

3. The global village: economic and social dimensions of globalization

3.1. Economic globalization

Economic globalization is mainly characterized by the rapid expansion of international trade, foreign direct investment and capital market flows. The last 50 years have seen trade expand faster than output by a significant margin, increasing the degree to which national economies rely on international trade in overall activity (WTO, 1998, Annual Report). The decline in transportation costs and technological innovation, in particular the Internet, have contributed to an increase in the volume of trade, financial flows and speeded-up economic transactions by decreasing the time and methods of delivery and payment of goods and services. In addition, the declining transportation costs have led to a greater mobility of people across borders and have significantly augmented tourism world wide, as well as a growing migration of workers.

Economic globalization is characterized by:

- Flows of labour, goods, and capital across national borders;
- The emergence of global production arrangements mainly through the activities of TNCs and related foreign direct investments;
- The emergence of globally integrated markets for goods, services and capital.

The increase in international trade is reflected in the following data:

- On an annual basis, merchandise exports grew by 6 per cent in real terms from 1948 to 1997, compared to annual output growth of 3.7 per cent. Put differently, trade multiplied by the factor 17, while GDP grew ap-

proximately six-fold during this period. In the case of manufacturers, trade multiplied 30 times, while GDP grew eight-fold (ibid).

- Among rich or developed countries the share of international trade in total output (exports plus imports of goods relative to GDP) rose from 27 to 39 per cent between 1987 and 1997. For developing countries it rose from 10 to 17 per cent (World Bank, 2000, World Development Indicators).

Foreign direct investment (FDI), which is related to investments made by firms in foreign countries to establish and run business operations, has also greatly increased.

- US firms invested US\$ 133 billion abroad in 1998, while foreign firms invested US\$ 193 billion in the US.

- Overall world FDI flows more than tripled between 1988 and 1998, from US\$ 192 billion to US\$ 610 billion, and the share of FDI to GDP is generally rising in both developed and developing countries.

- Developing countries received about a quarter of world FDI inflows in 1988-1998 on average, though the share fluctuated quite a bit from year to year (World Bank, 2000, World Development Indicators). Between 1980 and 1997, private capital flows to developing countries as a group soared to \$140 billion from \$12 billion.

- The report on financing for development prepared for the UN Secretary-General, notes that during the period 1993 to 1998, 20 countries accounted for over 70 per cent of all FDI inflows to all developing countries. It further notes that the majority of low-income countries have been largely bypassed by private finance from abroad – least developed countries as a group received 0.5 per cent of world FDI inflows in 1999. On the other hand, firms from developing countries themselves increasingly invest abroad. FDI from developing countries increased from 2 per cent of total FDI outflows in the early 1980s to 10 per cent at the end of the millennium (UN, 2001, A/55/1000). For African coun-

tries this is a double blow. Not only the inflow of FDI is relatively miniscule, especially outside primary commodities, but it has been estimated that 40 per cent of African private wealth is held overseas (United Kingdom, 2000, para. 153).

- Foreign exchange trading in the world's financial centers exceeds 1 trillion US dollars a day, a multiple of 50 times or more of the amount of daily world trade and greater than the total stock of foreign exchange reserves held by all governments (Cable, 1995, p. 4).

- The liberalization of capital movements coupled with information technology advances has made it possible to transfer large amounts of capital across national borders in seconds.

A major transformation has also occurred in the territorial organization of economic activity. The way multinational corporations operate across borders has in fact greatly changed. The pattern of production has assumed a truly global nature in that the present organizational structure of companies has become increasingly horizontal. This implies that the production process does not take place vertically within the same corporation and that finished products are then exported. Instead, manufacture of the various components of a product takes place in different regions of the world, either through affiliates or through outsourcing to foreign companies. For example many American products are no longer manufactured within the same company nor within the same country. The components may be produced in India, while some parts are assembled in Mexico and others in Bulgaria, and then sold in the US or other markets around the world. This internationalizes the local labour markets and rewards with quality jobs and wealth-creation opportunities the concentrations of highly educated skilled, networked professionals, a fact that has profound public policy implications.

3.2. Social globalization

Globalization of technologies has enabled inexpensive, instantaneous communication

Box 1.4

DEFINING AND MEASURING FOREIGN DIRECT INVESTMENT

Foreign direct investment (FDI) occurs when an investor based in one country (the home country) acquires an asset in another country (the host country) with the intent to manage that asset. The management dimension is what distinguishes FDI from portfolio investment in foreign stocks, bonds and other financial instruments. In most instances, both the investor and the asset it manages abroad are business firms. In such cases, the investor is typically referred to as the "parent firm" and the asset as the "affiliate" or "subsidiary".

There are three main categories of FDI:

- Equity capital is the value of the multinational corporation's investment in shares of an enterprise in a foreign country. An equity capital stake of 10 per cent or more of the ordinary shares or voting power in an incorporated enterprise, or its equivalent in an unincorporated enterprise, is normally considered as a threshold for the control of assets. This category includes both mergers and acquisitions and "greenfield" investments (the creation of new facilities). Mergers and acquisitions are an important source of FDI for developed countries, although the relative importance varies considerably.
- Reinvested earnings are the MNC's share of affiliate earnings not distributed as dividends or remitted to the MNC. Such retained profits by affiliates are assumed to be reinvested in the affiliate. This can represent up to 60 per cent of outward FDI in countries such as the United States and the United Kingdom.
- Other capital refers to short or long-term borrowing and lending of funds between the MNC and the affiliate.

The available statistics on FDI, which are far from ideal, come mainly from three sources. First, there are statistics from the records of ministries and agencies which administer the country's laws and regulations on FDI. The request for a license or the fulfillment of notification requirements allows these agencies to record data on FDI flows. Typically, re-invested earnings, intra-company loans, and liquidations of investment are not recorded, and not all notified investments are fully realized in the period covered by notification. Second, there are the FDI data taken from government and other surveys which evaluate financial and operating data of companies. While these data provide information on sales (domestic and foreign), earnings, employment and the share of value added of foreign affiliates in domestic output, they often are not comparable across countries because of differences in definitions and coverage. Third, there are the data taken from national balance-of-payments statistics, for which internationally agreed guidelines exist in the fifth edition of the IMF Balance of Payments Manual. The three main categories of FDI described above are those used in balance-of-payments statistics.

Source: WTO, 1996, Report on "Trade and Foreign Direct Investment".

and massive diffusion of information affecting styles of politics, culture and social organization. The globalization of technology has contributed not only to the explosive growth of information exchange via the Internet, but also to the expansion of educa-

Four decades ago, there were fewer than 1,000 NGOs, which operated mostly at the local level. Now ... almost 30,000 NGOs operate internationally

tion opportunities and the constitution of transnational networks. Information, which had been the monopoly of the few, is becoming accessible to wider and more diverse audiences. The relative ease of accessing information has increased citizens' ability to share views, to become aware of their rights, to make their demands known and to increase their influence generally. As a consequence, citizens are joining together to demand improved levels of services and higher standards of behaviour from their governments. Public opinion moves to the forefront as a basis of the legitimacy of governments.

The reduction in transportation costs over recent decades, especially air and train fares, has significantly facilitated the movement of people around the globe and has allowed a greater awareness of international issues. People nowadays have greater access to and knowledge of other cultures, as well as social problems and issues. Social protest has also taken on a different form. It is not any longer confined to one particular country or to local issues; it transcends national borders. The recent events in Genoa at the G8 summit, in Prague in September 2000 at the International Monetary Fund and World Bank meeting, and in Seattle at the World Trade Organization meeting in 1999, are examples of these new forms of transnational organized movements and of globalization itself.

International and regional organizations, such as NGOs and transnational networks, based on shared interests rather than on geopolitical similarities have proliferated in the late XX century. NGOs, however, are by no means an "invention" of the past decades (some notable NGOs, such as Save the Children, were founded at the beginning of the XX century, while others even earlier as in the case of the International Red Cross, which was founded in 1868). What has changed is perhaps the increasing number of NGOs and their growing political leverage. Four decades ago, there were fewer than 1,000 NGOs, which operated mostly at the local level. Now at the beginning of the XXI century, the United Nations reports that almost 30,000 NGOs operate internationally. Moreover, NGOs are be-

ing increasingly invited to many global fora such as United Nations conferences and meetings and the recent World Economic Forum held in Davos, Switzerland or the recent G8 meeting held in Genoa, 2001. In other words, NGOs are becoming actively involved in policy dialogues.

Although NGOs are generally undertaking remarkable tasks and advancing relevant world causes such as the alleviation of poverty, the protection of children's rights, or the protection of the environment, NGOs have also been criticized for a number of reasons. It has been said that some compete against each other and, once institutionalized, become closed to new ideas and positions. It has also been argued that powerful NGOs are mainly based in developed countries and may not be as transparent and accountable as they expect other public and private agencies to become. But most fundamentally, it should not be forgotten that, despite their relevance in articulating and expressing a diversity of interests and concerns, NGOs should not be confused with political parties, as they are not democratically elected. Therefore, their opinions and positions regarding different social and political issues are not representative of the people's will, as they have not received a mandate to represent them. However, increased access of its members to information and networking creates a pressure for increased relevance and improved internal governance of NGOs. This is bound to make them more responsive to the changing global circumstances and to the opinion of their constituencies.

Social globalization is a phenomenon which poses new challenges for the nation-State. In fact, the State becomes increasingly involved in a web of intricate interests and needs in order to respond to a growing number of demands on issues which are not solely limited to its territory. This requires the State to hone its role as mediator and develop new skills to deal with diversity.

4. The opportunities of globalization

4.1. Greater economic opportunities

Greater economic openness, foreign direct investment, and transfer of technologies present potential opportunities for economic growth. Free trade promotes specialization among different regions, allowing them to apply their own comparative advantages; it also expands the consumption opportunities of countries by providing increased opportunities to buy goods and services from other countries.

It is very important to keep in mind that international trade is not a zero-sum game with absolute winners and absolute losers. On the contrary, trade benefits all countries because it enhances the choices of the consumer and the quality of products. If competitive, it lowers prices and raises real wages. It is also worthwhile to underline that contrary to what is commonly believed, "countries are not in any degree in economic competition with each other", or that "any of their major economic problems can be attributed to failures to compete on world markets" (Krugman, 1994, p. 6). Firms compete; countries do not. "If the European economy does well, it need not be at the expense of the United States; indeed, if anything a successful European economy is likely to help the U.S. economy by providing it with larger markets and selling it goods of superior quality at lower prices" (ibid.). Moreover, the evidence is very strong that real GDP growth is related mainly to domestic productivity growth, not to balance of trade or to productivity relative to competitors. "Even though world trade is larger than ever before, national living standards are overwhelmingly determined by domestic factors rather than by some competition for world markets" (ibid.). Trade is largely static, while productivity, which is driven by technical change, is dynamic and for that reason is primarily responsible for economic growth. Therefore, focusing on international competitiveness may lead to unwise decisions on domestic, as well as foreign policies.

Economic globalization has also provided opportunities for developing countries in that it opens new markets for export and attracts foreign capital, which aids development. Economic globalization is also conducive to a transfer of technologies and know-how, which increases productivity. Foreign investments in developing countries have also increased employment. Another positive effect of globalization is greater competition among firms, which has benefited consumers who have access to products at increasingly lower prices.

"Integrating with the world economy is a powerful vehicle for growth and poverty reduction in developing countries, but it would be still more powerful if the rich countries further increased the openness of their own economies" (Stern, 2000, p. 5). In fact, we should recognize that many sectors like textiles and agriculture, which could provide real new opportunities for developing countries, have not been liberalized. We should also recognize the concern about intellectual property rights, and the use of anti-dumping practices, which seem to discriminate against producers in developing countries.

4.2. Greater global social awareness and opportunities for democracy

The widespread use of modern communication devices – such as the Internet – and the media have meant a greater awareness of human rights violations, child labour abuses, corruption, and violence. The advancements in information and communication technologies and the reduction of transportation costs, have provided people with new tools to support and disseminate the causes of democracy, human rights, transparency, and alleviation of poverty. This increased awareness has led to international pressure on specific countries to abide by certain rules and democratic values. In some ways, it may be said that globalization is a positive process in that it forcefully brings to the attention of the international community abuses and undemocratic practices. Due to technological advances, non-state actors have been able to form effective global alliances, which

The evidence is very strong that real GDP growth is related mainly to domestic productivity growth, not to balance of trade or to productivity relative to competitors

Integrating into the world economy has costs, but not integrating has greater costs in terms of lost opportunities

are not subject to control on the part of repressive national governments and act as advocates of specific policies.

The new information age is also widening the range of information available to anyone anywhere, enhancing and modernizing the exchange and sharing of information, training and education. The potential of on-line education for reaching individuals living in remote areas is of great importance, especially for developing countries. Greater access to education is in fact a basic prerequisite for people to be able to participate in a well-informed way in public life and make informed decisions. Information technology, the satellite, the cellular phone and the global media are also contributing to the integration of the fastest growing developing countries in the global economy. The future expansion and use of these technologies may further increase such opportunities. "From struggles around human rights, the environment and workers strikes around the world to genuinely trivial pursuits, the Internet has emerged as a powerful medium for non-elites to communicate, support each other's struggles and create the equivalent of insider groups at scales going from the local to the global" (Sassen, 1998, p. 12).

5. Current trends and challenges affecting public administration in a globalizing world

Despite the immense advancements in all spheres of human activity, the increased global wealth, and the opportunities unleashed by globalization, the world today still faces great challenges. These in turn affect public administration in a number of ways. The State and its institutions are, in fact, increasingly subject to pressure both from the domestic and international arena. New challenges and old threats suggest that the State, especially in developing countries, needs to be strengthened and to operate differently from the past. The challenges that are affecting how the State operates and that call for major innovations in public ad-

ministration are manifold. Poverty, inequality, civil wars, and the spread of deadly diseases, including HIV/AIDS, are compromising the prospects of many developing countries for a better future. It is important to emphasize that all of these problems are not caused by globalization, as some may argue, but rather by local under-development that does not allow people to take full advantage of the opportunities of integrating into the world economy.

Furthermore, while it is true that globalization carries many opportunities in its trail, it is also true that it has costs for the people who are integrating into the world economy. Every change has adjustment costs. However, refusing to embark on a process of change on these grounds is short-sighted. Technical change also entails costs, which are even higher than those produced by globalization, but not for this reason has it been or should it be rejected. "Modern technology and increasing economic integration have been a positive force in eradicating poverty and development throughout times" (Sen, 2001). Thus, "the predicament of the poor across the world cannot be reversed by withholding from them the great advantages of contemporary technology, the well established efficiency of international trade and exchange, and the social as well as economic merits of living in open, rather than closed, societies – what is needed is a fairer distribution of the fruits of globalization" (ibid.). In other words, integrating into the world economy has costs, but not integrating has greater costs in terms of lost opportunities. The challenge then is how to ensure that people can benefit from globalization, while minimizing the costs of adjusting to a changing domestic and international environment (UN, 2001, A/56/127-E/2001/101).

5.1. Alleviation of poverty and inequality

It is becoming increasingly evident that so far globalization has benefited only a relatively small number of countries and that some regions of the world are still not integrated into the world economy. Moreover, as may be

seen in the next chapters, some States have not yet adapted to increasing interdependence and as a consequence many have suffered from the adjustment costs of globalization. As stated by Helleiner at the 10th Raul Prebisch Lecture organized by the United Nations Conference on Trade and Development in December 2000: "The challenge – both at the national and global levels – is, through conscious policy choices, to make the new globalized system ... work for maximum human welfare. The task before us all is to make globalization functional, to 'civilize' it" (Helleiner, 2000, p. 5). In order to turn globalization into an opportunity for all, we need a new vision for the future, a vision that goes beyond what Soros calls "market fundamentalism" (Soros, 2000). In fact, "in recent decades an imbalance has emerged between successful efforts to craft strong and well-enforced rules facilitating the expansion of global markets, while support for equally valid social objectives, be they labour standards, the environment, human rights or poverty reduction, has lagged behind" (UN, 2000, Millennium Report, A/54/2000). It is becoming quite clear that, while globalization has great potentials, without appropriate domestic conditions it can have negative effects for many people.

Eradicating poverty and ensuring sustainable development should form the *raison d'être* of public administration. Half the world, nearly 3 billion people, lives on less than US\$ 2 a day while the richest 20 per cent of the global population receive more than 80 per cent of the global income. Inequality still persists between countries in the world at large, while intra-country inequality offers a mixed record, with some countries and regions improving their condition, while others have fallen into greater inequality. Actually, whether inequality is increasing or not is besides the point. As stated by Nobel Prize winner Amartya Sen: "the basic concerns relate to the massive levels of inequality and poverty – not whether they are also increasing at the margin" (Sen, 2001).

It is a fact that a significant part of humanity does not have the capacity to influ-

ence its own living environment, let alone the international political arena. The impressive technological advances only benefit a small proportion of the world's population. Despite globalization, many of the poorest countries remain marginalized from world trade and investment. Social and economic polarization is still widely spread. Therefore, it may be said that a sophisticated, globalized, increasingly affluent world currently co-exists with a marginalized global underclass (Commission on Global Governance Report, 1995, p. 139).

But how is poverty and inequality in the developing world linked to globalization, and is it a consequence of globalization per se? According to some observers economic globalization leads to a "race to the bottom" characterized "by the progressive movement of capital and technology from countries with relatively high levels of wages, taxation and regulation to countries with relatively lower levels" (Spar and Yoffe, 2000, p. 37). This is said to force countries to reduce wages and social spending. However, other observers have maintained that globalization has favoured higher standards in the protection of working conditions and environmental

Box 1.5

POVERTY IN AN UNEQUAL WORLD

The world has deep poverty amid plenty. Of the world's 6 billion people, 2.8 billion - almost half - live on less than \$2 a day, and 1.2 billion - a fifth - live on less than \$1 a day, with 44 percent living in South Asia. In rich countries, fewer than 1 child in 100 does not reach its fifth birthday, while in the poorest countries as many as a fifth of children do not. And while in rich countries fewer than 5 percent of all children under five are malnourished, in poor countries as many as 50 percent are.

This destitution persists even though human conditions have improved more in the past century than in the rest of history - global wealth, global connections and technological capabilities have never been greater. But the distribution of these global gains is extraordinarily unequal. The average income in the richest 20 countries is 37 times the average in the poorest 20 - a gap that has doubled in the past 40 years. And the experience in different parts of the world has been very diverse. In East Asia the number of people living on less than \$1 a day fell from around 420 million to 280 million between 1987 and 1998 - even after the setbacks of the financial crisis. Yet in Latin America, South Asia, and Sub-Saharan Africa the numbers of poor people have been rising. And in the countries of Europe and Central Asia in transition to market economies, the number of people living on less than \$1 a day rose more than twenty-fold.

Source: World Bank, 1999/2000, *World Development Report*.

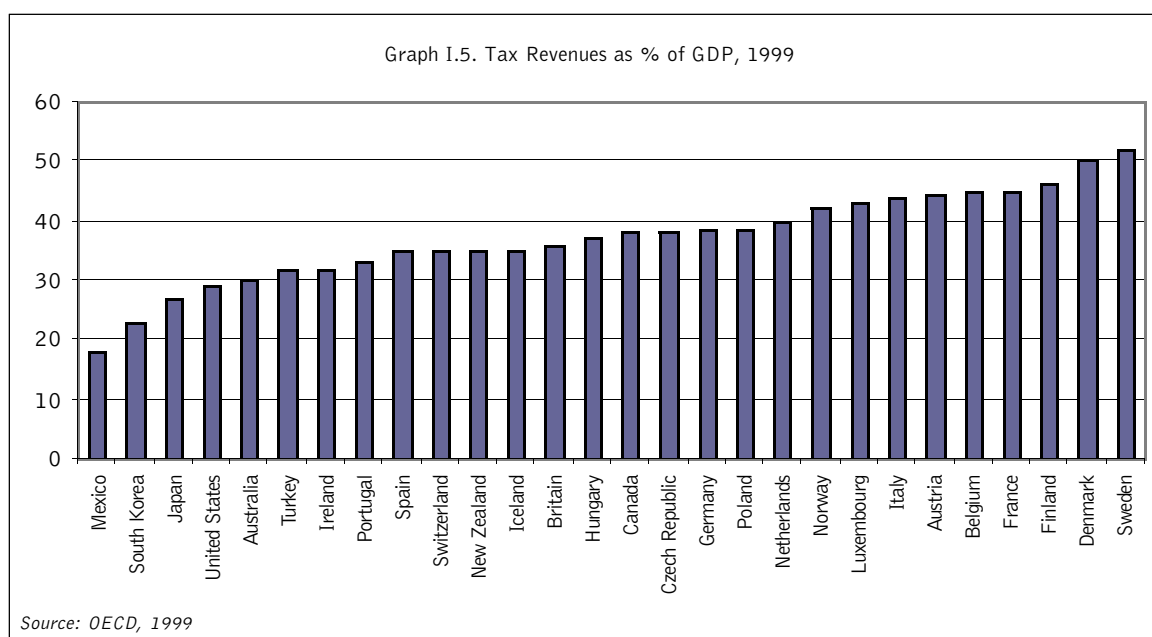
standards, as well as higher wages than those offered by local employers. By refusing to operate under specific conditions, some corporations have contributed to the improvement of working and environmental standards.

The relationship between globalization and development is quite complex and should be analyzed in a non-ideological, impartial way. First of all, openness to foreign trade is far from being the only or most important factor in fostering development (actually, trade is a small factor in the economy), nor is globalization solely responsible for creating disparities between rich and poor. As a matter of fact, human development, the reduction of poverty and increased output of goods and services depend on national policies, as much as or more than the international environment. Therefore, domestic policies, both in developing and developed countries, are greatly responsible either for their poor economic performance or for the persisting gap between rich and poor.

As shown in Part Two of this Report, the cross-section evidence on the relationship between openness and the size of central governments, as measured by expenditure and taxation, shows that there is no conflict between openness and government expenditure.

On the contrary, governments of open economies tend to spend a significantly larger portion of their GDP and collect the additional taxes needed for this task. Opening to the world economy might be accompanied by a reduction in the size of government only if policy-makers believe that small government is a condition for open markets. In reality, there is no evidence in the decade of the 1990s that openness led to a reduction in the size of government.

The majority of the "globalizers", then, actually registered increases in expenditure and tax revenue. Therefore, there is no evidence that globalization weakens the State. The ILO has reached the same conclusions and has emphasized that "up to now some of the countries with the most open economies have the highest levels of social spending (for example, most of the Nordic countries, Austria, Germany, the Netherlands). Open national economies in the global economy do not have to have lower social spending. On the contrary, a higher level of social protection would appear to be necessary in countries that are more exposed to external risks or have to undergo difficult structural adjustments" (ILO, 2001, p. 45). In this respect, it is important to anticipate that the State will have a very significant role to play in a globalizing economy. For the citizens to take advantage



of the opportunities of globalization, they need access to high quality education, health care, information and communication technologies (ICT), social safety nets, and infrastructure. The role of government is to secure for the citizens affordable access to these services.

If globalization has exerted negative effects on certain countries, it is because many countries lag in developing a strong institutional framework, as well as solid social policies and networks to cope with negative externalities, as discussed in the following chapters. External factors, such as the global trading environment, are also crucial in creating greater opportunities or in posing constraints on a country's economic growth. Once more, the trading rules have so far benefited more the industrialized countries than the less developed ones. For example, the European Union has lifted barriers on import of raw materials from Africa, but not on refined products, which would compete with local European products. As stated in a keynote address by United Nations Under-Secretary-General and Executive Secretary of ECA, K.Y. Amoako: "For all the talk on free trade, the World Bank estimates that high tariffs, anti-dumping regulations and technical barriers to trade in industrialized countries cost sub-Saharan African countries \$20 billion annually in lost exports. In other words, we lose more because of trade barriers than we gain because of aid! If rich countries want unfettered access to our markets, we require that they open their markets to us so that we can earn, rather than beg, our way out of poverty. Democratization, transparency, accountability and good governance at the national level must be replicated at the international level!" (Amoako, 2000, p. 1).

In the words of Secretary-General of the United Nations, "we should be concerned about jobs, about human rights, about child labour, about the environment, about the commercialization of scientific and medical research. We should also be concerned about the desperate poverty in which so many people in developing countries live. But global-

ization should not be made a scapegoat for domestic policy failures. The industrialized world must not try to solve its own problems at the expense of the poor. It seldom makes sense to use trade restrictions to tackle problems whose origins lie in other areas of policy. By aggravating poverty and obstructing development, such restrictions often make the problems even worse. Practical experience has shown that trade and investment often bring not only economic development, but higher standards of human rights and environmental protection as well. Indeed, the people in developing countries generally insist on higher standards, once they get the chance to do so" (Annan, *The Wall Street Journal*, Nov. 24, 1999).

5.2. Advancement of human rights and democracy

Globalization and greater openness to the world economy can benefit fully a country and its people only in the presence of solid democratic institutions, which help redistribute the gains from open trade and from greater exchange. However, despite the progress made by many countries in building democratic institutions and protecting human rights, democracies are still fragile in some regions of the world and protection of minority rights is not guaranteed. In some parts of the world, civil society at large and especially minorities are still not fully integrated into the social and economic fabric of the countries they live in. Many suffer from discrimination, deprivation of basic rights, and abuse from the authorities. Promoting democracy and, in many cases, democratization is a pre-requisite to ensuring the respect of human rights, but it is not sufficient. Proper values and broad encompassing interest of the governments is needed. Freedom of speech, association, assembly, religion, and political participation, among others, are cornerstones of a constitutional democracy. Freedom from arbitrary arrest, unlawful detention, let alone torture and slavery, are recognized as inalienable universal rights.

Advances have been made in this field in the past decades especially since the 1980s when

We should be concerned about jobs, about human rights, about child labour ... But globalization should not be made a scapegoat for domestic policy failures

*Kofi Annan
United Nations
Secretary-General*

the so-called "third wave" of democratization spread to many parts of the world. So far an increasing number of countries have acknowledged and recognized the rights contained in the Universal Declaration of Human Rights adopted by the United Nations General Assembly in 1948. Yet, there are still too many cases of human rights violations in many parts of the world. This poses a great challenge to national and international governance institutions.

5.3. Protection of the environment and sustainable development

Environmental degradation poses significant challenges to public administrations world-wide. Economic liberalization and the lifting of barriers to trade and commerce in many countries around the world has provided the corporate sector with greater opportunities for investment and profit, as well as higher access to new markets, especially in the developing countries. The opening up of "new frontiers" has, however, also accelerated the depletion of natural resources and has produced higher levels of industrial pollution. Although, as is well known, environmental degradation is not a consequence of globalization per se, greater access to and exploitation of previously protected areas is creating further risks for the environment. Worldwide unsustainable con-

sumption patterns, especially in the G-8 countries, is resulting in increasingly higher demands of energy. Examples of environmental degradation can also be found in the former centrally planned economies of Eastern Europe. The challenge with which States are confronted, in this respect, is to combine openness to the world economy with policies aimed at protecting the environment.

"Already 20% of the world's population consumes 86% of its total resources, while the poorest 20% of the population consumes only 1.3% of these same resources. ... Each year between 5 and 7 million hectares of agricultural land are lost as a result of soil degradation or urbanization. Another 16 to 20 million hectares of tropical forests are sacrificed as a result of inadmissible practices. More than 1 billion people have no access to clean drinking water. About 2.8 billion people have no access to sanitary facilities. Tangible evidence of these problems includes the quality of our air, the taste of our water, and the vast expansion of congested living areas and despoiled countryside" (Ospina, 2000, p. 32).

Though there is still much discussion about the entity of human-induced climate change, experts agree that industrial pollution and the emission of fossil fuels are damaging our global ecosystem. According to a recent Report of the United Nations Intergovernmental Panel on Climate Change (IPCC) "available observational evidence indicates that regional changes in climate, particularly increases in temperature, have already affected a diverse set of physical and biological systems in many parts of the world (UN, 2001, IPCC, p. 3). The report, to which numerous scientists and a great number of experts worldwide contributed, also states that "climate changes during the 21st century have the potential to lead to future large-scale and possibly irreversible changes in Earth systems resulting in impacts at continental and global levels" (ibid., p. 6). Events such as droughts, floods, avalanches, heat waves and windstorms are subject to increase. Natural systems at risk include glaciers, coral reefs and atolls, mangroves, boreal and tropical forests, polar and alpine ecosystems.

| Graph I.6. Population living below US\$1 per day in developing countries in 1990 and 1998 | | | | |
|--|---|--------------------|------------------|--------------------|
| | Number of people below US\$1 a day (millions) | | Poverty Rate (%) | |
| | 1990 | 1998 (estimate) | 1990 | 1998 (estimate) |
| East Asia | 452.4 | 278.3 | 27.6 | 15.3 |
| Excluding China | 92 | 65.1 | 18.5 | 11.3 |
| South Asia | 495.1 | 522 | 44 | 40 |
| Sub-Saharan Africa | 242.3 | 290.9 | 47.7 | 46.3 |
| Latin America | 73.8 | 78.2 | 16.8 | 15.6 |
| Middle East & N.Africa | 5.7 | 5.5 | 2.4 | 1.9 |
| Europe & Cent Asia | 7.1 | 24 | 1.6 | 5.1 |
| Total | 1276.4 | 1198.9 | 29 | 24 |
| Source: OECD, 2000 | | | | |

Because of their vulnerability, it is the poorest and least adaptable parts of the world that will suffer most from climate change in the next 100 years. "Most less-developed regions are especially vulnerable because a larger share of their economies are in climate-sensitive sectors and their adaptive capacity is low due to low levels of human, financial and natural resources, as well as limited institutional and technological capability" (ibid.). According to the IPCC report, the damages that could derive from climate change are manifold, including:

- Decreased water availability for populations in water-scarce regions;
- Dangers for human health, i.e. increase in vector-borne diseases such as malaria in tropical countries, or heat stress morbidity and mortality in North America;
- Decrease in agricultural production, especially in Africa and Latin America;
- Widespread increase of flooding for many human settlements;
- Rising sea levels, which will affect particularly Small Island States resulting in the displacement of millions of people;
- Collapse of many eco-systems (ibid.).

The IPCC report concludes that, despite these negative previsions, there is hope for the future provided that environmental policies are sustained. In particular, it is strongly recommended that climatic risks be included in the design and implementation of national and international development initiatives. Countries have the capacity to reduce global warming and to reverse environmental degradation. But it is essential that all countries uphold the commitments made at summits in Rio and Kyoto. In this respect, "the ten-year review of the decisions of the Rio Summit in 2002 will provide an historical opportunity to the global community to reinvigorate the spirit of Rio. This 2002 Summit must address the major challenges to sustainable development, particularly the

pervasive effects of poverty on a large proportion of the Earth's inhabitants, juxtaposed with excessive and wasteful consumption and inefficient resource use that perpetuates the vicious circle of environmental degradation and people's impoverishment" (UNEP, 2000, Annual Report, p.5). The "Malmö Declaration", which resulted from UNEP's First Global Ministerial Environment Forum in Sweden in May 2000, stated that: "We can decrease poverty by half by 2015 without degrading the environment, we can ensure environmental security through early warning, we can better integrate environmental consideration in economic policy, we can better coordinate legal instruments and we can realize a vision of a world without slums" (UNEP, 2000, First Global Ministerial Environmental Forum). However, whether these goals will be achieved or not largely depends on the political leadership and will of the developed countries – who are the greatest consumers of energy and polluters – as well as of the developing world.

5.4. Mobility of workers and migration

The increase in migration of workers, especially from developing countries to the developed world, is posing serious challenges to public administration systems around the globe. Although migration is by no means a new phenomenon and is actually less extensive than in the past, it should not be underestimated and deserves to be addressed from a developmental approach. States must become more attuned to these new realities and find incentives to retain skilled workers within their borders, while also ensuring that social networks are in place to support workers who suffer sudden unemployment. It is known that globalization has produced greater economic insecurity, especially among vulnerable groups of society in both developed and developing countries. People fear losing their jobs as companies can easily relocate to regions of the world where wages are lower. Although this is a serious social problem in the short-run, governments can play a significant role in providing relocation

It is known that globalization has produced greater economic insecurity ... It is also important to keep in mind that in the long run the benefits deriving from restructuring the economy more than compensate for the costs of transition.

Migration and brain-drain have taken on proportions which compromise the prospects of many developing countries to build a better future

grants and in promoting re-training programmes for the unemployed. It is also important to keep in mind that in the long run the benefits deriving from restructuring the economy more than compensate for the costs of transition.

It is also worthwhile noting that although capital crosses borders rapidly, the same cannot be said for labour. In fact, even though labour has become more mobile, it is only the skilled workers who have legal access to and can benefit from a globalized economy. The migration of skilled workers represents a problem because of its "brain-drain" effect on developing countries, whereas the migration of unskilled workers is a quite controversial issue in political and social terms. As indicated by the Executive Secretary of ECA: "Several hundred thousand highly educated Africans live and work abroad, while Africa spends \$4 billion of its Overseas Development Assistance (ODA) per annum on buying foreign expertise. Over 100,000 experts from developed countries are currently employed in Africa. The brain drain is destroying the core of Africa's knowledge-producing institutions and universities. Very few of these academic refugees are going to the more flourishing countries within the continent, most of which have adopted restrictive approaches to immigration at times bordering on xenophobia" (Amoako, 2000). In some countries, high unemployment rates and pessimism regarding the prospects for improvement in the foreseeable future have accelerated a wave of emigration, which is creating problems at both the country of origin and destination.

Migration and brain-drain have taken on proportions which compromise the prospects of many developing countries to build a better future, and also victimize the individuals concerned. The countries witness the loss of scarce high-level skills developed at high cost. For migrants themselves, the time-consuming process of trying to obtain a visa may only be the start of a protracted journey through the uncharted seas of an informal job market, in which they are all too often victims of exploitation. The employment sit-

uation in many developing countries and need for high-level skills constitute a pressing problem, to which the countries affected and the international community must turn their attention; both are vitally concerned with these questions. Another critical question in many developing countries, but also in the western world, is related to the working conditions in many multinational corporations and local firms.

5.5. Demographic trends: ageing population and impact of HIV/AIDS

It is crucial that public administration remains very aware of what is taking place on the demographic sphere so as to adjust itself and its services accordingly. In mid 2000 the world population reached 6.1 billion and is currently growing at the annual rate of 1.2 per cent or an increase of 77 million people per year. Particularly rapid growth is expected among the group of 48 countries classified as least developed.

One of the most alarming health crises is related to HIV/AIDS, which is threatening to reverse a generation of accomplishments in human development. Some 50 million people have been infected with HIV since the early 1970s; 16 million have died. The impact of the HIV/AIDS epidemic is worsening in terms of increased morbidity, mortality, and population loss.

Globally, the number of elder persons (60 years and older) will more than triple, increasing from 606 million today to nearly 2 billion by 2050. At the same time, international migration is projected to remain high during the XXI century with the more developed regions expected to continue as net receivers of international migrants on an average gain of about 2 million per year over the next 50 years. Because of low fertility, this migration has a significant impact on population growth in the more developed regions.

These demographic trends are posing a serious challenge to national and international governance systems. In developing countries, governments will have to deal with a

wide range of problems related to the exponential increase in population and the propagation of deadly diseases. In the developed world, administrative systems will have to undertake a number of reforms in order to meet the needs of the increasing number of elderly and an increasingly diverse society.

5.6. Bridging the digital divide

Information technology opens new vistas for humankind. IT promises to improve our study, work and leisure. IT offers possibilities to broaden and accelerate the global integration of information networks, of economic activities, and of social, political and cultural pursuits. Currently, however, many developing countries and countries with economies in transition are only passively integrated, if at all, into the global economy. The unequal access to IT is creating what is known as the digital divide generally between rich and poor countries and also within countries.

Technological penetration is still very low in developing countries and in recent democracies if compared to the developed world. In this respect, only those who have access to the Internet and a variety of communication devices are globally connected, whereas a great part of the world cannot reap the benefits of globalization and are left at its margins. Many developing countries are still struggling to have nation-wide electricity, and infrastructures are still inadequate. In addition, the cost of computers is, in relative terms, very high for many inhabitants of the developing world. Most enterprises in these countries have neither the capacity nor the means to be active players in the globalization process.

The digital divide, however, is not a phenomenon which characterizes exclusively developing countries. An increasing gap in opportunities is also being witnessed in many industrialized countries due to this divide. It is mostly the young middle class who have access to information technology, whereas the poor as well as the older generations are being left out of the information revolution with great repercussions on their

employment opportunities. Recent surveys indicate that, in the industrialized world, typical network users are middle-class, young adult or adolescent, and male. The poor, disabled, older or poorly educated have not been introduced into the new technology and may continue to be excluded from it. In many developing countries, access to the Internet remains a distant dream. Knowing how to access the Internet, as well as to master computer softwares and other communication devices, is today a must in the skilled work place. We live in a society in which information is power and wealth is based on knowledge.

On a more positive note, modern information technology offers both countries and individuals dramatic opportunities to leapfrog into the future, speeding up their economic and social development. While many developed countries have spent enormous sums investing in IT, many of the resulting IT products and services have now become available at prices that may soon be affordable to enterprises and households in the developing countries. The current trend of IT towards distributed processing and network computing is also very much in favour of developing countries because it provides them with low cost and low risk – as well as high benefit – strategies to develop their information capacity and thus participate in the global information society.

With rapidly declining costs for both computers and telecommunications, it has been possible to place computer power on the desktops of individuals and to communicate with anyone anywhere. This has given rise to a trend of end-user and network computing, which allows an organization to take an evolutionary instead of revolutionary strategy. By means of wireless technology, developing countries are now able to quickly build up basic data-communication networks and information infrastructures with less investment, without having to wire thousands of miles of cables.

Because of the shift from mainframe to personal computers and networking (access to the Internet), IT can now provide more off-

The unequal access to IT is creating what is known as the digital divide generally between rich and poor countries and also within countries

The threat that international crime, particularly terrorism and drug traffic, pose to the world and the increased interdependence brought by globalization should not be overlooked

the-shelf software and user-friendly interfaces between people and machines; these have greatly reduced the cost of applications development and eased users' training. Previously, the introduction of a new generation of computer and data-communication systems in developing countries would have taken place several years after their initial use in the developed countries. Now, because of IT advances, acquiring new computers and software takes only a few months. The challenge States are facing is how to close the digital gap and create the opportunities for a wider participation of all people in the information age.

5.7. Combating international criminal networks

The speed and ease of transactions through the Internet as well as the greater openness of national borders have also been used in negative ways by criminal organizations, including terrorist groups. Corruption has also taken on a transnational dimension, and trade has extended to the illicit commercialization of women, children and human body organs. Oftentimes, the Internet is being used to facilitate such "transactions". Moreover, due to the many advances in technology and communication devices, criminals have been able to trade in illicit drugs and weapons with greater ease than ever.

The threat that international crime, particularly terrorism and drug traffic, pose to the world and increased interdependence brought by globalization should not be overlooked. Terrorism, in addition to the criminal taking of innocent life, can destabilize societies by undermining confidence in government institutions and inspiring fear in the population. Drug traffic results in untold harm to individuals and the consequent losses of human capital. Given their nature, only States can combat these terrible crimes. The State, with all its institutions, has no doubt a pivotal role to play in this fight.

6. Too much or too little globalization?

"The problem is not that we have too much globalization but rather too little" (UN, 2000, Millennium Declaration, A/RES/55/2). The benefits of globalization have been unequally distributed and many people have been marginalized from this process. Even in countries that have integrated into the world economy not everybody has benefited from globalization as States were not prepared to cope with some of its negative effects.

Thus, the foremost preoccupation should be to ensure that the benefits of globalization are evenly spread throughout the developed and the developing world, while addressing its negative effects. The problem is not whether to go global, but rather how to globalize. In other words, globalization has the potential of increasing prosperity and human development for all, but this is predicated on how it is pursued. In turn, this depends on democratic processes being in place at the sub-national, national and international levels, as well as on the balance of power and measure of equality among the world's nations.

Indeed, globalization may be said to bring greater opportunities to many countries provided specific conditions are met. It can foster prosperity, only if free trade principles are not upheld at the expense of consumers' health and the environment and if profits are not gained at the expense of workers' basic rights. That is to say, greater market openness cannot be divorced from a profound debate about common social goals and complementary policies. Human dignity and the promotion of enhanced quality of life should become an integral part of the international policy agenda. Accordingly, globalization cannot mean the abandonment of all things to market forces. In other words, "the economic sphere cannot be separated from the more complex fabric of social and political life, and sent shooting off on its own trajectory. To survive and thrive, a global economy must have a more solid foundation in shared values and institutional practice. It must ad-

vance broader and more inclusive social purposes" (UN, 2000, Millennium Report, A/54/2000, p. 3).

As emphasized in the Bangkok Declaration of February 2000, "globalization can be a powerful and dynamic force for growth and development. If it is properly managed, the foundations for enduring and equitable growth at the international level can be laid. For that, it is essential to persevere in the search for consensual solutions through open and direct dialogue that takes account of the fundamental interests of all (UNCTAD X, 2000, Bangkok Declaration).

"With globalization there is a growing need for binding international regulations, a need for international conventions and institutions that cover cross-border transactions" (Beck, 2000, p. 130). Appropriate regulations and conventions should ensure that globalization does not limit the freedom of people around the globe, but rather empower them to unleash their creative forces. But for people to be able to seize the benefits of globalization another set of conditions should be met, i.e. basic needs must be satisfied.

This is especially true in developing countries where people can actively take part in the world trading system and benefit from the rapid transformations that mark the beginning of this millennium, but only if the quality and access to education and health are ensured; if physical infrastructures, including transport and communication networks, hospitals and water systems are built or improved; if poverty amidst plenty is reduced; and if the technology gap is narrowed – that is to say, if people have greater opportunities to make choices. As argued by Sen, "what people can positively achieve is influenced by economic opportunities, political liberties, social powers, and the enabling conditions of good health, basic education, and the encouragement and cultivation of initiatives" (Sen, 1999/a, p. 5). In this respect, the State has a very important role to play.

It should be kept in mind that globalization does not have the same impact everywhere

and that its effects vary according to domestic conditions, in particular to whether a country has in place adequate institutions. Therefore, to label globalization in absolute terms as either a totally positive or negative phenomenon is a reductive approach. It should not be demonized nor sanctified, nor should it be used as a scapegoat or a panacea for all the major problems that are affecting the world today.

In this context, "what we need is a better understanding of how to translate our values into practice, and how to make new instruments and institutions work more effectively" (UNEP, 2000, Annual Report, p. 1). This now brings to the fore important questions. What is the role of the State in a globalizing economy? How is globalization affecting the role and functioning of the State? Have the reforms aimed at reducing the role of government and reshaping State bureaucracy in many developing countries helped them to seize the benefits of globalization? What institutional structures and policies are best suited to cope with globalization? What are the responses that States, as well as regional and inter-governmental organizations have provided and can provide for the future in order to cope with the many challenges globalization is posing? These issues are addressed in the following chapters.

Globalization ... should not be demonized nor sanctified, nor should it be used as a scapegoat or a panacea for all the major problems that are affecting the world today

Chapter II

The impact of globalization on the State



1. How is globalization affecting the role and functioning of the State?

Much discussion and debate in today's policy fora are being devoted to the theme of globalization and its impact on the State. Scholars and policy makers have expressed concern regarding the role of the nation-State in the new millennium, and its capacity to adapt to and manage effectively rapid change as well as to respond to the many challenges of economic and social interdependence. In particular, two issues are being increasingly addressed: whether globalization is weakening the role of the State and whether it will eventually lead to the end of State sovereignty. This chapter explores both topics, and analyzes why some countries have benefited from globalization while others have lagged behind.

1.1. The role of the State in domestic and international governance

The lifting of trade barriers, liberalization of world capital markets, and swift technological progress especially in the fields of information technology, transportation and telecommunications, have vastly increased and accelerated the movement of people, information, commodities and capital. Correspondingly, they have also broadened the range of issues which spill over the borders of nation-States requiring international norm-

setting and regulation and, therefore, consultation and formal negotiations on a global or regional scale. Many of the problems afflicting the world today - such as poverty, environmental pollution, economic crises, organized crime and terrorism - are in effect transnational in nature, and cannot be dealt with only at the national level, nor by State to State negotiations. As the Secretary-General of the United Nations, Kofi Annan, declared: "No State and no organization can solve all these problems by acting alone. Nor however, should any State imagine that others will solve them for it, if its own government and citizens do not apply themselves wholeheartedly to the task. Building a twenty-first century safer and more equitable than the twentieth is a task that requires the determined efforts of every State and every individual" (UN, 2000, Millennium Report, A/54/2000, para. 369).

Greater economic and social interdependence seems to affect national decision-making processes in two fundamental ways. It calls for a transfer of decisions to the international level and, due to an increase in the demand for participation, it also requires many decisions to be transferred to local levels of government. "This implies that public policies are undertaken at different levels" (Sulbrandt, 2000, p. 3). Thereby, globalization entails complex decision-making processes, which take place at different levels, namely sub-national, national and global, paving the way to a growing multi-layered system of governance.

The popular assumption that the emergence of global civil society, and increasing levels of cross-border trade, finance and investment flows turns the nation-State into an anachronism is wrong

The fact that cooperation and regulation are required on many levels as a consequence of the complexities and transnational nature of present world issues has led a number of scholars to predict the "end" of state power. Some argue that the State may only adjust to globalization, but not have an active role in it. Some believe that the State will become obsolete. Ohmae, for example, suggests that "nation-States are no longer meaningful units in which to think about economic activity ... In a borderless economy, the units that do make sense are ... region states" (Ohmae, 1995, p. 132).

Despite the many concerns about the loss of sovereignty, the State remains the key actor in the domestic as well as international arenas. The popular assumption that the emergence of global civil society, and increasing levels of cross-border trade, finance and investment flows turns the nation-State into an anachronism is wrong. In the international arena, closer cooperation and concerted action among States represent an exercise of State sovereignty. Such concerted action does not necessarily weaken States; rather, it can strengthen them by making the external environment more stable and by giving them greater scope to expand their exchanges in a variety of fields. Moreover, globalization without effective and robust multilateralism is bound to lead to crisis because markets are neither inherently stable nor equitable. The many "challenges that we confront today are beyond the reach of any State to meet on its own. At the national level we must govern better, and at the international level we must learn to govern better together. Effective States are essential for both tasks, and their capacity for both needs strengthening" (UN, 2000, Millennium Report, A/54/2000, para. 15). We need to remember and fully appreciate that the entire edifice set up for global governance is currently underpinned by nation-States and driven by the initiatives which they undertake.

In the domestic arena, the State assumes a great number of functions which cannot be performed by any other actor and will not be less relevant in a globalized world. Such

functions include safeguarding peace and security within and outside national borders; providing justice; ensuring the respect of minority rights; formulating and implementing policies; providing public goods; ensuring social stability and welfare; and regulating and arbitrating the market.

Since its birth, the State has guaranteed internal and external security; underpinned the law; funded national welfare systems; provided the structures for popular representation; instituted public accountability; and built the framework for economic and social activities (compromise between the public and private sectors). During the last century, the responsibilities of the State have expanded in all these areas. "The need to supply collective public goods, to manage externalities and to provide for minority needs will persist even in a world of expanded globalization" (Jones, 2000, p. 268). There is no evidence that globalization will reduce the relevance of such functions. If anything, it makes them even more necessary.

Thus, the image of a borderless world in which the State has little or no relevance is in many ways misleading. As a matter of fact, two realities co-exist. One is the so called borderless virtual world where geography does not count, and communication and business transactions can occur in a matter of seconds. The other world is that of the everyday life of people in which borders still count, local realities are still complex and very different among themselves, and most fundamentally where social and economic problems still need to be addressed. "The State will persist because the need for the State has grown, but also because the local resource pools and socioeconomic problems on which States are based are undiminished" (ibid., 2000).

Only the State can guarantee, through independent courts, the respect of human rights and justice, promote - in tandem with other actors - the national welfare, and protect the general interest. Its role is also fundamental in operating the intricate web of multi-lateral arrangements and inter-governmental regimes. It is still States, collec-

tively or singly, that set the rules of the game, that enter into agreements with other States, and that make policies which shape national and global activities, and the agenda of integration; though this is true in principle, in reality the problem of inadequacy in capacity of individual States has become clearly pronounced. This means that some States have more political leverage in shaping the international agenda whereas others have a less active role, as is the case for many developing countries.

Moreover, as pointed out in Part Two of this Report, globalization does not reduce the size of the State in terms of expenditure. Evidence suggests that the countries that have embraced globalization, are also those which register higher rates of public expenditure. The argument that globalization produces a reduction of the Welfare State and therefore a cut in social spending is not supported by evidence. On the contrary, as discussed further on, an intelligent, democratic State is needed to redistribute the benefits of globalization and to minimize the costs that some segments of the population may bear.

To put it more simply, globalization may require that the State improve its capacity to deal with greater openness, but it does not seem to undermine its sovereignty or its fundamental role within the national and international landscapes. To be sure, the State remains central to the well-being of its citizens and to the proper management of social and economic development. The State is also responsible for adopting policies which are conducive to greater economic integration. We should not forget that further global integration can be reversed by state policies inimical to openness, as occurred between the two World Wars. Globalization does not reduce the role of the nation-State, but redefines it given the pressures and responses it must give at the local, national and international levels. It has modified the meaning of sovereignty but not undermined it.

Experience shows, however, that globalization does not affect all countries in the same way. In general, and as recently experienced,

if it is true, for instance, that the negative externalities of a financial crisis in one region of the world affect other regions around the globe, it is also true that some countries suffer more than others because they lack the capacity to contain the adjustment costs of globalization. In order to understand what accounts for these differences, it is crucial to explore what administrative reforms have been implemented around the world in recent years, and whether they have strengthened state capacity to ensure that the benefits of globalization are evenly spread among the population.

1.2. The role of the State in multi-layered governance

"Globalization pressures, including economic integration, fiscal discipline and democratic governance, have forced governance institutions to redefine their role of universal provider as one that encompasses the roles of catalyst, enabler, gatekeeper, consensus-builder, mediator and negotiator. As such, globalization has led to the development of new roles, relationships and partnerships among government, citizens and business, and heightened the influence of the public on governance policies and institutions. Citizens are achieving greater input into government decision-making; central governments are decentralizing to local government levels; and governments are partnering with civil society and the private sector in the delivery of programmes and services. Many examples include: government-sponsored national policy consultations, local service delivery schemes, joint decision-making councils, and other innovative partnership arrangements" (UN, 2000, ST/SG/AC.6/2000/L.6).

Increasingly, the State is called upon to act as linking pin of processes of planning, consultation, negotiation and decision-making involving diverse players, State and non-State, at different levels of governance. It is the hub of activities connecting multiple partners and stakeholders from very varied fields, activities, regions, cultures, professions and interests. Adding to the complexities of bringing these together, is what may be de-

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The underlying indispensable element of improving human resources and strengthening State capacity have not received the same attention as economic liberalization

scribed as the decline of traditional authority structures and the decreased effectiveness of the old top-down command. The differentiation of needs, technologies, skills, ideologies and interests has carried in its trail a wide diffusion of power on almost every level. The compact, monocratic pyramidal structures, which constitute the legacy of XVIII century thought no longer represent the prevalent reality of the contemporary world of public administration. These structures certainly do not sufficiently respond to its concerns and cannot meet its needs in an effective, timely and user-friendly fashion.

Moreover, as already stated, the State will increasingly need to function on three levels:

- The sub-national level, as a result of a process of devolution of functions to local level government structures, or even non-State actors operating within bounds established by the State and under its supervision;
- The national, or central government level; and
- The international level, where an entire edifice set up for global governance is slowly taking shape, but is clearly underpinned by nation-States and driven by the initiatives which they undertake.

In this respect, the State will need to establish specific bodies, which can be entrusted with ensuring an effective network among these different levels, and to possess the necessary skills for multi-layered governance.

2. Redesigning the State in the 1980s and 1990s

In recent years several countries have implemented a number of reforms in their public administration which, in many cases, have improved their position to properly function in a global context as indicated in the regional perspectives. Nonetheless, the underlying indispensable element of improving human resources and strengthening

State capacity have not received the same attention as economic liberalization.

The reforms initiated in the mid 1980s with the support and leadership of the Bretton Woods institutions introduced a new public administration paradigm and macro-economic policy framework. These reforms sought to reduce the role of the State in production, as well as in service delivery and to encourage the deregulation of public enterprises. The emphasis was on maintaining macro-economic stability, lowering inflation, cutting deficit spending, and reducing the scope and cost of government. The reforms related to the functioning and role of the State in the economic sphere, have in many instances, produced positive results. The privatization of public enterprises producing goods and services has reduced the role of the State in areas where the private sector has often shown to be a better alternative, with the exception perhaps of basic services of infrastructure where the State has an intrinsic responsibility and interest (e.g. law and order, including prisons, courts, public safety, among others). In the developed world, the end of State monopolies in many areas has resulted in greater competition, lower prices and wider choices to the consumer.

On the administrative side, New Public Management (NPM) and reinventing government have been effective tools in improving the efficiency of the public sector and in reducing costs. Notwithstanding some of the positive results derived from these reforms, the retreat of the State in social areas (health care, education, housing) has been detrimental for many developing countries. Under pressure from structural adjustment programmes, which were aimed at achieving economic stability (by reducing hyperinflation, reducing the budget deficit, etc.), many States chose to cut back programmes particularly in the social area. Perhaps a better solution would have been to seek to improve tax collection or increase sources of income through equitable taxation. Just by attacking non-compliance and fraud in tax collections, many developing countries could have dramatically increased their income. How-

ever, that would have implied a strong political will in favour of such measures and also the existence of effective public administration systems, as well as greater capacity which many countries lacked.

The lessons of experience have shown the limitations of the structural adjustment programmes and pointed to the need of broadening the agenda of public sector reform. It has become apparent that macro-economic adjustment and stabilization were not sufficient to address the fundamental problems in governance and public management, which were of a political and institutional nature. What is more, the net effect of these adjustment policies has been a regrettable neglect and further serious weakening of strategic institutions, notably the civil service, in countries where the process of "building the State" was still incomplete. The errors of these ways are currently, if belatedly, gaining increased recognition.

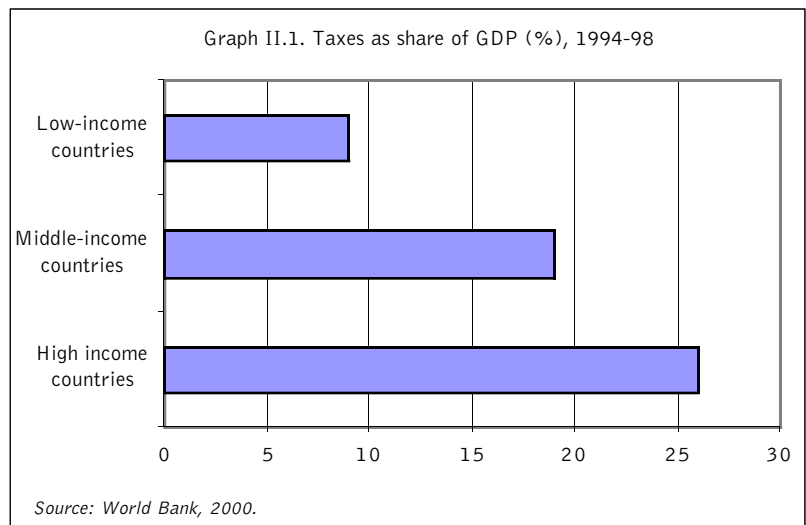
To make globalization fully viable and accepted world-wide the drawbacks in the social area must be corrected, and this implies reinforcing state capacity. Opening up to the global economy brings costs and benefits. Some gain and some lose by either improving their lot or losing their jobs. The more effective and confident a State, the more it can focus on compensating losses caused by globalization and technical change. The absence of an effective public administration can often constrain States from participating in the global economy because they fear the adverse effects of globalization on vulnerable segments of the population. The reform of public service would give States a better opportunity to globalize. A strong, democratic State and globalization go hand in hand.

The anatomy and impact of NPM and related State reforms in both the developed and developing countries are briefly explored below in order to give a more clear picture of its merits and drawbacks in helping developing countries to meet the challenges of the new millennium.

Many administrative reforms that have shaped the international policy agenda of the

past two decades originated in the Westminster-system countries (Australia, New Zealand, the United Kingdom and Canada) and the United States, which may rightly be considered as the foremost exponents of NPM. This wave of reforms first started in the UK in 1979 with the electoral victory of the Conservative Party, which produced a major agenda shift towards reducing the role of government in the economic life. The election greatly altered the status and range of items on the government agenda and this, in turn, forcefully brought public management issues onto the governmental agenda (Barzelay, 1998).

Because of their importance, capacity for outreach and technological prominence, the Westminster-system countries have exerted collectively a considerable influence on administrative developments worldwide. These countries are exceptional in many ways. They are all highly developed, democratic, stable and prosperous. They share a common language and, in spite of their differences, a core of common values and traditions, which have profoundly marked their administrative systems. They also share a combination of attributes and benefits that many other countries still manifestly lack. Home-grown in this environment, the popular "New Zealand" model was soon adopted widely in this group of countries and has since been exported to other parts of the world with varying degrees of success. There is no



Remarkably, what started as a policy to cope with growing budget deficits and cure rampant inflation during the 1980s developed into a campaign "to roll back the State"

denying the merits and the considerable influence of this model during the past two decades. To a greater or lesser extent, all of the countries concerned experienced an erosion of confidence in government during the 1980s and early 1990s. Where once the public welcomed or at least acquiesced in government initiatives, the mood gradually swung in the opposite direction. A number of factors accounted for this change of attitude towards government and its role in the economic and social sphere. The first was a response to the global recession, which began in the mid 1970s, and was predicated on ideas fundamentally hostile towards the State (Sulbrandt, 2000, p. 34). The second factor, which was related to the first, was the need to reduce unnecessary costs and inefficiencies.

The rising costs of government and of the public budget coupled with inefficient services, led to strong criticism of the State as producer of goods and services. The burden of social welfare, as the population aged, produced a transformation in attitudes. This was articulated by the New Zealand Minister of Finance in her 1991 budget speech: "The redesign of the welfare state is integral to our strategy for growth ... The only sustainable welfare state is one that is fair and affordable. Our current system is neither. Real welfare is created by people and families through their own efforts. Our redesigned welfare state will support those efforts and assist those who cannot assist themselves" (Boston, Dalziel and St. John, 1999).

Often couched as a critique of "bureaucracy" and "big government" this new approach portended a veritable shift of paradigm regarding the role of the State and the discharge of its functions. The reforms which it engendered sought to reduce the scope of the State, eliminate its role as producer of goods and services, downsize the public service, promote deregulation and decentralization, and recast the role of government especially as regards service delivery, macro-economic governance, and the private sector. Remarkably, what started as a policy to cope with growing budget deficits and cure ram-

pant inflation during the 1980s developed into a campaign "to roll back the State". This was defended on moral and ideological, as well as pragmatic grounds. The mounting costs of social programmes in Western European and other industrialized countries led to doubts on the wisdom and sustainability of post Second World War welfare programmes.

The need to enhance efficiency in the public sector and to cut public costs was accompanied by a series of measures, including privatization, deregulation, and the introduction of market-like mechanisms in the public sector. The broad appeal of these concepts is nothing less than staggering, and although, to be sure, the measure of success varies from country to country, the extent to which the principles themselves have been accepted may be taken as indicative of a worldwide trend. This trend may have been influenced by the convergence of values in which multilateral agencies, the media and civil society have played a part. It has been manifested in the uneven but observable decline of traditional authority structures; the flattening of hierarchies; and the pressure from the people to have a voice and for that voice to count.

Four very common targets of reorganization of the State have been implemented in many countries and advocated around the world: privatization and deregulation, market-like mechanisms, decentralization, and debureaucratization.

2.1. Privatization and deregulation

In a pattern replicated in several States, substantial cuts in benefits were attempted, and steps initiated to privatize delivery of public welfare services, including education and health care, but also experimenting with private courts and prisons, and private police forces. In New Zealand and elsewhere, shrinking the social programmes was only part of a much broader design of limiting the State through decentralization, devolution and transfers of power. Privatization and various forms of outsourcing were added in an attempt

to reduce public employment and, in this manner also, the burden of taxation. "Privatization included both industries previously seen as 'strategic' (such as steel, coal or airways) and utilities where there was previously a presumption of natural monopoly (such as gas, electricity and telephones). The privatization of the water companies and of the railways marked the high water mark of this process in the UK" (Ferlie, 1998, p. 6).

Potentially far-reaching have been reform proposals developed under the label "law and economics". The overriding purpose is to promote efficiency and maximize the creation of wealth. This is pursued by eliminating laws imposing restrictions on business and by reducing the penalties that corporations pay for negligent behaviour. Inspired, to a large extent, by lawyers and economists of the University of Chicago, the thrust of these proposals has been to circumscribe the role of government, restrict government spending, replace progressive income tax with a flat rate tax, and otherwise arrest and/or reverse a trend that neo-liberal economists - otherwise called "supply-siders" - trace to the Great Depression, the New Deal and the effects of two World Wars (Clark, 1998).

2.2. Market-like mechanisms

"Where core functions (often social policy functions) were not privatized, a range of market-like mechanisms were introduced to mimic the effects of the market. This would include periodic market testing of services (such as groups within the civil service) against invitations to bid from outside contractors. It would also include attempts to set up internal market mechanisms within health care, social care, education and even university settings, although these experiments reported mixed success" (Ferlie, 1998, p. 6).

2.3. Decentralization

Decentralization has been another very significant reform of the State which received a boost from the decline and fall of military dictatorships and totalitarian regimes, for which centralization and tight controls had

represented conditions of survival, or key constituent elements of their ideological basis. In these countries, the quest for more democracy has been coupled with attempts to abandon a highly centralized, tightly controlled, often paternalistic and authoritarian bureaucratic system in favor of one exemplifying the merits of individual initiative and citizen participation in the affairs of government. "Almost by definition, a highly centralized system of government is less democratic than one in which there is a network of local and regional authorities complementing the national authority with clearly delineated powers and responsibilities" (UNDP, 1997, Regional Bureau for Europe and the CIS, p. 23).

In Western Europe, specifically, the tendency away from centralized control received a powerful boost from the process of integration into the European Union. In an attempt to address and resolve the problem of distribution of functions and resources among the several layers of government, the European Union elaborated a principle which is very simple but clear. The principle of subsidiarity plainly states that every function must be assigned to the lowest level at which it can be discharged effectively. This means in practice that any decision to allocate a function or responsibility at a higher level must be capable of being defended or explained on grounds that it could not be done effectively at a lower level.

2.4. Debureaucratization

"Debureaucratization", often through re-engineering and deregulation, has been a preferred strategy in pursuit of efficiency. Concerned with promoting cost-consciousness, efficiency and effectiveness in the public service, NPM was also geared to affirm the rights of private citizens as consumers and clients vis-à-vis state organizations, which too often have been marked by closure, outdatedness and paternalistic indifference to the wishes of the public. In all the countries concerned, transparency, accountability and public service integrity have made a powerful comeback. In part, this has been due to

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pressures from the public to put an end to a tradition of secretiveness and obscurantism, which has long been associated with the ethos and the practice of bureaucracy. The stress on accountability has been linked to an effort to bring policy and administration back to the source - the citizen - to whom it belongs, and to account for efficient expenditure of public funds. In other words, there has been an effort to bring government closer to the individual citizens, making it more intelligible, as well as more accessible, clipping away its prerogatives, cutting its staff down to size, empowering the public and widening the latter's choices. The right of the public to know and even to be involved in the design and practice of public policy has been reaffirmed. This is a development whose implications have only been apparent in recent decades. Such also is the objective of the related re-engineering. Its quintessential method has been defined as follows: "Question everything; throw out all perceived assumptions and conventional wisdom; look for breakthrough strategies; focus on customers, radical change, nimble organizations and information technology" (Kettl, 1995, p. 41).

The focus on radical change, nimble organizations, as well as customers' preference is unmistakable. It must be emphasized, however, that some of these approaches have also been embraced by movements of reform, in several parts of the world, which have been left untouched by the reinvention tide.

This development, however, not unlike the parallel trend towards privatization and outsourcing, did not come without its risks. There is some reason to fear that merging the two spheres - private and public - might help create a world in which the public good might no longer remain the paramount objective. Allied to this consideration was concern over what NPM, with its accent on reduction of centralized procedures, might bring in its wake: greater emphasis on outputs, separation of purchasing and providers' roles, the development of contractual mechanisms of accountability and departure from lifetime career employment (Hood, 1991). For a time, some of those

trends were criticized "for opening the door to the re-politicization of public administration, retreating from the traditional norms of public accountability by impeding political oversight of the bureaucracy, and allowing the possible incursion of administrative corruption, should public managers realize ... that they could secrete their own wrongdoing. Public propriety should not be sacrificed on the altar of economic efficiency, nor should more businesslike public administration be allowed to breach the common law duty to act fairly in making administrative decisions which affect legitimate rights, interests and expectations" (Caiden, 2000, p. 12).

3. New Public Management and its main tenets

The outcome and legacy of New Public Management or "reinventing government" - its Northern American variant - have been rather mixed, but its influence persists. This has been demonstrated at several global fora, where it has been accorded considerable salience. Thus, in its invitation to the 2001 Annual Conference in Athens, the International Association of Schools and Institutes of Administration introduced the Conference theme "New Trends and New Techniques: Implications for Education and Training" with the following commentary on the role of NPM: "The New Public Management is an example of globalization at work. It has promoted a powerful technological revolution, and diffused a set of values among the public services of nation-States, sub-national units, international and supra-national bodies. Across all these spheres of governance, it has re-vitalized the identity of public administration as a profession and scholarly discipline. It has helped to alter the balance of power within administration, as well as between officials and civil society. It provides an object lesson about the nature and effects of globalization on governance in the opening decade of the twenty-first century" (IASIA, 2001, Annual Conference).

NPM and "reinventing government" have greatly enriched the language of management with several new terms and graphic expressions. Here are some of the most current:

- Results over process;
- Downsizing, now "rightsizing";
- "Lean and mean";
- Contracting out, off-loading or outsourcing;
- Steering rather than rowing;
- Empowering rather than serving; and
- Earning rather than spending (Frederickson, 1996).

Manifestly, NPM is destined to continue to exert a measure of influence on administrative developments. Arguably, this influence may go beyond the sphere of methods and techniques into the realm of values. It is bound to play a role in the ongoing attempts to advance the cause of good governance, notably in the least developed countries. It is important, therefore, to understand the context, the strengths and the limitations of NPM in order both to reap the full yield of its benefits, but also to avoid repeating the mistakes of earlier attempts to spread its principles to different parts of the world.

3.1. Let the managers manage

"Let the managers manage" has been the movement's slogan. Simple, direct and catchy, this motto, often coupled with the related aphorism that "management is management", exerts a strong appeal. The need for flexibility and freedom to maneuver, which these statements convey, makes some sense in a world where changes and discontinuity have become facts of life; where rigid structures are viewed as things of the past; and where adaptability, creative problem-solving and rapid response to contingencies are sine qua non conditions of survival and success. It must be pointed out, however, that criticisms of rules have often served as a subterfuge to brush

aside or undermine important institutional and legal safeguards in areas of vital concern to vulnerable segments of the population. It is not accidental that the rise of managerialism has frequently coincided with attacks on organized labour and attempts to curb its influence.

The quest for cost-effectiveness through novel styles of management and forms of organization has also given prominence to a modified profile of the good public manager. The profile is not new, but has immensely gained in currency and popularity since the publication of Osborne and Gaebler's bestseller on Reinventing Government (1992). In this and other writings, the "entrepreneurial manager" is lionized, in contrast to the stereotyped and maligned conventional "bureaucrat". The profile is consistent with the promotion of a new prototype: hard-nosed and business-like, but also proactive, creative, focused on tasks, results-oriented, but friendly to the public. Of course, this is the antithesis of the indifferent, overly cautious and rules-addicted bureaucrats, stereotyped by the proponents of reform. However, to suggest that these are representative of anything but a minute proportion of today's public servants, especially in the countries to which the critique was addressed, could hardly be considered a fair and accurate statement.

Style and language shaped the substance to produce a powerful message, which claimed to address the issues of the XXI century. Here are some of its main tenets:

- Emphasis on results; stress on performance measurement, monitoring and evaluation;
- Accent on cost reduction and hence on "cutback management", reflective of concerns in a period of recession;
- Insistence on the need to shrink the scope of government;
- Promotion, to that end, of privatization, outsourcing or off loading, and decentralization of state-provided services and other government functions considered non-essential;

It is important ... to understand the context, the strengths and the limitations of NPM in order both to reap the full yield of its benefits, but also to avoid repeating the mistakes of earlier attempts to spread its principles to different parts of the world

The premise that all management is grounded in economics has also correspondingly obscured the important role that law, psychology, political theory, ethics and other social sciences must play in both the study and practice of public administration/management

- Focus on core competencies and top priority tasks;

- Devolution of decisional responsibilities, as far as possible closer to the end user;

- Partiality not only for practices and methods, but also for the language and values of the private sector, partly in an attempt to "debureaucratize" public administration, but mostly on the assumption that, in some cases, the private sector can provide cost-effective services and enhance competition;

- Consistent with that theory, "client-orientation" and designation of citizens as "valued customers";

- Emphasis on "empowerment" of users and stakeholders, and "participative management".

3.2. Empowering citizens

"Empowerment" of the citizen also forms a major plank in the managerialist platform. It is hypothesized that citizens around the world are chafing under burdensome bureaucratic rules, which restrict their range of options and access to quality services (Frederickson, 1996). It is assumed, accordingly, that privatization, outsourcing of public services and debureaucratization are avenues that lead not only to greater citizen/consumer satisfaction, but also to more freedom and more complete democracy. In other words, "managerialism" has pitted "rules-bound administration" against the more efficient entrepreneurial, "results-oriented" management. "Public administration" is swiftly being replaced by the more trendy "management" in many schools' curricula and even the vocabulary of public organizations (e.g., human resources management).

3.3. New responsibility mechanisms

New responsibility mechanisms were designed, public servants were assigned "direct responsibility for their conduct, not merely a derivative responsibility through their minister and parliament" (Spigelman, 1999, p. 7). Significantly now, accountability covers

omissions as well as commissions, i.e., failure to act in order to stop a wrongdoing. "A whole new range of mechanisms has come into force to review and correct the decisions of public administrators, thereby ending the defence of compliance with instructions or merely 'following orders'. Indeed, this newly emerging doctrine of administrative responsibility goes well beyond the bounds of public administration to the broad field of governance" (ibid, 1999, p. 9).

3.4. Introducing business principles into public affairs

The underlying assumption that "management is management" casts doubt on the validity of any major difference in the manner in which public affairs and private enterprise ought to be run. Where a parting of ways has been perceived as plausible, the "managerialists" suggest that public affairs be conducted, as far as possible, on business principles. The premise that all management is grounded in economics has also correspondingly obscured the important role that law, psychology, political theory, ethics and other social sciences must play in both the study and practice of public administration/management. A focus on the evils of government monopoly combined with "bureaucracy bashing" have signalled the transition from public administration to public management. A senior research fellow of the Cardiff Business School explained the change of paradigm in the following terms: "In contrast to public administration, the new paradigm is concerned with the economics rather than the politics of service provision, emphasizes government failure rather than market failure, and is skeptical about the capacity of bureaucracy to provide services efficiently and effectively" (Boyne, 1996, p.679).

The belief that "management is management" and private sector practices are superior to the public sector's is not exactly new. It is possible to trace it back to the XIX century. From Scientific Management to Total Quality Management, many performance improvements and related reforms had their source in private industry. However, NPM and

the reinvention movement have carried this idea one step further, arguing "that government should not only adopt the techniques of business administration, but ... also adopt the values of business" (DeLeon and Dernhardt, 2000).

3.5. Downplaying the concept of "public service"

Drawn to their logical conclusion, public choice and its derivatives "have tended to reject concepts like 'public spirit', 'public service' and so forth" (Kamensky, 1996). The implications are far-reaching. On the pragmatic level, this has led to major reforms in New Zealand, the UK, the USA and other countries. The thrust of these reforms has been to separate political advice from policy implementation, thus also re-establishing the old and much maligned policy administration dichotomy. However, more fundamentally, these measures have purported not only to redraw the boundaries, but also to alter the purposes of the civil service profession. Indeed, it might be fair to ask whether the very concept of a "public service profession" makes any sense to the advocates and disciples of public choice.

3.6. Promoting professional ethics in the public sphere

Revisiting and redefining the ethical dimension of the public service profession has been a major facet of NPM reforms, which have been taking place in a number of countries. Everywhere, the civil service appeared to be in the process of losing its former cohesion and even its sense of identity. The agenda for reform purported to recast the mould of public officialdom, "putting the people first", and to radically transform the style of public management.

Putting the people first did not merely entail bringing the government closer to the public it served. It meant treating people as valued customers, rather than as charges. It also signified making government officials "less remote and more responsive", but also less "bureaucratic" and more "entrepreneurial", or re-

sults-oriented (Caiden, 2000). To achieve these goals, the Government in the UK adopted a strategy whose keystones were inclusiveness and integration. Its programme has been centered on five commitments:

- "Policymaking: we will be forward-looking in developing policies to deliver results that matter, not simply reacting to short-term pressures.
- Responsive public services: we will deliver public services to meet the needs of citizens, not the convenience of service providers.
- Quality public service: we will deliver efficient, high quality public services and not tolerate mediocrity.
- Information-age government: we will use new technology to meet the needs of citizens and business, and not trail behind technological developments.
- Public service: we will value public service, not denigrate it" (ibid.).

3.7. Performance management

Emphasis has been placed on performance management and inspection. Four principles for performance management and inspection have been advocated:

- "Encourage a whole systems approach: We will put the focus on assessing improvements in the effectiveness and value for money of a whole system, such as the criminal justice system, not just in its constituent parts.
- Move from counting what goes in to assessing what is being delivered: We will keep a tight rein on the management of resources. But we also need to know what is being achieved with the money spent. The targets for government departments, as far as possible, are expressed either in terms of the end results or service standards, and we are working to develop measures for all levels of government which support this approach.

The agenda for reform purported to recast the mould of public officialdom, "putting the people first", and to radically transform the style of public management

Much still needs to be accomplished to clarify and strengthen the links between planning and budgeting structures, and presentation in performance planning, measurement and cost accounting

- Intervene in inverse proportion to success: The government is not afraid to take action where standards slip, but we do not want to run local services from the center. Where services deliver results, we will give them greater freedom to innovate.

- Use the right information at the right level: We want managers to use performance measures to monitor and improve their organizations. We do not want them to feel swamped by information overload or bureaucratic requests for irrelevant data. We will use new technology to take a more streamlined approach to managing information in the public sector" (ibid, p. 37).

Consistent with this approach was a new stress on measuring and monitoring performance in the public service. This can be found in all Westminster-system countries, albeit with certain differences.

In Canada, for instance, it has been predicated on the belief in the need for strong policy capacity and non-partisan professionalism as the essential preconditions of quality performance and quality service delivery. By contrast, in New Zealand, a more radical approach, based on NPM precepts, de-coupled service delivery from policy advice, and employed non-tenured executives, performance contracting and annual purchase agreements (Davis, Sullivan and Yeatman, 1997).

However, it is probably in the United States that standard-setting, benchmarking and emphasis on measuring, monitoring and evaluating performance have been developed the most during the past decade. A bold step in this direction was taken in the form of the Government Performance and Results Act of 1993, by which Congress has prescribed consultation and planning to identify agency and programme goals and annual reporting on performance. Joseph Wholey has described the intentions and purposes of the new performance-based management system as follows: "The required planning and performance measurement, and the possibility of increased managerial flexibility in return for accountability of results, are intended to

improve management, improve programme performance, improve accountability, support policy decision making, and improve public confidence in government ... With minor exceptions, federal agencies' strategic plans, annual performance plans and annual performance reports are and will be public documents." (Wholey, 1999, p. 293).

3.8. Performance budgeting

Over the years, what has emerged in this process is a major reform of the 1990s, namely performance budgeting, which is a concept linking performance information with budget. Much still needs to be accomplished to clarify and strengthen the links between planning and budgeting structures, and presentation in performance planning, measurement and cost accounting. Key challenges include continued lack of credible and useful performance information, difficulties in achieving consensus on goals and measures among various stakeholders, dissimilarities in programme and fund reporting structures, and limitations of information and accounting systems.

When viewed collectively, these past initiatives suggest three common themes:

- First, any effort to link plans and budgets must explicitly involve the legislative branches;
- Second, the concept of performance budgeting will likely continue to evolve. There is no single definition that encompasses the range of needs and interests of federal decision-makers; and
- Third, performance budgeting cannot be viewed in simplistic terms. In most cases, resource allocation cannot be mechanically linked to results.

Ultimately, the promise of any performance budgeting initiative lies in its potential to infuse performance information and benchmarks into budgetary deliberations, thereby changing the terms of the debate from simple inputs to expected and actual results (US, GAO, 1999, GAO/AIMD/GGD-99-67, pp. 4-5).

In summary, the "efficient", "managerial" State, advocated and implemented in several countries - especially in the Anglo-Saxon world - has focused on efficiency in the belief that procedural and structural reforms make it possible to have a government that works better and costs less. This approach projects the State as the object of reinvention ("reinventing government"), which implies re-engineering the civil service structures. Although efficiency is extremely relevant, it cannot be the only guiding principle of State action, and it must always be balanced with considerations of public interest. Efficiency must be seen as a means to improve State activities, not as its ultimate goal.

4. Regional perspectives

The reforms which have been widely advocated in the past two decades in many parts of the world, have produced different results across the globe. What started as a reform movement to cure high public deficits, reduce the excesses of the Welfare State and modernize the public sector in the West was soon applied to other regions of the world, which had a very different set of historical, political and cultural experiences. It may be said that two different worlds co-existed. One was the world of the rich nations whose population had ample access to education, health services, clean water, unemployment benefits, and social security. The other one was the world characterized by abject poverty with a lack of education, no access to health services and a lack of basic infrastructures to deliver social services. In other words, one had in place adequate institutions and conditions for specific reforms whereas the other lacked the basic infrastructures and pre-requisites. Reducing the role of government and cutting spending on education and health services did not produce the same results in countries which already had substantial levels of education and good health systems in place and in countries which, to begin with, did not have such conditions.

In trying to redress economic and social problems many developing countries looked at - or were induced by financial institutions to do so - how developed countries were tackling rampant public deficits, economic crises, etc. Thus, they went directly to "how-to-do-things", namely to new managerial approaches, without the solid institutional, social basis already in existence in the developed world. This is why one of the most eminent proponents of the managerial State in the developing world and one who understands its relationship with the development process, namely former Brazilian Minister Bresser Pereira stated that: "If the proposal of a minimum State is not realistic, and if the basic factor behind the economic crisis is the crisis of the State, there is only one possible conclusion: not to wither with the State, but to rebuild it" (Bresser Pereira, 1998).

If one aims to adopt managerial reform as a way to improve the performance of the public sector and its capacity to service the citizens, one must ensure that the basic conditions for the operation of a managerial public sector exist. Otherwise one would have a tool without the necessary political and social conditions which would enable this tool to work successfully. Let's briefly see how the past reforms have affected the different regions of the world.

4.1. Western Europe

It is worthwhile noting that in Western Europe privatization, deregulation, de-bureaucratization and decentralization have been carefully managed and coordinated with the goals of the Welfare State and the provision of social services for all. In fact, policy makers in the region have devoted much energy to find ways to reconcile their acquired social structure and benefits with fiscal frugality, efficiency, and greater participation as well as innovation. Thus, it might be said that Western Europe has been trying to reconcile their pro-active social policies and strategies (namely, "the what-should-the-State-do"), with new ways to implement these policies (namely, "the how-to-do-it").

What started as a reform movement ... in the West was soon applied to other regions of the world, which had a very different set of historical, political and cultural experiences

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There can be little doubt that national administrative and civic cultures in Western Europe have been profoundly marked by shared traditions, legacies and institutions, some indeed going far back to the days of the Roman Empire. Of these, the *Etat de droit*, the bureaucratic model and a penchant for legalism and centralization, more pronounced in some countries than in others, stand out. These are now called into question in the form of ongoing reforms, which, predictably, present commonalities and differences. Strategies for reform try to avoid the errors of the past, leading governments to take a segmented approach to reform, that is to say to attempt the change of institutions in relative isolation instead of seeking to address the modernization of public administration from a global perspective. Excessive reliance on form, and the letter of the law, and a corresponding failure to address the substance in order to produce effective change in practice, may represent another legacy which European Union countries share and which they now endeavour to correct.

This shift away from the past is not unrelated to the influence of managerial thinking on policy development and administrative practice in most Western European countries. It has been manifested in the adoption of new practices, but also in a change of values. Everywhere, increasing reliance on "outsourcing" goes in tandem with rethinking of past methods of recruitment, administration and career development of public servants. Everywhere, there is more emphasis on "output over process", "lean government", "value for money" and "customer orientation" (Timsit, 2000).

This shift in orientation has been accompanied by parallel moves in the direction of decentralization, deconcentration, and privatization, as well as other forms of devolution of power which, taken collectively, represent a marked departure from the strongly centralized, and rather paternalistic State administration of former days. An increasing emphasis on openness has also come with more reliance on networks, both national and international, and partnerships with non-

State actors, including private firms and other civil society entities.

In the process of reform and the means employed for this purpose there is pronounced convergence. This has been especially significant in budgetary processes and the re-orientation of civil service policies, chiefly in the direction of mobility, performance pay and incentives for efficiency and effectiveness. There has been renewed emphasis on the importance of professionalism and professional ethics, and measures have been taken to safeguard the citizen/consumer from mal-administration and the abuse of power.

Such convergence of residual differences among the several partners of the European Union is noteworthy. These differences are apparent on at least two levels: approaches to globalization and administrative culture. More than their opposite numbers in the "anglo-saxon" countries, the governments and peoples of continental Western Europe are conscious of the adjustment costs related to globalization. The problems and the downsides of these trends and developments should not be overlooked: they include job insecurity, and for some groups, feared deterioration of the physical environment. Such dangers and such challenges point clearly to the importance, the core functions and the leading role of the State through its public administration.

It is interesting to note that while the European Union predates the recent spread of globalization, its institutions and policies have been an excellent tool in taking advantage of the opportunities of globalization. The European Union is the most elaborate regional system of transnational integration. For some observers, the variety of economic and security arrangements represent an advanced form of globalization, but for others, they represent a way to limit the effects of globalization, i.e., a way of combining power and authority to contain and manage global forces through cooperation, which would be impossible to do for individual States. Some believe that such integration weakens national sovereignty, while others see the Eu-

ropean Union as the rescuer of the nation-State, particularly the smaller ones, for which it is difficult to survive in a world of large groupings and organizations.

4.2. Eastern and Central Europe

In barely a decade, the countries of this region have attempted a triple transformation from a single-party State to a pluralist democracy; from a centrally planned economy to a free market economy, and from subordination to independent statehood. Few had the wherewithal or an "institutional memory" commensurate to this task. Not surprisingly, the pace and particular modalities of this transition process have differed from country to country. Significantly, however, one is able to detect many shared characteristics, which suggest a common pattern of political and social change. These features include far-reaching deconcentration and decentralization, and the emergence of distinct spheres of economic and political life and privatization. Related to the above, was the overall purpose to restore and to reinforce respect for the rule of law.

This was no easy task. Reform had to contend with understandable, but still damaging anti-State attitudes. The transformation process depended for success on support from the public sector, which was at once the target and agent of reform. This called for careful strategies combining structure with flexibility, continuity with change. In spite of the complexity of the process and the distinctive patterns which emerged in particular countries, it is possible to distinguish four major phases in the transition process:

- Transformation: overhauling the old structures;
- Consolidation: in the measure that the "shock therapies" and "big bang" approaches lost their appeal, design for the long-term, capacity reinforcement and implementation of critical policies became increasingly important;

- Modernization: the quest and need to adopt "best practices" characterized this stage; and

- Adaptation to the standards and practices of the world community, and adoption of the tenets of the *acquis communautaire*, for those countries which aspire to join the European Union.

While, in the initial period, the overall conditions were characterized by volatility, the end of the decade brought with it indications of growing consolidation in most of the countries concerned. This was especially true of the political sphere, where the process of institutionalization of a framework for democratic governance may be considered almost complete, and the outline of a new pluralistic political order is becoming increasingly evident.

A similar assertion may be applicable to the economic sphere. While the economic policies still face numerous hurdles, the structural foundations of the new market economies have slowly begun to emerge. After nearly a decade of experimentation, the countries of the region are still searching for a model of economic development. Most of them are grappling with economic stabilization and restructuring. Significantly, however, the earlier unconditional support for neo-liberal principles has been replaced by more differentiated and cautious approaches. For the public sector at large, in the new market economies, the prospects for reform on the basis of pragmatic and realistic objectives appear substantially improved. "However, the tasks ahead are demanding, particularly in light of conditions for accession to the European Union and the Council of Europe, which remains a major goal for several regional States" (Palankai, 1995).

Far more than the political and economic contexts, the overall social predicament continues to be problematic. Continued unemployment on a substantial scale, increase of absolute poverty, crime and widening income disparities are some of the downsides which the transition process has carried in

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its trail. Cutbacks in social expenditures, and privatization have meant that social benefits have either been scaled down or have disappeared altogether. With social safety nets visibly disintegrating in many countries, individuals are confronted with the pressing need to make major personal adjustments in an environment which is rapidly changing in fundamental ways. On the positive side, by contrast, one can emphasize the emergence of a new triangular relationship between State, society and the individual, together with the rise of an active civil society.

A difficult transition has demonstrated the critical interdependence of economic performance, institutional stability and socially sensitive policies; all three are very important, though it might well be argued that economic performance conditions the success of the other two. In the last analysis, however, one-sided reform processes can be counterproductive. Experience shows the dangers of top-down shock treatments and "big bangs" as ways of bringing change. "Externally-induced" reforms likewise have proven risky. Such was the case, for instance, of the "supply-led" approaches promoted by some international lending institutions, which focused on economics but tended to neglect the social, institutional and legal dimensions of change.

Countries are now beginning to rely more on "internally-induced reforms", in the measure that they have come to recognize and develop their potential for reform in this particular domain. This, of course, does not rule out foreign advice and assistance, but puts them in a new perspective. One of the limitations of foreign assistance, which soon became apparent, was that it overlooked the problems and complexities of implementation, especially in a turbulent context. Experience demonstrates the importance and priority of building domestic capacity. Progressive reinforcement of the necessary legal and institutional bases, modes and forms of public activity, as well as human resources, may be the better way to proceed and to accommodate the criteria of the *acquis communautaire*, for those countries who wish to do so.

In all too many cases, uncritical adoption of "Western" forms and standards has clearly not availed the countries of Eastern and Central Europe, and the Commonwealth of Independent States (CIS). This was exemplified by decentralization and deregulation reforms, which resulted in confusion, overlapping jurisdictions and fragmentation of the local government landscape. When the dearth of professional competence at the local level especially is also taken into account, it should be easy to surmise why reality lags behind the normative ideal. Another case in point is the tacit, unavowed, yet widespread "one-size-fits-all" concept that often went together with the notion of "global convergence" (Hesse, 2000, p. 19).

"Only now is it being recognized that, within the environments of Central and Eastern Europe, 'rowing', as well as 'steering' is needed to keep the boat afloat, as even the most attentive steering is conditional upon the day-to-day success of those implementing public policy. To go even further, the rigid introduction of business approaches in public administration, as advocated by New Public Management, may well prove disastrous in [still unstable] systems based on a continental European tradition, where either the preconditions may not be in place yet, or where they are rejected due to the inherent logic of the approach. Particularly problematic is the all too limited ability of over-rigid management systems to cushion the impact of unrestrained market behaviour. To copy specific administrative cultures seems no answer to the problems at hand" (ibid., p. 20). In addition, only recently the need for civil service legislation has begun to receive the attention which it deserves. This is one area where the requirements of EU accession have helped and where external assistance could prove especially helpful.

4.3. Asia

Attempting to condense, in a few pages, the administrative experience and history of reform in Asia is an impossible task. Of all the world's regions, Asia is at once the largest, most populous and most diverse. Accord-

ingly, the quest for overall patterns and generalizations is often fraught with dangers. Commonalities and differences exist, but must be viewed with caution and interpreted with care.

Perhaps one commonality of East and South Asia that singles these sub-regions out is a long and strong tradition of government authority and state administration. Both regions also, but China especially, have known the negative outcomes of the collapse of government. In China, the country with the oldest administrative heritage, a bureaucratic culture goes back, almost without interruption, to the Qin dynasty (221-206 BC). Competitive examinations tied to the merit principle represent the legacy of the Han dynasty, which reigned from 206 BC to 220 AD. It gave birth to the idea of a bureaucratic elite - the mandarin class - in the service of the Emperor and of the State. Over time, this concept exerted a strong catalytic influence in the region and beyond.

British-governed India exemplified the successful application of this "elite" idea in administrative reform, which in the XIX century produced the Indian Civil Service in tandem with a centralized, monolithic, stratified and strictly hierarchical administrative structure. In spite of profound transformations after the Second World War, some of these traits and institutional legacies survive, and have been replicated in many of the countries of South Asia.

East, South and Southeast Asia emerged from the Second World War and its tumultuous aftermath deeply changed. East Asia and Southeast Asia were the scene of costly and protracted civil strife or wars of national liberation. In South Asia, independence came, almost overnight, with a massive flow of refugees, perhaps the largest exodus of people the world has ever seen. The difficult tasks of rehabilitation and nation-building were further complicated by manifold divides of language, caste, religion and creed. In spite of all these problems, Asia as a whole experienced in the 1950s, 1960s and 1970s a veritable transformation, on a monumental scale, affecting the lives of close to a half of humankind.

In this process of reconstruction and socio-economic development, varying models were applied. In India and Pakistan, a federal structure of government and parliamentary democracy with commitment to the Welfare State were preferred. In China, Vietnam, Cambodia and Laos, by contrast, communist victories took these countries to the path of socialist construction. Still, in almost every case, the State and central government were called upon to play a very major part in the development effort. Pervasive intervention through central planning mechanisms (e.g. five year plans) became the accepted strategy for modernization and agro-industrial growth.

Overall, the results of this drive were impressive, but the benefits to people in the countries concerned uneven. South Asia, on the whole, performed less well than East or South East Asia. During the last three decades of the XX century, the per capita income of East Asian nations, excluding Japan, increased about four times compared to South Asian countries. With an average income per capita of only US\$ 309, the latter constituted, in 1993, the poorest sub-region on earth, the comparable figure for Sub-Saharan African being US\$ 555 (Haq, 1997, p. 33).

Though progress has been made on some fronts in a number of countries, this has seldom been the case of public administration where, generally speaking, Western solutions have proved counterproductive or have not produced the hoped-for results. The latest of these attempts at "externally-induced modernization" is NPM. The main planks on its platform, according to Dwivedi, are sound: accent on results; service to the public; delegation of authority; greater attention to cost and the quest for efficiency, notably through the adoption of private sector practices, such as "contracting out", and merit pay. What he questions, however, is the NPM's market-driven rhetoric and "reductionist approach": "This paradigm is based on the premise that, by reducing the opportunities for incompetence and corruption, through narrowing down the scope of government activities, a competent, transparent, effective and accountable gov-

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ernance would emerge. The rationale appears to be that, with less bureaucratic structures, there would be only a few bureaucratic problems. Thus Asian nations, as well as other developing nations are being urged to have market-friendly governance and administration. And since the field of development administration is posited more as a problem than a solution, New Public Management, in the garb of development management, is recommended as a cure-all medicine" (Dwivedi, 2000, p. 9).

Of course, this does not mean, for Asia or other regions, wholesale rejection of the premises or precepts of NPM. Such a course, according to Dwivedi, would be not only unwise, but also impractical. We live in an age of internationalization and global interdependence. For the developing countries, including many in Asia, this means continued reliance, to a large extent at any rate, on methods and technologies developed in the West. It cannot be overlooked, on the other hand, that reform approaches are seldom value-free. "Thus one emerging pattern, with global implications, is centered on the ideas of efficiency, the market and the myth of achievement, which are hallmarks of the Western, specifically American administrative culture" (ibid, p. 20). Its merits notwithstanding, this administrative culture tends to neglect important political, social and legal dimensions. Its solutions are limited in face of the critical concerns, which continue to bedevil many developing countries.

In Asia overall, but in the larger countries especially, a strong State has been able to harness to its advantage the winds of change, diminish the costs of adversity and steer the course of reform. Although it is an oversimplification to talk about a set of distinctive Asian values, certain traits and mental attitudes have helped in this regard:

- First, in Asia there is less mental resistance to State intervention compared to parts of "the West", because Asia has a long positive experience of the administrative State. Whether in South Asia (where the State is viewed as Ma-Baap - parents), or in East Asia

(where the States' proactive role helped the Asian Tigers achieve a remarkable economic progress), the State is popularly viewed as having a major responsibility for socio-economic development. The Western approach for a leaner, meaner and market-friendly state administration may be given lip-service; however, the state apparatus is not going to be downsized and emaciated, as happened in parts of "the West";

- Second, there are some countries in the region that view Western culture as based on an extreme form of individualism; thus various attempts by the West to impose its values, in the name of liberal democracy and supremacy of the market are seen as yet another neo-colonial attempt to "modernize" Asians. From their perspective, the values which seem most important to "the West" are less momentous worldwide. By contrast, the notion of duty and community supporting family needs, respect for authority, and consensual decision-making (specially in East Asia) are rooted in Asian culture; and

- Third, despite the display of Western-oriented formal bureaucratic and political features of governance, the style of doing business will probably remain at variance with Western models of governance.

4.4. Arab States

A somewhat specific situation developed in the Arab States of Western Asia and in the North-African part of the Arab region. In modern history, the Arab States, with the exception of Morocco, was a part of the Ottoman Empire for more than four centuries. The French and the British colonial powers, under whose hegemony the geo-political borders of most Arab countries were drawn, succeeded the Ottoman rulers. Most of the Arab countries achieved independence after the Second World War, although the struggle continued until 1962 in the case of Algeria and 1967 in the case of Aden. This sequence of events has had a substantial impact on the political, economic and cultural life in the Arab societies. The concept of the State and the role of the state institutions (legislative and

executive bodies, the judiciary, and military and security forces) were influenced by the Ottoman and colonial experiences.

At the moment of independence, the state structures in some Arab countries embraced the republican form of government. This happened in Algeria, Egypt, Lebanon, Sudan, Syria, Tunisia, Yemen, and later in Iraq and Libya, where republics emerged. In other Arab countries the traditional forms of government - monarchies - persisted. Very different ideologies underpinned these systems of governance. None has delivered all the basic human capabilities, though no one denies huge progress in several basic social development indicators throughout the region.

One of the hallmarks of the situation in the Arab States is that by and large, the preferred method of attracting support from the people that has been practiced for decades by the governments is not through expansion of political participation, but rather by distribution of rewards. External sources of income controlled by the governments (i.e. in the form of oil revenues, deposits of remittances, income from tourism, foreign aid, borrowings, and fees imposed on the transport of oil) enabled them to make available to the key groups of population a vast array of services and benefits, at little or no cost. The same external income sources allowed the Arab governments not to pursue vigorously the collection of taxes from citizens. Indeed, direct taxes on incomes, profits, and capital gains in the Arab States were among the lowest in the world.

The outside boundaries of this arrangement are becoming more and more visible. With the end of the Cold War, some external sources of income have dried up. The real price of oil is not necessarily increasing, at least, by far not at the rate that is able to meet the growing expenditure bill. Increased internal taxation, reduction of public employment as well as curtailment of basic services and subsidies is starting to hit the urban middle class – by far the most vocal group of the population. Higher levels of education and the demonstration effect of different political

arrangements are leading people to question some features of this situation. Participation in the community is becoming a value in itself, regardless of the role it plays in the greater scheme of things.

However, finding a remedy in such situations is neither quick nor easy. Since the 1970s, the course of events has brought adjustment to the functioning of many Arab governments. The political systems began to open up in a way that has appeared to promise a significant revival or introduction of democratic practices. Whether this has happened in the form of increased political participation and alteration of power within the governance institutions, or in the form of an increasingly active civil society working to enlarge the public space and defend basic freedoms – all these events have been most encouraging steps.

While the process of reform is progressing slowly and has problems of its own, government reform has appeared on the agenda of many Arab countries. However, in view of the tradition of a ubiquitous State, a weak private sector and the existing backlog of human capabilities (e.g. education), especially in the less affluent Arab countries, the State does not appear to be stepping back from its traditional role. In these circumstances, the emphasis in these countries is on increasing the efficiency and effectiveness of its operations.

4.5. Africa

It has been rightly said that, for Africa as a whole, the 1950s and 1960s were years of political and economic advances, the 1970s years of relative stagnation, and the 1980s were years of decline or the “lost decade”. The 1990s have been a mixed bag. (Kiggundu, 2000). Gains in Uganda, Ghana, South Africa and Mozambique were largely offset by losses in the form of civil wars, human rights abuses and state disintegration in Somalia, Angola, Liberia, Sierra Leone, Rwanda and the Congos (ibid.).

While the process of reform is progressing slowly and has problems of its own, government reform has appeared on the agenda of many Arab countries

Adoption of holistic, multi-faceted reform strategies; closer coordination of macro-economic management with public sector reform; and the involvement of civil society in this process represent the common traits of new constructive approaches

The unparalleled severity of these repeated crises has served both to highlight the pressing need for action in public service reform, and to illustrate the perils of hastily conceived and poorly executed blanket solutions to problems which, far from being a cure, quite often, on the contrary, aggravated the disease. Such were the Structural Adjustment Programmes (SAPs) pursued by lending institutions during the 1980s, in an attempt to address the problems generated by the global recession, low commodity prices and the ensuing indebtedness of several African nations.

A negative approach, which viewed the public service chiefly as an impediment to public sector reform, had prompted the downsizing of both its staff and scope in country after country. This tendency has been arrested. The focus has now shifted from retrenchment and downsizing to capacity-building for effective resource management and quality service delivery, financial accountability and efficient government. This new emphasis on capacity throws light on the paradox of reform. The greater its complexity and scale, the more demanding the claims for individual skills and institutional strengths which are required to make reform effective. Added to the issue of competencies of public institutions is that of legitimation, which to this day remains particularly real in several African countries. It is against a background of very mixed results of past reforms that recently demands have been advanced for a "smart-government" approach to public sector reform. According to Moses Kiggundu, the key components of "smart government" include the following:

- "Introducing a broader and long-term approach to reform relating it to the role of the State;
- Linking civil service reforms to such components as financial management, decentralization, sector-wide approaches, etc.;
- Adopting a long-term, system-wide programme approach to civil service and public sector reform;

- Undertaking strategic mobilization and utilization of scarce resources (financial, human, institutional, technological, information, political, etc.);

- Selectively introducing NPM ideas and practices to Sub-Saharan African development administration;

- Persuading donors to avoid a "one-best-way" approach to reform and to embrace instead a home-grown creative mix of approaches, best suited to individual countries" (ibid.).

A few countries have taken initial steps and moved towards the concept of "smart government" by beginning a consultative process, articulating a national long-term vision and strategic framework for development. It appears, however, that for most of Sub-Saharan Africa, the promise of public sector reform remains largely unfulfilled. Indeed, it is difficult to imagine how the public service will be reformed on a lasting basis without substantial improvements in governance at large: integrity, accountability, transparency and adherence to the rule of law, as well as the capacities and competencies needed to sustain them (ibid.).

Adoption of holistic, multi-faceted reform strategies; closer coordination of macro-economic management with public sector reform; and the involvement of civil society in this process represent the common traits of new constructive approaches, which reflect some of the lessons learned as a result of the SAPs pursued during the 1980s.

It cannot be overstressed that credible reforms, and programmes that galvanize broad-based support, must visibly address the really critical problems, which touch the lives of millions. In Sub-Saharan Africa, such burning issues include: how to cope with the AIDS epidemic; the deficit in health care, education and social welfare services; and an inadequate or deteriorating physical infrastructure of roads, transportation and communication networks, electricity supply, sanitation and clean water.

Yet another set of problems represents the tragic legacy of years of civil strife, the decline of law and order, even the collapse of States, which characterized the 1980s and 1990s. Most problems have a human face: millions of refugees and internally displaced persons; half a million or more child soldiers, physical insecurity, and rampant crime and other forms of anti-social behaviour.

It is futile to expect efficient markets, let alone healthy societies, to emerge where such conditions prevail. Redressing this situation calls for concerted action of the State and civil society on many areas. It calls for demobilization, demilitarization, re-education and training of former fighters and other victims of war; post-conflict confidence-building in multi-ethnic or otherwise heterogeneous societies; support for restoration of regional security and conflict management systems; and the overall reinforcement of institutions (Kaldor, 1995). All of the above demand initiative and leadership, policy-planning, design and skillful implementation on an extensive scale. In turn, these call for strengthening the core of the State, as well as the difficult task of reinforcing, modernizing and reforming the public service.

As pointed out already, retrenchment and downsizing had been the goals of reforms during the 1980s and early 1990s. The outcome sought, was to reduce the government's wage bill which, in a number of countries, represented as much as 75 per cent of the operating budget. This was no easy task, considering the importance of government employment for most African countries, where government remains the single largest employer. This notwithstanding, a longitudinal study prepared by the Department of Economic and Social Affairs of the United Nations in 1992 cast a very different light on the issue of public employment. This study of civil services in 10 African countries revealed that cost and size are labels for deeper concern, which barely address the issue of public sector effectiveness. When set against the need to offer basic services, ensure law and order, collect revenue and maintain the infrastructure, few of the coun-

tries concerned were found to be overstaffed. The vast majority of public servants were engaged in trying to meet the above essential requirements. Significantly, moreover, their numbers had not grown since 1980.

The study also found that, in the majority of cases, public servants did not earn a living wage. Accordingly, the government was unable to compete on the market for high level skills, and equally incapable of enforcing the requisite performance standards at the other end of the scale, even though there was no shortage of the relevant skills. In several African countries, governments were confronted with the difficult challenge of a public service at once understaffed and overstaffed: understaffed on the top management and policy-advisory levels; overstaffed as regards messengers and lower level clerks (ibid., 2000, p. 9). The study recommended that public sector reform should concentrate on quality and focus on profiling and planning for the needs of the XXI century, rather than perpetuate the legacy of a distant colonial past. Capacity reinforcement is the common thread that runs through current programmes of public service reforms in a number of African countries. Other than training activities, these programmes have encompassed a number of initiatives ranging from administrative records-keeping - which seek to eliminate ghost workers - to performance bonus payment, and making civil servants more responsive to citizens' needs.

Democratization, decentralization, devolution of responsibility, service delivery improvement and local government reform have been major components of the public service reform drive undertaken by governments. Other important dimensions have been: a machinery for the redress of grievances and handling of complaints, and the promotion of best practices, professionalism and ethics, job classification and grading, staff performance appraisal, human resources development, and leadership development. Priorities have differed and the degree of success has obviously not been the same in all the countries concerned. Available evidence indicates that the results of reform are mixed at best.

It cannot be overstressed that credible reforms, and programmes that galvanize broad-based support, must visibly address the really critical problems, which touch the lives of millions

Though economy and efficiency have ostensibly been in the forefront of public service reform, such broader considerations as human rights, the rule of law and citizen participation have recently made headway on the agendas of reform

Though economy and efficiency have ostensibly been in the forefront of public service reform, such broader considerations as human rights, the rule of law and citizen participation have recently made headway on the agendas of reform. These concerns go to the core of the nation-State idea, the concept of sound governance, and the role of civil society, among others. Ideally, the objective is helping to create an enabling environment of respect for private property, entrepreneurship development and democratic government to allow people to take advantage of globalization.

As a process, democratization implied political, constitutional and administrative reforms. To those ends, many francophone African countries convened national conferences with a view to discussing constitutional reforms leading to multi-party elections. Constitutional commissions were established in some countries, paving the way to pluralistic elections. Experience demonstrates the complexity of the process of democratization, highlighting the critical role that national history, culture and institutional infrastructure play. Hence the importance of activities and projects designed to develop institutional capacity and competencies in the management and operation of democratic structures (e.g. national assemblies, political parties, the administration of justice, and audit institutions). The role of civil society has been highlighted in sector-wide approaches to public sector reform.

Looking to the future, the experience of reform in Sub-Saharan Africa (SSA) points to the many complexities of what visibly remains a risky undertaking. It also has been made apparent that there are no shortcuts, no quick fixes, no magic blanket formulas. In Sub-Saharan countries, current prevailing conditions are seldom conducive to effective reform. In some cases, institutional weakness compounded by poverty, unemployment, corruption, low levels of education, and religious or ethnic divisions can effectively undermine the best intentions and derail the entire process of reform. One of the most disturbing factors militating against progress

in the right direction is the relative weakness of Sub-Saharan Africa in relation to the rest of the world. "Its share of global trade, capital flows, investments, technology, knowledge employment, and overall influence is declining or stagnant. Individual SSA countries have practically no voice in organizations such as the World Trade Organization. No SSA country is a member of G8, and apart from South Africa, none was invited to join the newly-formed G20. "Furthermore, Africa's diplomatic institutions are so under-resourced and badly organized that they are not in a position to defend the region's interests in the complex and fast changing globalization" (Kiggundu, 2000, p. 34).

Continuing dependence of many LDCs in Sub-Saharan Africa on foreign multi-lateral and bilateral assistance is one of the visible manifestations of a pervasive weakness, which cannot go away overnight. The real challenge will be that of developing institutional and strategic capacities, not only for today's but also future needs. However, important as those needs are, capacity reinforcement means more than technical training and modernization of equipment. Developing the required core entails enhancing skills, as well as cultivating new attitudes, beliefs and habits, and the institutional frameworks that make them come alive. Governments should focus on strengthening public administration, leadership skills, strategic management, operational efficiency and rapid response to the stimuli of a complex and dynamic external environment.

4.6. Latin America and the Caribbean

A region of stark contrasts, Latin America and the Caribbean shared with Africa the effects of the slump in the world economy, which began in the mid 1970s. For Latin America, as well as for the African continent, the 1980s have aptly been described as the "lost decade". Massive debt, increasing poverty and the growth of unemployment, informal sector employment, corruption and organized crime were phenomena that often marked it, and have not gone away (Sulbrandt, 2000,

p. 4). Thus, the Economic Commission for Latin America and the Caribbean reported in 1980 that 35 per cent of the people in the region lived below the poverty line. Only 10 years later, the proportion had increased to 41 per cent, with 18 per cent below the absolute poverty level. By 1997, a slight improvement could be reported, with 36 per cent of the population below the poverty line (ECLAC, 1998). Poverty is multi-faceted. It comes with unemployment, which in the 1980s exceeded 10 per cent of the active population. Its effects are often compounded by the deterioration of basic social services. Both health and education suffered a major decline in that decade overall. The impact of these trends has been unequally felt in the region. In some countries the aged, women, children and the native populations, in general, were among those worst hit. Although an upward movement began in the mid 1990s, it has not touched appreciably the lives of the most vulnerable. Besides, in the field of employment, more than half of the new jobs have been in the informal sector, a pattern also observable in Africa. As in Africa, responses to these trends in Latin America have featured the divestiture and downsizing of the State. Not surprisingly, however, the practices have differed from country to country, as has their degree of success.

In the Latin American region as a whole, the 1990s have been marked by substantial reforms of the State, in the following directions:

- Democratization;
- Debureaucratization;
- Reduction of the scope of State intervention;
- Privatization and "marketization".

At the height of the Cold War, in the 1960s, 1970s and even part of the 1980s, few would consider the Latin American region as a haven of democracy and freedom. What followed in the past decade has been nothing short of a sea change. Pluralistic regimes and governments resulting from free elections

replaced military dictatorships from Guatemala and El Salvador to Chile and Argentina. Concurrently, growing distrust in the models of development of the early post Second World War produced a revolution in statecraft and public management. Throughout Latin America, the prolonged economic recession brought to the fore new doctrines which substantially transformed the hitherto generally accepted objectives and modalities of state intervention. The role of central government increasingly underscored the need for the maintenance of macroeconomic stability, the process of deregulation, trade liberalization and reduction of the scope of public administration. To some extent, those shifts and policy reforms reflected a conscious attempt to adjust and to respond to perceived conditions in a globalized economy.

Deregulation and debureaucratization went hand in hand with a process of decentralization, and the devolution of power to lower levels of government and actors in civil society. Debureaucratization has taken many forms. Though traditional practices and norms die hard in many places, a paradigmatic shift is gradually transforming a hitherto closed, inward-looking, rules-bound and formalistic administration into a more open system, that seeks to be responsive to citizens' demands, accepts the current challenges of globalization and technological progress, actively looks for partnerships to accomplish its objectives in close collaboration with private sector groups or other non-State actors, and aims at value-for-money.

It is needless to emphasize that such a transformation is still more in the making than palpable reality, more potential than actual. One of the greatest obstacles in the required transition from closed to open systems, in response to globalization and technological progress, lies in the continuing difficulty of governments to attract, retain and develop the new profile of manager and policy adviser, in short the new public servants that new conditions call for.

Poverty is multi-faceted. It comes with unemployment, which in the 1980s exceeded 10 per cent of the active population

One of the greatest obstacles in the required transition from closed to open systems, in response to globalization and technological progress, lies in the continuing difficulty of governments to attract, retain and develop the new profile of manager and policy adviser

Significant, in light of these conditions, is the practice of developing Units of Policy Analysis in the Office of the President or similar establishments, like the Secretariat of the Presidency in some countries. Their task has been defined as that of analyzing and making recommendations for action in the different sectors of policy, weighing in this regard suggestions that may come either from civil society or the line Ministries.

It may be pointed out that, as in other regions, retreat of the State has been held in part responsible for not shielding people from the negative effects that accompany globalization. The Chilean sociologist Andrés Opazo summed up the negative aspects of the situation in Latin America in a UNDP report:

- Concentration of knowledge and wealth in the hand of small elites, whose priorities take often little cognizance of "the plight of the millions";
- Continuing growth of spending for military purposes and "privatization of weapons", corruption, and drug trafficking;
- Deterioration of the environment; and
- Economic growth unaccompanied by a growth of employment; thus adding to disparities in developed and developing countries alike (UNDP, 1997, Bureau for Latin America and the Caribbean).

Opazo concluded that the economic growth of Latin America not only lacked the "capacity to distribute", but also failed to generate sufficient accumulation. The effects of those trends, in his view, were apparent on the political, social and administrative levels. "The social abyss which fragments the region is particularly clear in the large urban centers. The organization of the habitat is a faithful reflection of the trend toward the disintegration of society. The minority that concentrates the wealth is secluded in veritable paradises ... Their gardens are well protected by private security, their social life takes place there, they go to their own supermarkets, and they go to equally conditioned and protected locations on vacation. Perhaps more significantly,

they have another type of paradise available, the world's tax havens, which constitute genuine safe deposit boxes for the wealthy. In other areas, well-differentiated and without contact with the previous world, the mass of the population survives, living in favelas, tugurios or barrios populares, with basic shortages, where informality predominates, drug addiction and crime proliferate, and the family disintegrates. Informality in the area of the work force generates isolation and competitiveness in the struggle for an always precarious subsistence. The effect is the loss of the worker's traditional dignity. The organizations that previously provided identity and self-esteem to those workers have declined quantitatively and qualitatively" (Opazo, 1997, pp. 103-104).

This creates a chasm and a disconnection between two worlds: one of the super-rich; the other of precariousness, poverty, exclusion and ignorance is seen by many critics as essentially the product of a reductionist vision which potentially is destructive of culture, social capital and democracy itself.

Some observers maintain that the Anglophone Caribbean countries are faced with a paradox; while some celebrate the triumph of democracy, others, by contrast, lament a sharp decline in governance. The sustainability of good governance in the region was raised in 1992 by the West Indian Commission on "Social discontent"; it noted that, "in the wake of structural adjustment programmes, no sense could be made of the democratic traditions West Indian societies have zealously cultivated" (West Indian Commission, 1992, pp. 493-494). In this regard, the Commission drew attention to the mood of growing cynicism, normlessness and powerlessness among the youth of the region. The Commission concluded: "It is perhaps time that we went a step beyond platitudinous statements to the effect that youth represent the future of the Caribbean." (ibid., pp. 378-379).

One may conclude that there are now no threats to democracy. However, the "credibility gap" that afflicts the institutions of govern-

ment in much of Latin America and the Caribbean has its source in their failure to meet people's aspirations and to respond to new expectations. Perceptions of such relevance, integrity and effectiveness, and the public sector's capacity to deliver public services of an acceptable quality form a necessary basis of government legitimation on which the vitality of democracy depends.

Nevertheless, it can be recognized that the overall picture is not entirely negative. Democratically elected governments are now the rule in the region, and a process of regional integration and greater economic openness is taking place, real or perceived shortcomings notwithstanding.

5. Lessons Learned

What lessons can one learn from progress and success recorded in some countries, but also admitted failures experienced in others? What can one do to avoid repeating past mistakes? And lastly, can one pull the threads of experience together and try to understand what countries need to do in order to benefit from globalization?

A systematic review and comparative analysis of lessons learned from the experience of the past two decades is long overdue. This systematic review and performance evaluation of policies and programmes should cover both the substance of the proposed reforms and the methods or modalities of their implementation, as well as both the principles and strategies of recommended actions and the delivery systems employed by donor agencies.

Mostly in the 1980s, but also in the early 1990s, "cutback management" was offered as the universal remedy and the market was advocated as the better way. Outsourcing, privatization and partnerships were actively promoted and implemented. These approaches did little to make a dent in the poverty and inequality that persist in many developing countries. A growing sense of the urgency to address the issue of poverty has been reflected on the

agenda of the Third United Nations Conference on Least Developed Countries held in May 2001, which linked the eradication of poverty to the promotion of good governance. How inequality of power and wealth impacts on the prospects for democratic governance is a related problem that must also be addressed. Polarization between the extremes of poverty and wealth, power and powerlessness does not create conditions in which convergence of values becomes a possibility. A shared-values system underpinning the process of governance and administration, nationally and internationally, also becomes problematical. In the absence of such underpinnings, extremes may drift apart. Slowly but surely, a process of vilification of the "other side" begins, preempting all meaningful dialogue. Gradually, coercion and repression become the rulers' response to what they perceive as a threat and define as lawlessness.

This may be already happening in a number of countries. The trend has been described in by Loic Wacquant as the passage from the Welfare State to the "Penitentiary State" (*Le Monde*, 7 December 1999). Such perils notwithstanding, tolerance of inequality has been a signal feature of policies pursued in several parts of the world during the past two decades.

In barely two decades, the "reinvention" movement and NPM have set the tone and contents of the discourse on administration and government in ways that sharply contrast with the course of its development during the major part of the XX century. The proponents of these tenets were able to carry their message literally throughout the world. There can be little doubt that this measure of success is due, to some extent, to the congruence of their postulates with some of the critical issues facing a number of governments in the wake of a global recession. It is equally certain, however, that this measure of success owes much to the English language, in which the message was couched, and to the messengers' capacity for outreach. The thrust of their advocacy has underscored the importance of the three E's of management: economy, efficiency and effectiveness

Integrity and effectiveness, and the public sector's capacity to deliver public services of an acceptable quality form a necessary basis of government legitimation

In spite of limitations that have become apparent over the years, NPM and "reinvention" produced some "value added" in several parts of the world

(Harlow, 2000, p. 3). The butt of their critique has been the world of "bureaucracy" but, in the last analysis, government intervention predicated on Keynesian economics and the New Deal ideology.

Nevertheless, there is something to be said in favour of this new approach. It has reaffirmed the rights of the individual citizen against a paternalistic and often overbearing, invasive State; a role for civil society, in the broad scheme of governance; decentralization and devolution of power against the opposite tendencies of control and command from the top; latitude for initiative and experimentation; and freedom to move without preemptive barriers. In spite of limitations that have become apparent over the years, NPM and "reinvention" produced some "value added" in several parts of the world, including developing countries. On the operational level, their distinctive contribution has challenged one to question many traditional practices and modify old ways. The strength of the proponents, it might well be said, has lain in the simplicity of their approach and message. The approach has been direct, intentionally practical and cost-effective. The focus on economy, efficiency and effectiveness has been of help. These values have been widely diffused through the techniques of audit, which also opened ways for a broader, more pervasive and radical approach to the appraisal of performance in public organizations, the quest for alternative methods of public service delivery, as well as tighter controls intended to promote and safeguard integrity.

Many best-known reforms and innovations, which broadened the diversity of organizational structures, can arguably be traced to an all-encompassing concern for cost-effectiveness. "Off-loading" and "outsourcing", "re-engineering" and "performance contracting" are terms which represent a new *problématique*, and, in a number of ways, a radical new approach toward the public sector. Not surprisingly, the "pluses" are often coupled with "minuses". On the upside, the new stress on "financial management initiative" may jolt senior executives and civil servants

at large into a more acute awareness of their responsibility for the proper deployment and use of resources in their care. On the downside however, there may be a certain danger of sacrificing quality and equity to expediency, and of seeking short-term gains at the expense of long-term losses in the strength and credibility of vital institutions. There is a latent risk of fostering an attitude of mind according to which the ends justify the means. In the words of the former Director of the Royal Institute of Public Administration of the United Kingdom, "to misquote Oscar Wilde, it looks as though tomorrow's Whitehall manager will know the cost of everything, but the value of nothing" (Plowden, 1985, p. 408).

The dominance of economics in both the language and logic of NPM has been manifest and pervasive. It is best exemplified by the prominence accorded to the market paradigm. Thus, the State must "steer not row"; government administration is "lean and mean" at best; citizens are consumers. The market metaphor has value insofar as it draws attention to the limits of State intervention, respect for the taxpayer and responsiveness to citizens. But the analogy stops there. Contemporary democracy is hardly a marketplace in any sense of the term. Citizenship is a birthright or is acquired through a legal process of naturalization. Equal participation in democratic processes is predicated on individual rights enshrined in the constitution or other legal enactments. In theory, at any rate, no distinctions in this respect can be countenanced. By contrast, the cash nexus governs a customer's access and relation to the market. The measure of his or her worth is strictly purchasing power. While both buyers and sellers may select one another accordingly, by contrast a citizen's access to services provided by the government is based on rights and needs. An intelligent democratic State is clearly not at liberty to favour or discriminate. It would be fair to argue, thus, that whatever its other merits, the market paradigm has serious limitations when it comes to public management in democratic societies. The paradigm does little to highlight two of the cardinal values of democratic governance: equality and inclusiveness.

Notwithstanding the merits, what has become apparent is the manifest disparity and striking disconnect between "working reality and formal doctrine" of NPM and related approaches (Barberis, 1998, p. 451 et seq.). The disconnect is traceable to inherent contradictions between professed objectives and an eclectic creed which formed the underpinnings of NPM. It would be fair to argue that, contrary to claims advanced on its behalf, NPM is not so new, and not so public-oriented, and is so riveted on economics (and the 3 E's) as to frequently lose sight of the rich contextual substance and cultural dimension, which give the practice of management distinct characteristics in each particular case.

5.1. Failure to take into account history, local institutions and cultural variables

In spite of the belief implicit in the assertion that "management is management", such practice differs widely according to the environment within which it is set. Failure to accord such differences due weight contributed substantially to erroneous policy transfers and "supply-led" reforms, often by international organizations, which "were ... unduly biased towards the economic rationale of the reform and overlooked basic legal and institutional adaptations" (Hesse, 2000, p. 15).

Compounding the proclivity to underestimate the diversity and complexity of national conditions was what Professor Hesse described as the "illusion of global convergence" (ibid., p. 19). There was failure to see that convergence in some important areas (e.g., technologies and methods) may well go hand in hand with growing divergence in others (e.g., belief or value systems). Curiously, in light of the current emphasis on respect for diversity, globalization has often been portrayed, in deterministic terms, as a one-way street. Likewise global society is often shown as invested with a hierarchy of cultures, of which one culture is destined to triumph. Professor Rune Premfors of Stockholm University critiqued this misconception: "The basic

normative ideal was the market and the measures taken should include outright privatization, and, where that was not feasible, the creation of markets or market-like conditions as an operative context for [almost] all public organizations" (Premfors, 1998, p. 143).

While granting certain merits in the New Zealand approach, Professor Premfors doubted its ready exportability to other parts of the world. He also questioned the tendency of some international agencies to assume a "linear homogeneous trend" in public service developments, "to interpret such developments solely in terms of convergence" and to show "a corresponding inclination against identifying and discussing any signs of divergence" (ibid.). Quoting F. Naschold and others, Premfors concluded that "plurality of ... regimes makes it impossible to derive and justify an immanent ranking of these regimes, or to presuppose that one such regime ... is necessarily more efficient than others" (ibid., p. 145).

Belatedly, some organizations and experts gravitate towards the view quoted by Premfors. Thus, two recent articles purporting to reflect the views of the World Bank and Sigma/OECD respectively cautioned against investing in NPM reforms. The former warned that countries characterized by informal markets and ineffective legal frameworks were ill-equipped to attempt such ambitious reforms. Addressing itself more specifically to Central and Eastern Europe, the latter cautioned against too hasty an application of NPM principles in the region (Allen, 1999). A distinguished American scholar stated that "Western devaluation of government during this historic era has contributed to major problems in the redesign of States in Central and Eastern Europe" (Newland, 1996).

Given the gravity of the crisis with which the world is faced, it may be time to address this paradox and arguably revise the policies pursued during the past decades. Though they provide a contrast to the prevailing views, voices from the developing countries and

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An overly technocratic or purely economic growth approach to institutional development divorces the institutional strategy from the socio-economic and political environment, which it is meant to serve

the poor everywhere also deserve a careful hearing. The world as a whole would ignore them at its peril. The United Nations, the most truly representative of humankind, can play a leading role in sponsoring and facilitating the dialogue from which a greater convergence of views on this subject can emerge.

The Fifteenth Meeting of the Group of Experts on Public Administration and Finance, in its most recent report, took a first step in this direction. It disclaimed the possibility or intention to "give a one-size-fits-all solution or any magic formula", preferring instead to propose "potential strategies and reform paths through methodological tools that seek to uncover what are the essential functions that the State needs to fulfill, at what level, and to what extent" (UN, 2000, E/2000/66). The report also noted that: "an overly technocratic or purely economic growth approach to institutional development divorces the institutional strategy from the socio-economic and political environment, which it is meant to serve. Such approaches divest the state institutions of the contextual elements of their relationship to the most vital social issues of human degradation, poverty and widening social and economic inequality, which press especially on developing countries and which States must address concurrently" (ibid.). The report acknowledged that "such strategies will not solve problems of poverty and, in fact, may exacerbate inequality, making it ever more essential to invest in education, health, the reinforcement of social capital and enhancing governance capacities" (ibid.). Similarly, a caveat was expressed regarding "the undermining of the States' moral and legal authority by the unquestioned ascendancy of the market economy and, more dangerously, prevailing attitudes towards this ascendancy which has legitimized the abdication of the State in crucial areas from which the State should not retreat" (ibid., p. 11).

With respect to decentralization, it is worthwhile noting that, after a number of failures, it has become apparent that "beefing up the centre" is certainly not incompatible with decentralization but that, quite on the contrary, the former must precede sound

progress in the latter. What has also transpired from the experience of the past two decades is that moves in the direction of debureaucratization, deregulation, decentralization and even deconcentration are seldom the result of purely technocratic processes, thoroughly studied decisions or rational actors' choices. Rather, they flow from conflicts among concerned stakeholders over the distribution of functions, allocation of resources and the division of power. The outcome, in most cases, reflects a shift of influence and decision-making power, which determines the thrust of reform. Thus, decentralization cannot succeed and work unless a transfer of responsibilities comes with commensurate powers and adequate resources, both human and material. This has rarely been the case.

Likewise with deregulation and debureaucratization, the centrality of power and power distribution come into sharp relief as the principal factors of progress. Deregulation, for instance, has practical significance only in the measure that service delivery systems conform as much as possible to the needs, interests and wishes of diverse clienteles, and, moreover, that such needs and wishes are ascertained periodically through genuinely participatory processes. Creating and maintaining a business-friendly environment, through either deregulation or privatization, should be balanced with provisions safeguarding citizens' rights to effective and affordable options. This is especially important when it comes to vital services like health care, education and housing. Public well-being, safety and interest must come first.

It takes more than rhetoric to make the empowerment of citizens a palpable reality. It takes transparent processes and calls for information dissemination and sharing that truly minimize that secrecy and opaqueness, which may be described as sources of bureaucratic power (Timsit and Wiener, 1980). According to Wildavsky, talking of the USA, this bureaucratic power is rapidly waning. Monopoly of information is driven out by the development of policy analysis. "All around the country, in think-tanks,

consulting firms, universities, state and local governments, congressional staffs and elsewhere, there are rival teams of analysts who have recently been or expect soon to be in government. They know as much as those in the bureaucracy (or they used to know as much or more). Virtually everything that officials can say based on their expertise can be contradicted with conviction by these analysts in (temporary) exile. Consequently, public officials can no longer say with confidence that their views should carry special weight because they know so much more than their critics" (Wildavsky, 1988, p. 254).

Potentially, this trend, supported and reinforced by information technology, may well transform the character of public administration, promoting citizen participation and autonomy, as well as efficiency and effectiveness, in many critical areas. It should be pointed out, however that, in the immediate future, this prospect is more plausible in the affluent, advanced countries of the North and West. By contrast, in a world where 90 per cent of all computers are found in the OECD countries, where the continent of Africa accounts for barely one per cent of the total, where there are widening gaps between skilled and unskilled, networked and isolated, this remains a distant prospect for the bulk of humanity (UNDP, 1999, Human Development Report). Access to education and IT are critical to empowerment and democratization, and governments have an important role to play in this respect.

Political commitment, resources and distribution of power determine the course of reform and, in the last analysis, target its beneficiaries. Some doubt has been expressed about the extent to which the poor and disadvantaged have indeed been included in this category. A critic of "reinvention" did not hesitate to describe "re-engineering theory as a top-down shake-up; a micro-revolution to be ironically led by elites (the positions of whom were vouchsafed by the given)" (Fox, 1996).

Mutatis mutandis, a similar remark could be made about deregulation and privatization.

In theory, it is intended to "debureaucratize" decision-making processes in given fields of action; to allow competition and thus lower prices; to liberate consumers from "the shackles of the government" and to expand their range of choices; and to create for business a "user-friendly environment". It often works that way. It cannot be overlooked, however, that more than half of humanity resides in countries where neither a bureaucracy, in the Weberian sense, nor even a formal private sector of any size exist. For people who survive on less than 2 dollars a day, the alternative to state-provided services is frequently no services. Furthermore, as pointed out by a prominent African scholar: "Social and transparent regulation, or opaque and one-sided regulation, regulation is always there. Markets don't exist without it, since the forces that operate in the markets are the expressions of social relations that the sect of pure economists have banished out of sight. Markets (the economy in general) are embedded in these relations. "The classicists - from Smith to Ricardo, then Marx and much later Keynes - have shared, beyond the divergence of their visions, methods and proposals, this recognition: that economics is political" (Amin, 1999, p. 183). Simply stated, regulations do not disappear when they cease to emanate from the State and its "bureaucracy". They simply change identity and form.

Evaluating outcomes has never been as easy as the professed objective of making things work better and cost less might suggest. Even such simple guidelines have promoted disagreements among responsible officers and service practitioners. "Cutting costs implies a strategy of downsizing and programme elimination; improving service suggests investment in personnel, training and technology" (Thompson and Ingraham, 1996, p. 291).

It has been frequently overlooked that a demoralized and poorly remunerated public servant makes an unlikely candidate for such innovative partnerships, but rather a good candidate for graft and corruption. When this became an issue and integrity propelled into the

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limelight, the problem was approached, in disciplinary terms, as soluble essentially through "anti-corruption strategies".

Once again, consideration of a complex, crucial question has been "driven by practitioners and private sector consultants rather than academics and theoreticians" (Kamensky, 1996, p. 251). The net result has arguably been a segmented, reductionist and instrumental approach to the multi-faceted issue of public service ethics. Ethics has been "reinvented", as if Immanuel Kant and Aristotle had never lived. Three millennia of discourse and the wealth of global literature on ethics, moral conduct, civic rights and obligations, justice and human rights, from Confucius and Ashoka to John Rawls (Sen, 1999/a) somehow escaped the purview of private sector "specialists" on ethics and ethics infrastructures. All too frequently, the outcome has been a view of ethics, in essentially instrumental, utilitarian terms, as subsidiary to economy, efficiency and effectiveness. Human solidarity and cosmopolitan plurality, two values crucial to the future global order have never been written into this equation.

Abstracted from social reality, devoid of historical depth, bereft of conceptual analysis, such "ethics" have also been decoupled from professionalism. The need to match the quest for rigorous ethical standards with that of enhancing the status, learning, performance standards, competence and skills of public servants was not internalized. Nor was it fully accepted that ethics, loyalty and merit are conditional on attitudes which accord the public service the role, consideration, rewards and prestige it deserves. As subsequently shown in the present Report, this reductionist approach has, in the past few years, gradually given way to a more balanced view of ethics and professionalism in the public service.

Most people would agree that "ethics infrastructures", like any system of rules, depend for their effectiveness on the leadership example and competence of those assigned the task of putting them into practice. It al-

so stands to reason that such normative enactments and codes of ethical conduct do not or cannot operate in a socio-cultural vacuum. Amartya Sen expressed this thought in discussing social choice and individual behaviour: "A basic code of good business behaviour is a bit like oxygen: we take an interest in its presence only when it is absent ... What may not cause wonder or surprise in Zurich or London or Paris may, however, be quite problematic in Cairo or Bombay or Lagos (or Moscow), in their challenging struggle to establish the norms and institutions of a functioning market economy" (ibid., p. 264).

To produce the hoped-for impact, and to induce behavioural change in the required direction, codes of conduct must appeal to values deeply ingrained in the environment or widely shared. It follows from this premise that the process of creating a code or set of rules must go in tandem with the appropriate public service reforms, but also must be sustained by a broad societal dialogue, with at least two aims in view: to elicit a consensus on public expectations of employee behaviour and to "indigenize" the code which, in all too many cases, is of distant foreign extraction. The following conclusions on the lessons of the experience of the past 20 years flow from the observations made in this chapter, from the findings in the literature consulted and from the pertinent regional studies.

First that there is a need to restore and to reinforce a truly inter-disciplinary approach to development assistance in public administration and governance. Particular attention should be paid to the political, legal and socio-cultural context of projected interventions and reforms. There are substantial differences between the common law and civil law traditions, with far-reaching repercussions on administrative structures and the way they operate. Celebration of diversity, moreover, does imply that the cultural dimension should be accorded its due weight. Lip service has been paid to the need of building a culture of dialogue and respect. But it would be fair to say that, in this regard at any rate, working reality has be-

lied the formal theory. Notwithstanding extensive research on the impact of the environment and the range of management cultures, the findings in the literature, including the regional studies cited, do suggest that interventions have often proceeded on the unspoken assumption that one-size-fits-all;

Second, that attempts at policy transfers should proceed with caution. Proponents of "best practices" frequently overlook the fact that what works in one country may not necessarily work in another. It is relevant, to note in this regard that NPM-type reforms succeeded best in countries with broadly congruent cultures and institutional frameworks propitious for the task, but also with affinity to those of the country of origin (e.g. Anglo-Saxon countries). Where these conditions were absent or minimally present, as in parts of Eastern Europe and countries in transition, the results have been unfortunate. A typical example is privatization in countries where a formal private sector was nonexistent or still in its infancy. The damage, in such instances, has been compounded by strategies and methods, which gave rise to such characterizations as "shock therapies" and "big bangs";

Third, that incrementalism may be the better way. Attention should be paid to fashioning the tools, appropriate methods, strategies and technologies that will, in due course, produce sustainable outcomes. This entails capacity-building as a priority task. A primary concern should be to nurture skills and build the essential structures which make effective choices and ownership of change feasible on the national level;

Fourth, that governments of countries recipient of international aid programmes assisted by civil society must be in control of the process of change. Making governments irrelevant or, though involuntarily, creating an impression that others occupy the driver's seat has all too often served to undermine democracy and strengthen the prevalent mood of disaffection and cynicism which has been observed in several regions;

Fifth, that rebuilding national ownership of reforms and public trust, which drastically declined in the past two decades, is urgently needed. One of the major strategies, with this objective in view, consists in reinforcing performance and professionalism in the public service. This entails a combination of competence, integrity, responsiveness to needs and dedication to duty; it also presupposes capacity to monitor and evaluate performance throughout; and

Sixth, that reinforcing the capacity of multi-lateral agencies for policy advisory services and technical backstopping is required. Both undertakings should be highly professional and truly client-oriented. Though this appears self-evident, much of the criticism levelled against the donor countries and agencies has emphasized the point that, contrary to generally-accepted theory, many programmes have not been demand-oriented, but rather supply-driven, that is to say more responsive to the agencies, their partners and associates than to the recipient governments. Furthermore, they have been predicated on premises and principles somewhat removed from the needs and realities of the countries which they were supposed to serve. Donor agencies should view themselves as providers to and trustees of the countries concerned, and their role as that of safeguarding these countries' long-term interests.

5.2. Why have some States not been able to seize the benefits of globalization?

The lessons from the experience of the past two decades contain important messages particularly relevant to the developing countries and countries with economies in transition, confronted as they are with the challenging environment of a globalized society and economy.

If, as some say, for many developing countries the 1980s were "the lost decade" and the 1990s a "mixed bag", at best, one may presume that something went terribly wrong despite the good intentions and programmat-

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It is now being acknowledged that States with weak institutions are not well prepared to face the adjustment costs of globalization

ic efforts spread over the last twenty years. Reducing the role of government in key social areas and downsizing public services in many developing countries, especially in the South and East of the world, as well as neglecting the important task of reinforcing political and economic institutions, left many countries unprepared to meet the challenges and rapid transformations of globalization. The "hasty retreat of the State" in the social area pursued during the 1980s and even the early 1990s has weakened States which were already fragile.

It is now being acknowledged that States with weak institutions are not well prepared to face the adjustment costs of globalization, whereas States with strong institutions have the capacity to channel globalization to their own advantage. As stated by Keohane and Nye, "globalization shrinks distance, but it does not make distance irrelevant. And the filters provided by domestic politics and political institutions play a major role in determining what effects globalization really has and how well various countries adapt to it" (Keohane and Nye, 2000, p.117). In essence, the capacity of the State to respond to external negative shocks largely depends on the degree of economic and social development, as well as political institutionalization of a specific country.

As recent experience has shown, States with weak institutions are also vulnerable in the face of rapid change, and the uncertainty that globalization engenders. Without building strong institutions at the national level, including independent and effective judiciaries, strong parliaments, accountable executives, and without strong social policies, including those on health, education, and social security systems, there are too many risks that the benefits of globalization will be unequally distributed among the population. Without complementarity between domestic strategies for institutional reform and strategies for opening to global market forces, developing countries may risk exposing themselves to the kinds of protracted crises from which some have just begun to recover (Raghavan, 2000).

States with weak institutions are also more vulnerable to the upsurge of deadly conflicts, which in turn hinder economic and social development and the integration of a country into the world economy. As the Secretary-General of the United Nations has recently underscored at the Cyrus Vance Lecture Series on the Prevention of Deadly Conflict: "There is abundant evidence that war is less likely to happen in a country - even a poor country - which is well governed and has transparent, accountable institutions" (Annan, 2001). In fact, the absence of strong democratic institutions and adequate social policies, especially in countries marked by social and ethnic cleavages, may lead to severe conflicts over the distribution of resources and political, as well as social unrest.

It is generally recognized that the maintenance of peace and security are closely linked - both in positive and negative ways - to economic and social development. Poverty, especially amidst plenty, is a major cause of violence, crime and social disintegration. The disparities between rich and poor in many parts of the world are creating societies characterized by huge imbalances in terms of distribution of resources and power. These imbalances, in turn, engender among the under-privileged population a deep sense of resentment, injustice, hatred and alienation. This is not only unacceptable per se. It is also very dangerous in terms of social cohesion since it can lead to the upsurge of religious fundamentalism, to ethnically or racially-based political movements, and this, in turn, to State-engineered repression. Poverty and social exclusion may also lead to anti-democratic sentiments, a loss of trust in government institutions and political alienation, which may pose serious threats to the longevity of a democracy.

In other words, governments with weak institutions are much more vulnerable to internal conflict and strife, which as experience has shown may degenerate into devastating civil wars or international conflicts. In this respect, it may be said that institution-building, or creating institutions that ensure a peaceful co-existence of all social forces within a

given polity, is a fundamental pre-requisite of conflict prevention. Only by creating solid democratic institutions capable of mediating as well as channeling diversity and conflict can there be lasting peace. This requires devising appropriate political institutions. These may include electoral systems that ensure fair representation of all parties; clear rules for the division of power between central and local authorities; an independent and efficient judiciary; mechanisms that allow for tolerance and respect of plurality; equal access to the courts of justice; and protection of minority groups.

The impact of globalization on the State also varies according to the degree of economic integration that each State has so far achieved and the degree of exposure to the process of globalization. Generally, countries such as OECD members, which are more integrated within the global economy, have less difficulties in further internationalizing their domestic decision-making. They are relatively prepared for adapting to global standards and practices, and to respond to external crises, and have the resources to maintain efficient physical infrastructure. On the contrary, many developing countries are not well equipped to cope with international economic crises, to counteract the outflow of skilled workers, to manage sudden loss of employment (through for example, unemployment benefits), to prevent corruption and crime and to respond to a rapidly changing international environment. In many regions of the world, the State is still being constructed or is just beginning the process of modernization or undergoing a process of de-institutionalization. As such, many developing countries lack adequate physical infrastructure, are not technologically equipped, and have limited professional human resources and expertise to deal with the complexities of the global market.

If high quality responses to globalization require oftentimes local institutional reform, including reform of the State, acceleration of the globalization trends that was characteristic of the 1990s coincided with the most far-reaching experiment in reconstructing States since 1930s. It is important to estab-

lish whether the neo-liberal underpinnings of this experiment steer it toward results that strengthen the capacity of the States to respond to the challenges of globalization, or on the contrary, whether they limit them. What is becoming apparent now is that, although many of the reforms imposed by international organizations on developing countries were necessary to get their economies back on track, they were not sufficient for addressing fundamental institutional problems and deficits in State capacity.

It is now clear that one of the major causes of the malaise which affects a number of States - mostly the already mentioned developing countries and countries with economies in transition - is a rampant capacity deficit. Noticeable on every level of State administration, it becomes increasingly apparent in the management of issues, which, because of their complexity and worldwide ramifications, demand a higher standard of competence, knowledge and sophistication. It is not so much that the countries lack the requisite skills, as might have been the case only a few decades ago. More often, the institutions have not been put in place to tap, attract, retain and use these skills effectively. The net result, however, is basically the same:

- Failure to adjust, in time, to changing circumstances, and failure to grasp opportunities and cope with emerging constraints;
- Failure to take the initiative, and to be proactive;
- Passivity in the face of critical decisions that must be made;
- Uncritical acceptance of "omnibus solutions" that do not fit the context of the recipient country, and "externally-induced reforms" that often come with promises which cannot be fulfilled.

Globalization sheds light on the issue of capacity deficit in several developing countries. Specifically, it points to the importance of reinforcing State institutions, policy frameworks and trusted normative struc-

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tures, which are able to command and receive individual allegiance and enjoin individual commitment of effort and resources towards a higher purpose. Failure or inability to address, let alone resolve, this issue may, to a large extent, account for the questionable record of reforms in the 1980s. The story of transition in parts of Eastern Europe and the CIS would also justify a similar remark.

How the State adapts to the new global environment, how it strikes a balance between greater efficiency and equity, and how it manages greater openness and loss of employment for certain sectors of society, just to mention a few, are all critical issues which deserve great attention. However these challenges will be met, one lesson is clearly emerging: weak States are not the answer. A true measure of the State is not its "size", but rather the nature of the functions it performs, and the efficiency and effectiveness with which it performs them.

It may be safely affirmed that, more than anything else, it was the vacuum left by the retreat of the State, coupled in several instances with the absence of a civic culture and public trust, that brought about the emergence of soft States and kleptocracies during the 1990s especially. With many tragic cases of human rights abuses, informality, corruption, social disintegration and civil strife, the record of the 1990s has lessons for the future, which must not be overlooked:

- It points to the fragility of democratic structures, especially under conditions of major stress, volatility and insecurity;
- It further underscores the need to reinforce these institutions, to shore up the infrastructure of democratic government and the *État de droit*, and to revitalize the civic culture and public service ethic needed;
- It points to the role of the State as guarantor of stability, continuity and predictability at times of rapid change;
- It further emphasizes the roles of States as founders, sustainers, reformers and mem-

bers of inter-governmental regimes, as well as main stakeholders in the maintenance of peace and international order;

- Accordingly, it highlights the roles that States can play as counterweights in minimizing the costs of globalization, in enlisting the support of local and transnational companies, and in establishing partnerships in creative enterprises, while also protecting citizens against the possibility of exploitation and abuse.

Two decades of trial and error, in several parts of the world, have amply demonstrated the fragility of reforms, which took insufficient cognizance of the socio-political context and cultural dimensions, and also underrated the importance of adequate strategies and institutional tools in carrying out reforms.

Many of the economic reforms undertaken in developing countries in the past decade, although costly in social terms, may have been necessary for economic stabilization, and have been an important step towards recovery. However, they only represent the first step towards general prosperity; much more has to be done in terms of institution building, capacity building and social reform, including the provision of basic social services to all, and of safety nets to the most vulnerable. The next two chapters analyze these issues in more detail.

Chapter III

Reinforcing state institutions and social policies



1. Making globalization work for all

Not all countries have been able to benefit from globalization. To do so, they must strengthen their public sector and enhance their capacity for policy analysis, policy formulation and implementation. In fact, "the Governments that seem to be 'riding the wave of globalization' are those that have opened their [policy] analysis to uncertainty, ambiguity and change. In these globally aware Governments, institutions have been created or altered to scan the rapidly changing environment, to promote policy invention and policy dialogue, to speed up decision-making in order to take advantage of emerging opportunities, and to embrace short-term failures in favour of creating long-term sustainable strategies. National governance institutions are faced with dynamic transformations at the global level and the [local] level. Governments without adequate capacity to recognize and respond to change are destined to be forever behind the 'waves of change'. The ability to embrace change is related to an attitude of openness to diversity, comfort with uncertainty, and optimism about the future. Globally aware leaders seek to build institutions that can embody these attitudes and inspire citizens to participate in the emerging aspects of globalization, while at the same time attracting global forces to participate in national development. Strategic participation by both international and citizen organizations enables a

country to mediate the impact of globalization and even to thrive in the global environment" (UN, 2000, ST/SG/AC.6/2000/L.6). Thus, it is essential to start by re-examining the role of the State.

This chapter explores the complex issue of redesigning the State, its institutions and policies in a globalizing world. Rethinking the role of the State in the XXI century is of great importance to shape the grounds for inclusive globalization, one that is geared towards redistributing its benefits among the population, while minimizing the costs and losses of affected groups.

2. New global dynamics require a fresh approach to the State

In the 1980s, the discussion of the role of the State appeared to have been closed. Points of view predominated which considered that the State, in almost all its facets, was a market "impediment" and that the market alone would solve the problems. Consequently, the conclusion reached was that the State should be dismantled and reduced to the bare minimum. These views had replaced the notion that the State alone could generate development, views which were characteristic of previous decades. Today both extremes of the pendulum have been given the lie by concrete facts. So, just as the concept centering on the omnipotence of the State was erroneous, reality has proven that

It is an incontrovertible fact that the democratic State remains the major actor on the international scene and the most reliable force for freedom and self-governance

the market has a great productive potential but that without regulations it can generate far-reaching imbalances. A 1999 UNDP report focuses on some of them: "When the market goes too far in controlling social and political effects, the opportunities and benefits of internationalization are distributed unequally and iniquitously, concentrating power and wealth among a select group of persons, countries and companies, while bypassing everyone else. When the market gets out of control, instabilities in "boom and bust" economies surface, as for example the financial crisis in Eastern Asia and its repercussions on a worldwide scale. When the desire for profits by market participants gets out of control, it challenges the ethics of countries and sacrifices the respect for justice and human rights" (UNDP, 1999, Human Development Report).

Both extremes have produced very debatable results and, today, a new wave of questioning begins on how to achieve a different balance among the State, market and the other important actor, civil society, as well as what role the State could play in this search. The rhetoric is changing. In its special report on the State, the World Bank maintains that efficient development is very difficult without the State. The report states: "there can be neither economic nor social development without a good government" (World Bank, 1997). The notion of a Welfare State apparently completely stripped of legitimacy during the heyday of the market is being reexamined from other angles. The idea of the productive State is being postulated and the experiences of countries, such as the Nordic countries and the Netherlands, that have achieved progress in that direction while at the same time obtaining good economic results and maintaining elevated social balances, are being examined (Klikberg, 2000; see also Klikberg, 2001).

It is an incontrovertible fact that the democratic State remains the major actor on the international scene and the most reliable force for freedom and self-governance. It is the foremost mover in the complex global network of inter-governmental regimes and organi-

zations, on which the emerging new world order depends. It has changed and it is changing in response to a changing environment and the rise of institutions with a major regional role like the EU or ASEAN. In spite of its limitations, constitutional democracy is still the best system of governance, as it is the best guarantor of freedom, human rights and social development.

What the experience of the 1990s has made apparent is that turning "globalization into an instrument of opportunity and inclusion" cannot be accomplished overnight, through "big bangs" and "quick fixes". This undertaking calls for systematic, consistent, long-term efforts at the sub-national, national, and international levels, involving many players, both State and non-state actors. In turn, to be constructive, these efforts require solid institutional frameworks and sound governance, which the World Bank has defined as "the manner in which power is exercised in the management of a country's economic and social resources for development" (World Bank, 1994, p. vii).

Building effective constitutional democracies and reinforcing State institutions is therefore a theme of great relevance in an era of globalization. We cannot escape the conclusion that, by and large, the countries that fared best through the crises of the tumultuous 1990s were those whose national governments remained fully in command and made their own decisions on major issues of policy. Experience demonstrates that as a rule intelligent, democratic States have so far coped much better with the effects of globalization. They have been able to turn opportunities to advantage; to circumscribe the effects of downturns; to play their part in global governance in a responsible manner; and manage to protect their citizens from the vagaries of adverse contingencies. An intelligent, democratic State is needed to position a country in such a way that it can cope effectively with rapidly changing contingencies and harness to its advantage the winds of change (UN, 2000, E/2000/66, p. 8).

A democratic State, which is proactive and strategic is required to arrest and, in the medium-term, reverse poverty and underdevelopment. Combating poverty both nationally and internationally, represents an essential dimension of a strategy of restoring public trust and rebuilding human capital, which is necessary not merely for development, but also for the effectiveness of democratic governance. "A healthy, educated and democratic citizenry is the most important factor in economic development" (UN, 1997, E/1997/86, p. 21).

The State has an important role to play in the establishment and preservation of an "even playing field" and an enabling environment for private enterprise, individual creativity and social action. It can also contribute to the establishment and maintenance of social safety nets; promote as well as facilitate social dialogue at the sub-national, national, and international levels; establish and maintain mechanisms for mediation of disputes, mitigation of conflicts and reconciliation of rival cultures or interests in the increasingly diversified contemporary societies.

Last, but not least, intelligent, democratic States are necessary to protect the children, the sick, the elderly and other vulnerable segments of society, combat the social exclusion of minority groups, and ensure a more equitable distribution of the benefits of globalization.

In brief, more than ever before what is needed today is an intelligent State endowed with institutions that are capable of coping with both domestic and international problems, and challenges. Strong democratic institutions are vital in providing a solid framework of political, economic and social rules, and in creating an enabling environment for people's prosperity. In order to seize the benefits of globalization, developing countries need to strengthen and modernize their democratic institutions. "Our runaway world does not need less, but more government - and this, only democratic institutions can provide" (Giddens, 2000, p. 100).

2.1. What is meant by an intelligent, democratic State

Experience demonstrates that sound institutional frameworks and governance, in this particular meaning, cannot be developed outside a healthy State. Indeed, it might be argued that they define this type of State. It is important to underline that an intelligent, democratic State is also socially proactive, but does not mean "big government". It means "quality" not "quantity" or volume of government activity. It implies a State with lean but strong democratic institutions. The term "intelligent, democratic State", in other words, puts the accent on capacity to carry out effectively the tasks incumbent on the State, on the international, national and sub-national levels. "There is a growing consensus that governments can play a vital role in successful development efforts, but we also recognize that the wrong kind of government intervention can be highly detrimental. We have recognized that the scope and effectiveness of government activities, rather than simply the size of the government's budget or personnel, is the key issue. Within a given size range, the governments' effectiveness can vary widely with the scope of its activities: they can do too much of some things and too little of others, and redirecting the State's efforts could produce benefits on both accounts" (Stiglitz, 1998, p. 2).

An intelligent, democratic State is one that intervenes strategically by creating the conditions that support constructive endeavours for people-centred growth. Its role should be catalytic and supportive - i.e., promoting without investing - and supervisory/regulatory. Recent experience has shown that people often benefit when the State is not involved in the production of goods and, generally, the provision of non-social services. Greater competition brings down prices and enhances the choice to consumers. Inherent in this concept of the State is the critical notion of quality, in particular the quality of the normative, strategic and steering tasks of the State. Manifested, first and foremost, in the outputs of these functions, such

The State has an important role to play in the establishment and preservation of an "even playing field"

An intelligent, democratic State is one which promotes social justice, ensures universal access to quality services and productive assets, and creates an enabling environment for people-centred development

quality is a composite of several different attributes: appropriateness, effectiveness, viability or sustainability, timeliness, equity, and acceptability.

It is also predicated on many factors, notably:

- Thorough knowledge or expertise;
- Skill in decision-making;
- Sense of responsibility;
- Respect for due process and the rights of all stakeholders;
- Integrity and command of public trust; and
- Ability to capture and reconcile convergent or divergent group interests.

All of the above attributes and factors are crucial. Few policy decisions are made by experts alone or taken in a social or political vacuum. Most are the product of inputs of very different types, the synthesis of many fields of specialization, and representative voices from segments of society affected by these decisions. The quality of the outputs, accordingly, is a function of two important variables:

- Level of individual inputs;
- Capacity of the institutional framework or decision-making structures and processes to weave these inputs together into a coherent whole and a workable project, in a timely fashion.

Thus, an intelligent, democratic State is one which "promotes social justice, ensures universal access to quality services and productive assets, and creates an enabling environment for sustainable people-centred development", in the terms of General Assembly resolution 50/225/1996. Greater human development and prosperity can be achieved only if certain fundamental conditions are met. These include the existence of a basic democratic system; a commitment of the political leadership to work towards a more equitable distribution of wealth; strong, healthy State

institutions besides the executive, namely the legislature, the judiciary and the local authorities. It also entails a strong capacity of the State to develop social and economic policies and strategies; strong commitment backed by appropriate resource outlays to redress social inequalities, and to protect and increase social human capital. The public sector should have a clear mission, with clear goals and objectives. "What is needed is a visionary administration" that is capable to address the complexity of the issues and problems confronting the State at the threshold of the XXI century (UN, 2000, E/2000/66).

Although experience varies, it may be said that the hallmarks of an intelligent, democratic State can be summarized as follows:

- Strong institutions of governance and the rule of law;
- Credible judicial and legal institutions;
- Effective legal frameworks for economic activity;
- An open and competitive economic environment;
- Price stability and fiscal responsibility;
- An equitable tax system;
- Developed and competitive labour, financial and capital markets;
- Adequate steering, regulatory and enforcement capacities, together with judicious privatization and outsourcing of services to private providers;
- Public and private sector partnerships in the promotion of business, with emphasis on micro-industries and small and medium-size enterprises;
- Access to information;
- Promotion of technological and infrastructure development.

An intelligent, democratic State should also promote a “sharp focus on the needs of the poor; powerful watchdogs; intolerance of corruption; transparency and accountability in the management of public affairs; respect for human rights; participation by all citizens in the decisions that affect their lives; as well as the creation of an enabling environment for the private sector and civil society” (Amoako, 2000).

It is important to underline that the State in the XXI century will differ in many ways from that of the past. It will depart significantly from the Welfare State as we knew it. Still, it might be unwise to base it on the “Minimal State”, in view of the catastrophic results the latter has produced in many developing countries. We should not forget that the Welfare State contributed to social and economic progress in many countries, though arguably in some cases it led to public debts, and to the inefficient use of state resources. Today efficiency has become widely acknowledged as a critical attribute of good governance. Nevertheless, efficiency and effectiveness should not be pursued at the expense of the principles of legality and of the primacy of the public interest.

We should avoid confusion between policy goals, set by the State, and methods of implementing such goals. The latter may indeed be performed by the private sector in a more efficient way. Nevertheless, there are certain policy areas which cannot be guided by efficiency criteria alone but rather by considerations of the public interest. What we need is to combine some of the goals of the Welfare State model with some of the methods of the “Managerial State”. In what proportion these should be mixed is to be decided by each country according to its own degree of development and needs.

2.2. The relationship between intelligent, democratic States and free markets

The Millennium Report underscores that: “Inclusive globalization must be built on the great enabling force of the market, but market forces

Box III.1

DECLARATION OF THE MILLENNIUM ASSEMBLY OF THE UN

“We believe that the central challenge we face today is to ensure that globalization becomes a positive force for all the world’s people. For while globalization offers great opportunities, at present its benefits are very unevenly shared, while its costs are unevenly distributed. We recognize that developing countries and countries with economies in transition face special difficulties in responding to this central challenge. Thus, only through broad and sustained efforts to create a shared future, based upon our common humanity, in all its diversity, can globalization be made fully inclusive and equitable. These efforts must include policies and measures, at the global level, which correspond to the needs of developing countries and economies in transition, and are formulated and implemented with their effective participation.

“We consider certain fundamental values to be essential to international relations in the twenty-first century. These include:

- Freedom. Men and women have the right to live their lives and raise their children in dignity, free from hunger and from the fear of violence, oppression or injustice. Democratic and participatory governance, based on the will, of the people best assures these rights.
- Equality. No individual and no nation must be denied the opportunity to benefit from development. The equal rights and opportunities of women and men must be assured.
- Solidarity. Global challenges must be managed in a way that distributes the costs and burdens fairly in accordance with basic principles of equity and social justice. Those who suffer, or who benefit least, deserve help from those who benefit most.
- Tolerance. Human beings must respect each other, in all their diversity of belief, culture and language. Differences within and between societies should be neither feared nor repressed, but cherished as a precious asset of humanity. A Culture of Peace and Dialogue among all civilizations should be actively promoted.
- Respect for nature. Prudence must be shown in the management of all living species and natural resources, in accordance with the precepts of sustainable development. Only in this way can the immeasurable riches provided to us by nature be preserved and passed on to our descendants. The current unsustainable patterns of production and consumption must be changed, in the interest of our future welfare and that of our descendants.
- Shared responsibility. Responsibility for managing worldwide economic and social development, as well as threats to international peace and security, must be shared among the nations of the world and should be exercised multilaterally. As the most universal and most representative organization in the world, the United Nations must play a central role.”

Source: A/RES/55/2/2000, paras. 5-6.

alone will not achieve it” (UN, 2000, Millennium Report, A/54/2000, p. 6). As shown by recent events, the “Minimal State” characterized by small government, deregulation, privatization, and basically a shift from the public to the private sector has in some cases not been sufficient to foster sustainable human development. There is growing

It is erroneous to think that markets should be weakened or that the State should replace the market in its fundamental functions. However ... not every aspect of public life should be left to market forces

agreement on the fact that economic reforms need to be complemented by better social policies.

It is erroneous to think that markets should be weakened or that the State should replace the market in its fundamental functions. However, it is important to underline that not every aspect of public life should be left to market forces or be guided by corporate methods. Rather, markets should be coupled with "intelligent" States. In fact, markets and States should not be seen as adversarial forces, but as truly complementary. That is because markets can flourish and sustainable economic prosperity can be achieved only if there is a democratic and effective State that provides, through rules and institutions, an enabling environment for private sector development and economic growth. In the absence of appropriate institutions, competition is stifled and lawlessness prevails leading to instability, chaos and often to the emergence of kleptocracies.

Experience has shown that Governments can continue to play a vital role in creating an effective legal and regulatory framework in which the private sector is enabled to operate. As those in countries moving towards a market economy keep pointing out, the private sector cannot develop fully unless the Government institutes a legal framework that guarantees and protects private property, govern business relationships and enforces the commitments involved in business contracts. Suitable enforceable legislation is needed as related to the personal liabilities of owners and the bankruptcy of businesses as well as the obligations of those involved. An adequate legal framework is vital in developing an enabling environment in which business creation and operation can function successfully. Therefore, the role of the State in this respect is to establish the rules of the game for the operation of the market and at the same time to perform the role of arbitrator.

Experience also demonstrates that, without proper structures, enforceable laws and socially sensitive policies, markets can degen-

erate into instruments of exploitation, marginalization, corruption and social exclusion. Poorly managed States and exclusionary politics contribute to holding back economic and social development. To be sure, economic growth alone is not sufficient to sustain equitable human development. Providing health care and education, public infrastructure, safety nets for the unemployed, equal opportunities for all and the respect of basic human rights is a fundamental responsibility of the State, which is not unrelated to the goal of economic prosperity for all and to the enhancement of people's freedoms and quality of life. Poverty is reduced and development is more easily achieved when the State has a larger redistributive role. In the words of Secretary-General Kofi Annan, speaking at the Global Compact meeting, in July 2000, "... let's choose to unite the powers of markets with the authority of universal ideas. Let us choose to reconcile the creative forces of private entrepreneurship with the needs of the disadvantaged and the requirements of the future generations..." (UN, 2000, Global Compact Meeting).

Although markets perform invaluable functions within an economy, not all aspects of public life are best served by market principles. On the one hand, States remain important actors because their actions help determine the extent to which economic and social prosperity occur within their own borders, as well as the extent to which prosperity is widely spread among the population. On the other hand, a free market and policies to promote a vibrant private sector are indispensable if a country wishes to increase its living standards and seize the opportunities of integration into the global market.

2.3. The role of the State in creating an enabling environment for the private sector

Governments have a crucial role in creating an enabling environment for the development and/or reinforcement of the private sector, and the institutional and regulatory capacities of governments to interact with the private sector should be enhanced. However, creat-

ing an enabling environment involves more than removing obstacles. Governments must perform a dual task. First, to create a political and economic system in which entrepreneurship can flourish; second, to facilitate entrepreneurial undertakings. The first task requires a stable and secure political order in which contracts are enforced, necessary adjudicating machinery exists for resolution of disputes, and the social order is backed by democratic institutions. The second task involves the establishment of financial, legal and market institutions, and of a regulatory apparatus that enables people to open a business without too much difficulty, to have access to affordable credit, and to invest in productive activities.

Designing appropriate rules for the functioning of the market is essential because "where there are no rules, the rich and the powerful bully the poor and the powerless (UK, 2000). The existence of an appropriate and effective legal framework is a basic pre-condition for successful efforts to promote sustainable development. Yet, legal frameworks, as formulated and applied so far, have not always stimulated adequate participation in economic development activities. While it is the duty of the State to enhance the development of civil society and to enable the private sector to operate efficiently by enacting appropriate laws, experience shows that "state laws" have not been utilized by local communities and indigenous people. The main reason for this attitude is that, often transposed from outside and moulded according to foreign concepts and experiences, the legal framework for development is not always adapted to the needs of the people in developing countries and countries with economies in transition. In fact, past events show that business organizations, contracts, bankruptcy, and banking laws are not always respected or well defined. Legal frameworks should always reflect the ideologies, attitudes and aspirations of the people for whom they are meant, rather than be imposed from outside.

Most importantly, governments should take the lead in simplifying procedures and reg-

ulations for the registration and licensing of businesses. Without simplifying bureaucratic procedures and rules to set up a business, entrepreneurial initiative will be stifled. A study conducted by Hernando De Soto shows how red tape and byzantine procedures pose a serious hurdle to people's entrepreneurial capacities. To open a small business in Lima and get it registered takes 289 days, and the cost of legal registration is \$1,231 - thirty one times the monthly minimum wage. "To obtain legal authorization to build a house on State-owned land takes six years and eleven months, requiring 207 administrative steps in 52 government offices. To obtain a legal title for that piece of land takes 728 steps. ... In Egypt, the person who

Box III.2

A COMPACT FOR THE NEW CENTURY

At the World Economic Forum, held in Davos on 31 January 1999, UN Secretary-General Kofi A. Annan challenged world business leaders to "embrace and enact" the Global Compact, both in their individual corporate practices and by supporting appropriate public policies. These principles cover topics in human rights, labour and environment:

Human Rights

The Secretary-General asked world business to:

- Principle 1: support and respect the protection of international human rights within their sphere of influence; and
- Principle 2: make sure their own corporations are not complicit in human right abuses.

Labour

The Secretary-General asked world business to uphold:

- Principle 3: freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

The Secretary-General asked world business to:

- Principle 7: support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Source: UN, 2000, *Global Compact Meeting*.

Today, as many as 250 million children throughout the world work in appalling conditions both in multinationals and local businesses

wants to acquire and legally register a lot on State-owned desert land must wend his way through at least 77 bureaucratic procedures at 31 public and private agencies. ... This explains why 4.7 million Egyptians have chosen to build their dwellings illegally (De So- to, 2000, p. 20).

Additionally, there needs to be a permanent mechanism for consultation with representatives of the private sector on the formulation of relevant policies and the monitoring of their impact. Collaboration is needed in ways that safeguard the interests of consumers and small enterprises from cozy, at times often corrupt, coalitions of government and big business, or vice versa. Corporations and companies should be encouraged to adopt a new relationship with the environment and society. In this respect, one of the most alarming issues is related to child abuse and labor exploitation. Both the Director-General of the International Labour Organization, Juan Somavia and several participants at the Global Compact Meeting, called for strong action to stop the current pandemic of child abuse. Today, as many as 250 million children throughout the world work in appalling conditions both in multinationals and local businesses.

The OECD recently elaborated new standards on corporate governance, workplace conditions, environmental safeguards, bribery and protection for whistleblowers. The rules, however, are not legally binding, although governments are expected to promote compliance. In a more general manner, it is essential to have national legislation in place that sets clear security and health standards in the workplace, which corporations should respect. This represents an urgent yet difficult task ahead. Moreover, a greater commitment by the private sector should be pursued to engender a new culture of environmental accountability, environmental performance indicators and reporting, and the establishment of a precautionary approach in investment and technology decisions. This approach must be linked to the development of cleaner and more resource-efficient technologies for a life-cycle economy and efforts

to facilitate the transfer of environmentally sound technologies (UNEP, 2000, Annual Report). National and trans-national corporations can play an important role in upholding social and environmental values, as well as respecting human rights.

Voluntary commitments are important but, in general, insufficient to curb pollution of the environment and corrupt practices. Governments can play a crucial role in this respect. Often, it is weak government that indirectly bears ultimate responsibility for not preventing inhumane working conditions, pollution, deforestation, depletion of natural resources and other transgressions. This is so because they do not ensure that appropriate laws and regulations are in place to protect workers and the environment. However, it must be said that even countries that have good labour laws might fail to curb the abuse of human rights in the workplace if their judicial systems are ineffective.

2.4. Fostering partnerships between the State and civil society

An era of globalization calls for building robust partnerships between the State and civil society. Such partnerships, however, can only emerge between a intelligent, democratic State, on the one hand, and a vibrant civil society, on the other. Their nature and importance were recently highlighted by the Secretary-General of the United Nations, who put them in perspective in his address to the opening ceremony of the Forum Geneva 2000 on 25 June 2000: "I remain convinced that globalization can benefit humankind as a whole. But clearly at the moment millions of people - perhaps even the majority of the human race - are being denied those benefits. They are poor not because they have too much globalization, but too little or none at all. And many people are actually suffering in different ways - I would say not from globalization itself, but from the failure to manage its adverse effects. Some have lost their jobs, others see their communities disintegrating, some feel that their very identity is at stake. Even in the richest and most democratic countries, people wonder if the lead-

ers they elect have any real control over events. I think these fears can be answered, but not by any one nation alone, and not by governments alone either. The State and civil society should not see each other as enemies, but as allies. The strongest State is one that listens to civil society, and explains itself to civil society in a way that encourages people to work with the State, of their own free will. When I speak about civil society, I do not mean only non-governmental organizations, though they are a very important part of it. I also mean universities, foundations, labour unions and - yes - private corporations" (UN, 2000, General Assembly Twenty-fourth Special Session, Geneva).

The emergence of a vibrant and assertive civil society, notably in those countries where it had been virtually absent, may rightly be considered as a most welcome feature of the trends of the past twenty years. However, its effectiveness critically depends on the establishment and maintenance of an enabling framework of laws, regulations and rules safeguarding not only the independence of NGOs and other civil society organizations but also the transparency and accountability of their acts. Such conditions are predicated on a proactive State, a democratic culture receptive to diversity and which values public service and, last but not least, an institutional framework for effective inter-governmental cooperation.

Globalization also requires improved channels of participation. There is a growing need for greater citizen participation and new participatory policy-making processes. In particular, the State could greatly benefit from weaving inter-social networks. It has been common practice in developing countries to see important problems, among them social problems, as an exclusive undertaking from the organizational point of view. These problems would correspond to either the State, civil society or the market, but only to one of the aforementioned. In this type of logic, the weak points of each of the actors are emphasized and the stress is placed on historical and potential conflicts. This type of rea-

soning is "at this time the State cannot participate because ...", or "we can't rely on the NGOs because at one time they ..." etc. The social reality is so difficult and complex that it first and foremost imperatively demands responsibility from all social actors. As Wolfenshon, among others, stresses, "all must cooperate" because what will happen is in everyone's interest. However, it is also necessary to capitalize on what each party can contribute. Skills that might be utilized cannot be overlooked. The culture of "false competition" should be replaced by one policy of "let's use the best of each and let's complement each other" (Wolfenshon, 2000).

Inter-social networks geared to solving important social problems need to be built. In this context public policy should play the energetic role of calling for the establishment of a network, and of being an ongoing stimulus for and a relevant actor in the network. But it should also actively attempt to unite as many diverse actors as possible in that network. Civil society can make valuable contributions to solving social problems. Religious communities, labour unions, universities, neighbourhood associations, and the NGOs set up to work in the social service area, and many other actors of a similar nature can contribute ideas and invaluable human and financial resources. The power of volunteers in the different developing countries and in small countries is very important. Concerted efforts to mobilize the social responsibility of the business world should also be taken in order to directly involve it as an actor in large-scale social undertakings.

The inter-social networks are a complex web. They require diverse actors with different experience, languages, little practice in working together and mutual biases. In order to set up these networks and make them function, systematic and laborious action is required. The intelligent, democratic State ought to develop the needed capacities, including the ability for concentration, negotiation, joint planning, and creation of very flexible and open organizational designs.

In order to foster a new relationship between civil servants and citizens, State in-

I remain convinced that globalization can benefit humankind as a whole. But clearly at the moment millions of people - perhaps even the majority of the human race - are being denied those benefits. They are poor not because they have too much globalization, but too little or none at all

Kofi Annan
United Nations
Secretary-General

One of the many fallacies born in the 1980s and 1990s was the belief that the retreat of the State could somehow be matched by corresponding advances from both civil society and the private sector

stitutions ought to be more open, flexible in the face of change, and especially more accountable to the public at large. There is a great need to counteract the tendency, which is present in many countries, to a powerful and pervasive state machinery, which mainly favours the rich and influential at the expense of the poor. State institutions should be made to work for all and should not be seen, nor act as repressive or "unfriendly" to the majority of citizens. State institutions should not be "abusive" in the way they deal with citizens, but should be more open, transparent and work for and with, rather than against citizens. Therefore, greater emphasis should be set on ethics and professionalism in government, as well as on anti-corruption measures. Greater attention ought to be given to developing a more service-oriented spirit among civil servants, and to ensure effective and transparent mechanisms for citizens to channel their complaints concerning poor, inefficient or denied access to public services. Ombudsman mechanisms should be reinforced or set in place where they do not exist. It is a fact that in many developing countries, but also in the developed world, access to public services is made very difficult for those who lack personal influence or money. In other words, what is a right becomes a privilege that only the few are able to "buy". For the rest of the population getting a passport, renewing a license, or having a fair trial becomes a bureaucratic "nightmare". In brief, there is a compelling need for state institutions to operate in a more democratic and accountable way in many countries.

The role of social dialogue in institution-building also highlights the growing importance of organized civil society. On the sub-national, national, and international levels active participation by groups of informed citizens, such as at the global summits during the past decade, has modified the process of decision-making, profoundly influenced outcomes and more than anything else added new meaning to "governance", a concept which, in truth, goes back to the XVII century, or earlier. Throughout the world, including developing countries and countries with

economies in transition, the number of civil society organizations has grown by leaps and bounds. Precisely on this account, however, this old/new phenomenon is still the cause of much controversy and exaggerated claims.

One of the many fallacies born in the 1980s and 1990s was the belief that the retreat of the State could somehow be matched by corresponding advances from both civil society and the private sector, which between them would be able to close the ensuing gap. This has not come about. "In quantitative terms, the collective contribution generated by private philanthropy remains infinitesimal compared to government programmes in most Western industrialized societies, at any rate" (O'Connell, 1996). In qualitative terms also, the lessons of experience suggest a cautious approach. A partnership with government entails responsibilities and, in the last analysis, the claim and obligation to speak and to decide for the country as a whole belongs to elected governments and them alone.

Properly exercised, supervision by the State could exert a salutary influence on NGOs/CSOs. It would keep them on the right track. The State needs NGOs as an important outlet for outsourcing government services, at the national and sub-national levels. In our globalized economy, inter-governmental organizations (IGOs) engage in similar partnerships with international and local NGOs. Both governments and IGOs should know that there is a fine line between accountability and total control. This fine line must be observed and respected. It has not always been so.

These dangers are avoidable, but only through the establishment of legislative and regulatory frameworks which enforce accountability and oblige CSOs/NGOs to prove their worth and democratic credentials as well as their ability to raise a substantial part of their revenue from sources other than the government in a transparent way. Paradoxically, the virtue, utility and credibility of NGOs/CSOs, especially in an era of globalization, are largely predicated on the presence and affirmative action of a strong State. Because until they prove ability to escape the

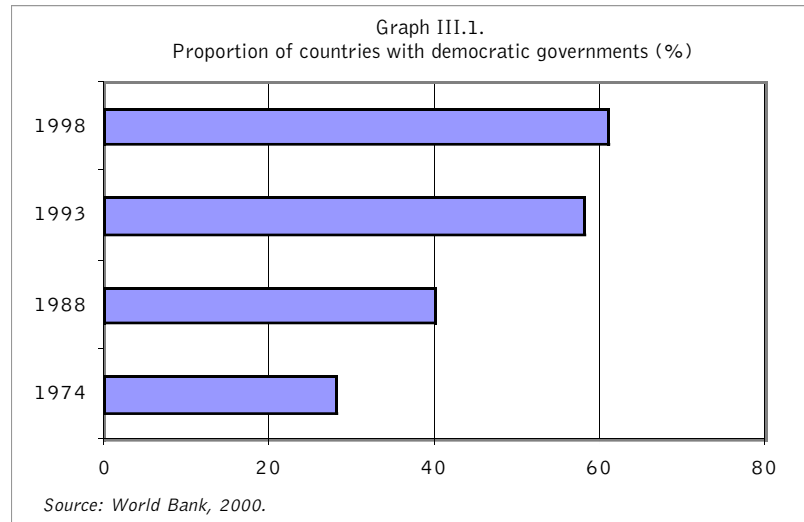
many present risks, and until they broaden their base of financial support, civil society will remain a poor substitute for democratically accountable governance and, at best, a useful adjunct to State-to-State cooperation through international organizations.

3. Creation of a strong and democratic institutional framework

3.1. Democracy, freedom and participation

Both in the current literature and popular discourse, "democratization" is frequently presented as a critical development and irresistible trend of the past quarter century. Thus, we read the following statement in the World Development Report 1999/2000: "The proportion of countries with some form of democratic government rose from 28 per cent in 1974 to 61 per cent in 1998. A majority of governments have made legally binding commitments to respect the civil and political rights of their citizens. Thus far, 140 countries have ratified the International Covenant on Civil and Political Rights, and 42 have signed the optional protocol of the Covenant, recognizing the Authority of the United Nations Human Rights Committee to consider claims from those alleging violations of their rights" (World Bank, 1999/2000, p. 43).

There is certainly truth in this statement. What it does not reveal, however, is the distance that exists between ritual and rhetoric, on the one hand, and reality on the other. Undeniably, the world is host to a great diversity of forms of government - some more democratic than others. What is noticeable, and what the regional studies outlined in chapter II have underscored, is the fragility of democracy in several parts of the world, predicated as it is on a number of conditions which are not always present to the desired extent. Of these requisites, none other seem more vital than capacity for sound governance and a values system rooted in profound respect for freedom, equality and public service, or the pursuit of the common good.



Responding to the challenges that poverty, oppression and human insecurity have posed in many regions is part of the all-important tasks of consolidating democracy and promoting human development. The emergence or restoration of pluralist democracies where autocratic regimes or totalitarian dictatorships had prevailed in the past may rightly be considered as one of the most positive developments of the past fifteen years. The growth of an articulate and vibrant civil society, where none had existed before, is certainly another. Both these trends augur well for the future, and both are strengthened by the lowering of barriers that comes with globalization.

However, these very welcome trends should not induce complacency. It must not be overlooked that, in a number of countries, the institutional bases for democratic governance remain fragile. The structures to facilitate popular participation are still largely in the making and, last but not least, a culture of civic responsibility and of respect for diversity needs much nurturing and propitious conditions to grow. "To a considerable degree, the gap between democratic form and substance in the world is an institutional gap. No political system in the world operates strictly according to its formal institutional prescriptions, but what distinguishes most of the democracies in Latin America, Asia, Africa and the postcommunist States are political institutions too weak to ensure the repre-

sentation of diverse interests, constitutional supremacy, the rule of law, and the constraint of executive authority" (Diamond, 1999).

Designing and/or strengthening institutions is key to democracy and economic develop-

ment, which in turn are essential for the integration of countries into the world economy. Of the needed institutions, the basic institutions, arguably, are:

- An equitable, transparent and democratic framework of laws and regulations to govern registration, structure and operation of both political parties and CSOs. To date, in spite of the best efforts of IGOs, including the United Nations, such legislative and regulatory frameworks are either reminiscent of the preceding authoritarian regimes, or so cumbersome and slow as to make it very difficult for citizens to establish and operate an association effectively.
- An efficient and effective, transparent and fair system for the organization and conduct of elections, both nationally and locally, for purposes of government or otherwise. Free and fair elections on all levels represent a basic prerequisite of democratic government, but also of transparency and accountability, notably in the governance of civil society organizations, both for profit and non-profit, political, philanthropic or otherwise.

Curiously, to this day, relatively little attention has been paid to the laws regulating elections, let alone to the mechanics of conducting them. It must not be overlooked that the quality and vitality of democratic governance depend to a large extent on citizens' participation, and this begins at the polls, though it should not end there. Democracy means choices - effective choices - and, what is most important, it means that decision-making power lies firmly with the citizens, the people. Without strategic choices at the national, sub-national or indeed international levels, and without discernible differences among political options, democracy degenerates into an empty ritual, inviting public apathy which partisan rhetoric tries in vain to overcome. What should also be remembered is that issues do not disappear when they have been withdrawn from public debate, or because the body of citizens has failed to exercise their right to vote and to choose on those issues. More often than not, in such cases, the focus of decision is shifted, and power in this

Box III.3

THE ADMINISTRATION AND COST OF ELECTIONS PROJECT (ACE)

What is the ACE Project?

The ACE publications provide systematic information on the range of choices available to election professionals involved in organizing elections. The publications specifically analyse the differences among electoral choices and focus on the cost and administrative implications of those choices.

Election specialists and writers around the world played a key role in producing the ACE Project. The result is over 5000 pages of information, including original texts, country studies and scanned sample materials such as ballot papers and manuals. The ACE Project has created and now supports the evolution of a unique online publication available via an Internet Website (www.aceproject.org) and a CD-ROM. Partners: The ACE Project is a joint endeavour of the United Nations, the International Institute for Democracy and Electoral Assistance (IDEA), and the International Foundation for Electoral Systems (IFES).

Why is ACE needed?

Emergence of new democracies in the 1990s and continued reassessment of democratic institutions and electoral processes in countries with long established democratic tradition, highlighted the need for a unified comprehensive, simple to use and easily accessible resource of election information.

The ACE Project Topic Areas

- Electoral Systems
- Legislative Framework
- Electoral Management
- Boundary Delimitation
- Voter Registration
- Voter Education
- Parties and Candidates
- Voting Operations
- Vote Counting
- Media and Elections
- Elections and technology
- Electoral Integrity

Examples of how ACE can be used:

As an informational tool and reference source when;

- Re-designing the electoral process in new as well as established democracies
- Designing training courses for electoral officials and observers in order to increase their knowledge about electoral processes
- Providing information to the media about legitimate democratic electoral options

Source: ACE, www.aceproject.org.

regard appropriated, directly or indirectly, by special interest groups.

In the diversified and highly complex societies in which we live, diffusion and dispersion of decision-making power are both inevitable and desirable, but only up to a point. Given the considerably uneven distribution of power and wealth, with staggering inequalities in these regards, this diffusion and dispersion also carries dangers which cannot be overlooked. While the orderly devolution of power, through decentralization or other means, keeps people in control and has the added merit of leaving the decisions to those directly concerned (e.g., the local community or the end-users), appropriation of decision-making power, when it happens by default, inevitably entails surrender of the public space to special interest groups. This need not happen. Nationally and internationally, experiments with partnerships involving public sector and private sector agencies or NGO's, both state and non-state actors have amply demonstrated how, through performance contracting and other means, it is possible to ensure a win-win situation, one that accommodates the special interest groups, but also, and above all, safeguards accountability and the primacy of the public interest.

One of the critical challenges which confronts political leadership as we enter the XXI century is the pressing task of building, or overhauling, the structures that will permit such partnerships of state and non-state actors, to combine respect for democratic values, transparency and accountability with the pursuit of efficiency and effectiveness. Increasingly, such structures and institutions will be required on the international level to design and to implement global policies and programmes.

3.2. Making democracy meaningful

Paradoxically, on the morrow of the fall of dictatorships and authoritarian regimes, the greatest challenge before us, as we enter the XXI century, may be precisely this: to make democracy meaningful to citizens at large.

In the foreseeable future, the dangers for democracy will come arguably less from dictators, though there may still be a few in the world at large. The massive intervention of major power-holders, either through control of the mass media and electoral campaign financing or through systematic corruption of officials, has devastating effects on the credibility of democratic institutions and the legitimization of their outcomes. "There is increasing evidence that corruption undermines development. It also hampers the effectiveness with which domestic savings and external aid are used in many developing countries, and this in turn threatens to undermine grassroots support for foreign assistance" (World Bank, 1997, World Development Report).

Democracies are not immune to the corrosive influence of unaccountable forces, which can turn democratic regimes into oligarchies of wealth or kleptocracies at worst. When this happens, a spirit of venality slowly pervades the system, as citizens lose interest, becoming the passive onlookers of a game played out by only a few. Democracies survive and thrive by empowering their citizens. Much of late has been made of this term, but often the reality belies the current rhetoric. As commonly understood, empowerment implies having meaningful options, but also taking part in making important decisions which affect people's lives. To make it real, it demands of all citizens and groups in civil society that they claim their rights and call the agents of government to account, as required in a democracy. A proactive civil society is crucial to the vitality of democratic governance, whose pillars are none other than freedom, equality of opportunities and solidarity. The three pillars are indivisible, but while it may be true that freedom may have spread during the past decade, the obstacles (such as poverty and illiteracy) to equal opportunities have not, so far, been removed in many cases. Carried too far, poverty and inequality, whether in the East, West, North or South, can undermine the solidity of the social fabric, creating the phenomena of marginalization and social exclusion, compounded by alienation, that already exist

*Democracies survive
and thrive by
empowering their
citizens*

Labyrinthine provisions and legislative loopholes both serve to exacerbate the practice of rewarding the least deserving, and of defrauding the public

around us. Ignoring such social problems is a recipe for failure.

3.3. The rule of law and public trust

The issue of what is needed most, good leaders or good laws, goes back to the beginnings of political discourse. Although both are essential and indeed complementary, few people would dispute that, under present conditions, given the scale and complexity of social, economic and political transactions, on the global and national levels, sound legal and regulatory frameworks are *sine qua non* conditions for the prevalence and sustenance of a culture of trust and respect for the rule of law.

Governments need to build effective regulatory and institutional frameworks, which include an efficient legal system that secures the rule of law; an independent judiciary that ensures reliable processes for resolving disputes; a strong parliament to counterbalance powerful executives; an efficient tax system that provides the necessary resources for social policy reforms and other legitimate state activities; a financial system that is modern, adequately supervised and transparent; and a political system that ensures widespread participation. Equitable, transparent and consistent legal systems are needed to provide solid foundations and structures for social institutions where initiative can thrive and collective pursuits, in both the public and business sectors, promote the general interest.

By contrast, nothing saps the public trust more quickly than the confusion resulting from inapplicable, vague, conflicting and forever changing legal provisions, which compound the costs of business, discourage enterprise or, worse still, afford knaves and villains windows of opportunity at public expense. Labyrinthine provisions and legislative loopholes both serve to exacerbate the practice of rewarding the least deserving, and of defrauding the public, thus slowly but surely, creating a climate of collective alienation, cynicism and greed.

The current pandemic of corruption, often tied to organized crime, is a disturbing phenomenon of universal dimensions. Its worst manifestations have been the collapse of States, where social disintegration and informality prevail. In an era of globalization, such kleptocracies can serve as launching pads or havens for various illegal activities (for instance, money laundering). Very often, kleptocracies condemn their own peoples to a fate of destitution and total insecurity at the margins of the global economy. However, they may also pose a threat to neighbouring countries, as recent experience in several parts of the world has demonstrated.

Since 1996, several global fora and major international and national reports have sounded the alarm, warning against the perils of corruption and organized crime, whose outreach has expanded with globalization. Among the earlier studies, the World Development Report of 1997 on the "State in a Changing World" explored the many facets of this old/new phenomenon, its causes and impact on the effectiveness of institutions and thus on public trust (World Bank, 1997, pp. 99-101). Significantly, the study reached the conclusion that corruption cannot be effectively tackled in isolation from other problems, of which it is often a mere symptom.

The problem can only be treated by addressing its root causes, especially the flaws in the organization and management of the public service profession, and by promoting professionalism, performance, ethical values and standards in public life at large.

3.4. Strengthening and modernizing national judicial systems

With the increase in complexity and type of cross-border activities, as well as with the growing number of actors at the national, regional and global levels, there is a parallel increase in the need for regulation and enforcement mechanisms. Sound legal frameworks, as well as an effective and independent judiciary is a crucial pre-condition for a country's success in a globalized world.

Globalization demands strong and effective judicial systems for a number of reasons. First and most importantly, a strong judiciary is a key factor in creating a stable environment for investments and entrepreneurship. It is also essential to ensure that democracies function properly through a system of checks and balances. The crucial role of the judiciary, especially in relatively new democracies, is increasingly being recognized and the issue of "horizontal accountability" seems to be gaining a central relevance. O'Donnell describes it as "the existence of state agencies that are legally enabled and empowered, and factually willing and capable, to take actions or omissions by other agents of the State that may, in principle or presumably, be qualified as unlawful" (O'Donnell, 1997, p. 15). Without a proper system of checks and balances, the separation of powers could be jeopardized leading to a concentration of power in one of the branches of government, thus undermining the constitutional basis of a democracy. The task of the judiciary in contemporary democracies is not only to solve conflicts among contending parties, but also to check governmental actions and to protect minority rights. The fundamental prerequisite is that the judiciary be independent not only from the parties involved, but also from political pressure. Without a truly independent judiciary there is no rule of law and, under such conditions, a democratic free society is in danger.

A strong and efficient judiciary is also essential in providing a stable environment for the growth of investments and economic activity. For a country to attract foreign capital and to be a desirable place for investment, it is of utmost importance that the rule of law is upheld. Potential investors will invest only if they perceive that a country is politically stable and especially if they feel that their business transactions are backed up by a well functioning legal and judicial system. The courts of justice have a very important role to play in guaranteeing that property rights are respected, that contracts are legally binding and that transactions occur in an atmosphere of legality. Given that investors can choose where to invest, and in a globalized

world they have the whole globe to choose from, legal stability is a must not only to attract foreign investment, but also to promote the development of a strong domestic market. "There is a growing awareness that a judiciary able to resolve cases in a fair and timely manner is an important prerequisite for economic development. In many developing countries, the judiciary is not consistent in its conflict resolution, and carries a large backlog of cases, stifling private-sector growth and causing the erosion of individual and property rights" (Buscaglia and Dakalios, 1999, p. 1). "While globalization has spurred economic development, its benefits have unevenly impacted different segments of society. The poor often lack legal rights to empower them to take advantage of opportunities and provide them with security against arbitrary and inequitable treatment. Discriminatory laws and arbitrary enforcement of the laws deprive protection of individual and property rights, raise barriers to justice and keep the poor poor" (World Bank, 2001, p. 2). Inadequate access to justice is therefore one of the major obstacles to development.

Also, courts of justice increasingly have to deal with cases related to transnational illegal activities. Criminal justice increasingly being involved in cases of transnational crime, corruption, trafficking in human beings and drugs, money laundering, and terrorism. This requires not only a more effective judicial system at the national level, but also greater cooperation at the international level. The United Nations Convention against Transnational Organized Crime, which was adopted by the General Assembly at its Millennium meeting in 2000, is an example of international cooperation in this regard. It is the first legally binding UN instrument in the field of crime, which must be signed and ratified by 40 countries before it comes into force. States party to the Convention would be required to establish in their domestic laws four criminal offences:

- participation in an organized criminal group;
- money laundering;

For a country to attract foreign capital and to be a desirable place for investment, it is of utmost importance that the rule of law is upheld

Globalization has produced a number of changes in the way transactions are carried out and on the modalities of such transactions, and has opened up new areas, which increasingly demand greater regulation and enforcement

- corruption; and
- obstruction of justice.

At the national level, courts of justice, especially in countries with economies in transition as well as recent democracies are called upon to decide on a growing number of cases, including cases regarding property rights and obligations. In other words, judicial systems are subject to great pressure and to a growing demand for justice. This, in turn, requires modernizing the administration of justice.

The new UN instrument spells out how countries can improve cooperation on such matters as extradition, mutual legal assistance, transfer of proceedings and joint investigations. "It contains provisions for victim and witness protection, and shielding legal markets from infiltration by organized criminal groups. Parties to the treaty would also provide technical assistance to developing countries to help them take the necessary measures and upgrade their capacities for dealing with organized crime. Also adopted by the General Assembly were two optional protocols by which countries would undertake in-depth measures to combat smuggling of migrants and the buying and selling of women and children for sexual exploitation or "sweat shop" labour. A third protocol, dealing with the illicit manufacturing of and trafficking in firearms, is under negotiation. Interlinked gangs worldwide traffic an estimated 4 million people every year as 'human cargo'. The annual estimated earnings from this trafficking has reached US\$ 5 to US\$ 7 billion. The protocols on trafficking in human beings - new forms of slavery - and on smuggling of illegal migrants are intended to beef up and internationalize efforts to stem these practices. The third protocol would commit parties to setting controls on the illicit manufacture and sale of firearms, which have been playing an increasing role in civilian violence, terrorism and organized crime. It is hoped that upon ratification, the Convention will emerge as the main tool of the international community for fighting transnational crime" (UN, 2000, Convention against Transnational Crime, A/55/383).

With the advance of information technology courts of justice will be called upon to decide, on a growing scale, on cases related to e-commerce activities, illegal activities on the Internet, and copyright issues on the Internet.

Furthermore, globalization has produced a number of changes in the way transactions are carried out and on the modalities of such transactions, and has opened up new areas, which increasingly demand greater regulation and enforcement. National judicial systems, especially in countries with economies in transition and in developing countries, need to be strengthened both at the institutional and organizational level. In a number of developing countries, the judiciary branch is the weakest branch of government.

At the institutional level, it is important to ensure that the judicial system is independent, i.e. that it is impermeable to undue political pressures, incorruptible, and fair in its decisions, and that it respects the rule of law. From an organizational point of view, the judiciary needs to be modernized. For this purpose, skills must be upgraded and information technology could be introduced, where the necessary infrastructure is in place, as a device that allows for quicker and more reliable storage and retrieval of information. Judicial integrity may be strengthened in a number of ways. The Global Programme against Corruption, set up by the United Nations Office for Drug Control and Crime Prevention, has made some recommendations in this respect:

- "Data collection: There is a need for data collection and national and international exchange of information concerning the scope and variety of forms of corruption within the judiciary. There is a need to establish a mechanism to assemble and record such data ... ;
- Remuneration: There is a need to improve the low salaries paid in many countries to judicial officers ... ;
- Monitor: There is a need to establish in every jurisdiction an institution, independent of

the judicature itself, to receive, investigate and determine complaints of corruption allegedly involving judicial officers and court staff ... ;

- **Judicial appointments:** There is a need to institute more transparent procedures for judicial appointments to combat the actuality or perception of corruption in judicial appointments (including nepotism and politicization) ... ;

- **Codes of conduct:** There is a need for the adoption of judicial codes of conduct, for the inclusion of instruction of such codes in the education of new judicial officers and for information to the public about the existence and provision of such codes against which the conduct of judicial officers may be measured;

- **Adherence:** There is a need to enhance requirements for newly appointed judicial officers to subscribe to such a judicial code of conduct and to agree, in the case of a serious breach ... to resign from judicial or related office;

- **Delay:** There is a need to ensure reasonably rapid trials as justice delayed is justice denied ..." (UN, 2000, Office for Drug Control and Crime Prevention).

3.5. Strengthening and modernizing national parliaments

Parliaments have a very important role to play in responding to the emerging challenges caused by globalization and rapid change. Parliaments are the main forum for reaching agreements and concrete solutions to compelling problems such as the eradication of poverty, improvement of health and education services, public security and administration of justice, as well as the fight against corruption, terrorism, drug trafficking and international organized crime. A well functioning parliament is also essential to ensure that adequate legislation is in place to protect the sectors of society which may be negatively affected by integration into the world economy. That is to say, parlia-

ments can play a vital role in setting out legislation for the establishment of social safety nets (e.g., unemployment benefits, retraining, relocation benefits). Legislation on such compelling social and economic problems is greatly needed in many countries worldwide.

Thus, strengthening parliament's operational and organizational functions is of utmost importance as part of a strategy of institutional reforms and as condition for successful economic integration. It is also a necessary device to ensure that a country can effectively regulate through its own legislation the increasingly complex areas, particularly those related to globalization, that are in need of change. Furthermore, we should not forget that more democracy, more participation, and greater openness and transparency begin with a strong parliament.

The Legislative Power plays a central role in democratic regimes, especially within the division of powers framework, and represents a fundamental institution of constitutional democracies. Yet, its centrality and relevance depend to a great extent on how its legislative and representational functions are

Box III.4

INFORMATION TECHNOLOGY AND THE COURTS IN AUSTRALIA

The Australian judiciary routinely uses electronic means to deliver judgments, to manage proceedings and to assist in legal research. This has offered great benefits to the legal profession and those people who come into contact with the legal system. And it has also opened up the courts to public scrutiny and allowed greater community awareness and understanding of the legal process in Australia, particularly the sentencing process in criminal matters.

The High Court took its first, tentative steps into this brave new world in the 1980s when it pioneered the use of satellite video conferencing. The Federal Court was a world leader when it set up its national video conferencing system in 1994. The Court was also the first Australian superior court to allow the recording of judgments for subsequent broadcast the videotaping of a whole trial (Yorta Yorta) for potential televising and the live broadcast of a judgment (MUA/Patrick's Full Court).

The Court now regularly admits the electronic media to record judgments and broadcasts sound and vision of judgments on its Internet page. It has successfully conducted a live broadcast of a judgment on both Internet and cable television.¹ The Court is now considering regular live broadcasts of judgments on the Internet.

Source: Australia, 2000, Attorney-General.

The Legislative Power plays a central role in democratic regimes, especially within the division of powers framework, and represents a fundamental institution of constitutional democracies

performed. As is well known, the main problems that affect parliaments in a number of developing countries are their - real or perceived - poor functioning, and lack of credibility and legitimacy. A weak Legislative Power, without credibility and legitimacy may pave the way to authoritarianism and to an unchecked Executive, leading to what O'Donnell has called "delegative democracies"; that is to say, democracies that are hollow and emptied of their true meaning once elections have taken place (O'Donnell, 1994). This is especially true in presidential systems in which the mechanisms of checks and balances in place are weak, and the Executive can rule with almost unlimited power. The separation of powers, as well as the principle of checks and balances, are the fundamental basis of a constitutional democracy. As such, its viability and strength depend, to a large extent, on the capacity of the Legislative Power to perform its functions. Strengthening the legislative body is extremely important to counterbalance and ensure appropriate political control over the often excessive prerogatives of the Executive. In other words, it is a powerful tool to reinforce democracy.

Parliaments perform a crucial role also in other respects, primarily to represent all political forces of society and to act as a legitimate centre for consensus building in fundamental decision-making processes. In fact, parliaments are the principal political locus of dialogue, confrontation and mediation in a democracy. Inasmuch as parliament allows both the majority and the minority to enjoy freedom of expression, its members will be able to exercise steadily a representative and critical role. Parliaments also play a vital role in guaranteeing political stability, and legal security, and in promoting economic and social development.

In many parts of the world where a parliamentary culture has not yet developed, parliaments have been rather weak vis-à-vis the Executive Power. It is therefore crucial to undertake major efforts in order to reinforce parliaments' capacity to carry out its many functions in an efficient and transparent way.

The role of the Legislative Power has become an issue of great relevance not only in young democracies but also in consolidated ones. Democracy could, indeed, be reinforced with an efficient, participatory and transparent institution, i.e. a strengthened parliament which adequately performs its functions, and becomes the forum of strategic thinking and cooperation, as well as the focal point of all sectors of the country, and the consensus center for fundamental decisions. Parliaments should be reinforced so as to allow all groups and interests to be articulated and represented in a fair and equal manner. A parliament with transparent procedures, that ensures the full participation in debates and voting for both the majority and minority represents an essential factor in ensuring the proper functioning of a system of checks and balances. A parliament where the majority can resolve problems while the minority is empowered to express its opinions freely and vote in an environment of ongoing dialogue is of utmost importance for political stability.

Parliaments in many regions of the world have great challenges ahead: to ensure that all sectors of society will be represented, that decisions will be taken in an open way, and that demands from civil society will be dealt with efficiently.

3.6. Promoting effective decentralization

Promoting decentralization and broad participation of ordinary citizens in democratic processes is being recognized as an important ingredient of contemporary democracies. Resolution 50/225/1996 of the General Assembly of the United Nations called for "decentralization of public institutions and services", often as a condition of "enhanced efficiency and productivity, accountability and responsiveness". More than just increasing efficiency, decentralization and people participation seek to bring government closer to the citizen, where it belongs. This is one feature that became a critical objective in the transition process in the countries of Eastern Europe and beyond. A proactive

State is needed to provide a solid counterweight to the dispersion of power but also of responsibility that may be the concomitants of decentralization and devolution of functions to civil society groups. Under appropriate safeguards securing the requisite measure of transparency and accountability, such devolution of functions is known to have produced beneficial outcomes in terms of mustering support and mobilizing resources, both human and material, towards creative ends. However, experience demonstrates that this is only possible given a solid basis in the constitution and other relevant texts, a clear and consistent legislative framework, and financial resource allocations commensurate to the tasks. To be sure, decentralization remains very high on the priority list of reform of many developing countries.

4. The importance of strengthening social policies in an era of globalization

As mentioned earlier, globalization as technical change not only brings opportunities, but also social costs. It is precisely in the social area where the State can play a vital role and needs greater reinforcement. The understanding that the State is essential in redressing the adjustment costs of globalization is becoming more widely accepted. In the past decades, however, more attention was given to economic imperatives than to social considerations. A number of countries and major international organizations have set great emphasis on efficiency, economic growth, and market competitiveness overshadowing, to some extent, the intrinsic values of democracy, equity, human rights and the quality of life. That is to say, too much attention was focused on markets and how they perform rather than on people. As a consequence, the debate concerning the development and the reform of the State has overwhelmingly focused on economic efficiency and technocratic solutions to political problems, whereas social matters have not been given enough consideration. Some thought that social problems could be solved by delegating a good part of them to the mar-

ket. Others thought that civil society alone could find solutions to the problems. This appears to be a very promising and interesting path, but experience shows that civil societies, in many cases seriously weakened by the social problems characteristic of the developing world, have significant limitations when it comes to confronting those problems.

A special study by Katzman on the topic maintains that: "It is therefore paradoxical

Box III.5

YEREVAN DECLARATION ON DECENTRALIZATION

The United Nations Conference on Decentralization held in Yerevan, Armenia, from 26 to 28 April 1999, focused on Eastern Europe and the CIS. It looked to the practical facets of policy implementation and sought to elicit lessons from experience in these countries. In light of the mixed record and oscillating fortunes of decentralization in the region as a whole, the Conference explored what, in its view, was needed for the success of reform. The Conference identified four such sets of conditions:

- "First, the critical role that legislative bodies perform as prompters, initiators, monitors and guides of the process of decentralization; the part they play in shaping "an enabling institutional framework" and setting it in motion;
- Second, financial decentralization and creation, for local government, of an adequate resource base;
- Third, the human factor, which brings institutions to life. By common accord, human resources management and human resources development represent a critical need, but also a field of activity, which offers great potential for regional cooperation. This includes in-service training, but also personnel systems, which must be put in place so that capacity-building may yield all its potential benefits; and
- Fourth, civil society, to mobilize support for local self-government and help the body of citizens to internalize their role as clients, prompters, advocates, agenda-setters, monitors and evaluators of local government services."

The Conference unanimously adopted a Declaration which underlined the importance of the following:

- "The catalytic role of decentralization in the transition process and democratization;
- The need to pay attention to the specific circumstances of each particular country; the problem may be common, but the solutions vary widely from place to place. One-size-does-not-fit-all;
- Common to all countries is the need for a strong supportive centre with a view to decentralization. Based on the constitution and other relevant texts, a clear and consistent legislative framework should establish the foundations for the distribution of functions and competencies both between the State and local self-government and among the various levels of local self-government. Such a division of functions does not preclude a close cooperation among them."

Source: UN, 2000, ST/ESA/PAD/SER.E/7.

Although economic growth is an essential part of development, it does not by itself lead to human development or an improvement in people's living conditions

that while a policy takes root that aims to reduce the functions of the State in the area of protection and social security, in order to transfer them to civil society or to solidarity institutions created within the community, the family - as a primordial institution - shows signs of being unable to sustain even the most elemental functions" (Katzman, 1999). Accordingly, while "the 1990s began with the widespread expectation that achieving sound, market-oriented, macro-economic fundamentals was the ticket to the prosperity that had long eluded poor countries, the decade has ended with the more frustrating but also more realistic understanding that sound macroeconomics is not a goal but just a precondition" (Naím, 2000, p. 97).

By the end of the 1990s new trends emerged and new evidence suggested that economic and social development are strictly intertwined, and that both affect the quality of a democracy and the well-being of its citizens. Ever since there has been a growing awareness that economic development is a necessary, but not a sufficient condition for long-term equitable growth on which human prosperity and progress depend. Although economic growth is an essential part of development, it does not by itself lead to human development or an improvement in people's living conditions.

It is widely recognized that an increase in GDP does not automatically translate into greater well-being for all. There may well be economic growth, but if its benefits are unequally distributed it means very little to the vast majority of people in a given country. The persisting disparities in developing regions of the world indicate that inequities in income distribution have not been mitigated by economic growth.

Needless to say, a high concentration of power and wealth in the hands of a few people translates into unequal access to political power and critical resources, to health care and education, and to employment opportunities (Griffin and Khan, 1992, p. 1). There is growing consensus around the idea that "... social and economic welfare are not separate

concepts. Without economic prosperity, no country can provide for all the social needs of its citizens. But nor can any country be called truly prosperous so long as many of its citizens are left to fend for themselves against ignorance, hardship and disease. Nor yet can any country achieve prosperity by subordinating all social concerns to the achievement of a few quantitative benchmarks. What matters in the last resort is the quality of life - a big part of which is the feeling that you belong freely to your society, and that it also belongs to you" (UN, 2000, General Assembly Twenty-fourth Special Session, A/55/344).

As argued by Sen, "development can be seen as a process of expanding the real freedoms that people enjoy. Development requires the removal of major sources of non-freedom: poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as intolerance or over-activity of repressive States" (Sen, 1999/a, p. 3). Expanding personal freedoms implies that people have greater opportunities to make choices in every field, and to participate in every sphere of public life. To enjoy such freedoms, people must be free from avoidable illness, free from ignorance, and have reasonably adequate living conditions. As emphasized in the Declaration of Human Rights, article 22: "everyone, as a member of society, has the right to social security and is entitled to realization - through national effort and international cooperation and in accordance with the organization and resources of each State - of the economic, social and cultural rights indispensable for his [or her] dignity and the free development of his [or her] personality".

The problem which confronts many developing countries is that until now macro-economic policies, deregulation, and privatization have not been coupled with similar reforms in political and social areas. In many cases, low consideration has been given to improving health care, education, and public infrastructures. This, in turn, has made it difficult for many countries to elude the social costs of globalization, including the reper-

cussions of economic and financial instability. In some developed countries, cutting back on social expenditure has also meant more insecurity in the face of change engendered by globalization.

There would seem to be ample space for a reassessment of the role that public policies can play in the developing world in dealing with social problems. It is not simply a case of returning to the omnipotent view of the State, but of thinking about a different state model: a State which is articulated into productive networks with civil society in all its manifestations, and with the same poor communities all together trying to find really valid solutions to problems. UNDP has outlined a broad plan involving lines of action that governments ought to promote and among which are the following:

- "To ... increase opportunities as a priority of economic policy.
- To eliminate biases against the poor in the macroeconomic framework.
- To invest in the capacity of the poor by restructuring public spending and taxation.
- To make sure the poor have access to productive resources, including loans.
- To increase the productivity of small-scale agriculture.
- To promote micro-enterprises and the non-structured sector.
- To emphasize industrialization ... to increase employment opportunities" (UNDP, 1999, Human Development Report).

In order to reduce inequality in developing countries, McGovern proposes implementing the following measures through alliances among governments, companies and NGOs:

- "To build up human capital through education and by ensuring that the poor have access to education. It has been shown that education is the most important asset on which

the disparity of income is based, and that salary dispersion among the skill levels has become quite significant.

- To make sure that clean water, health services and housing are accessible to the poor.
- To make available more financial assets and productive resources to the poor and generate productive and remunerative employment for them.
- To reduce inequality by progressive taxation of income and other redistributive policies.
- To transfer income and adopt other protective measures for society during periods of adjustment and crises and implement programmes to fight poverty and for the benefit of the poorest members of society" (McGovern, 2000).

A State with renewed organizational lines is needed to put into practice policies with the above characteristics. The experience of the last decades has shown the need for public policies, but has also brought to light the urgency of updating government executory structures and of overcoming their inflexibility and inefficiency in many cases.

States need to address the many social problems that are arising as a result of globalization. Stronger institutions and more equitable social policies are greatly needed in developing countries not only because they will enable the market to flourish and will reduce the effects of global instability, but also because they will lead to an improvement of people's living conditions. "It is now widely recognized that market-driven globalization by itself will ensure neither fairness nor social progress ... The asymmetric distribution of benefits and risks arising from globalization warrants a global 'social contract' between developing and developed countries, based on genuine solidarity and shared responsibility" (UN, 2000, Millennium Report, A/54/2000, p. 9).

The problem which confronts many developing countries is that until now macro-economic policies, deregulation, and privatization have not been coupled with similar reforms in political and social areas

4.1. Reinforcing social capital

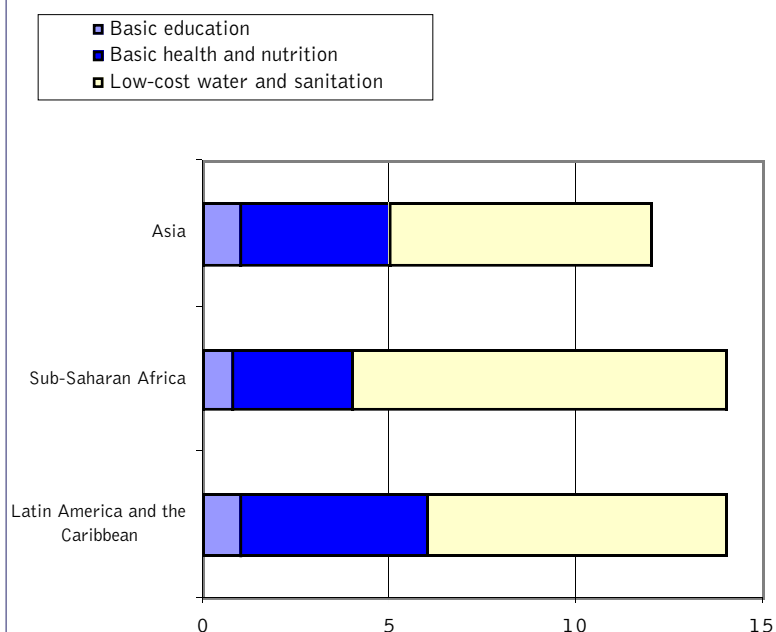
Several recent studies have reaffirmed the importance of building social capital together with the need to strengthen the capacity of the State for social development. After its 1990 landmark report on Poverty, the World Bank, in a document significantly entitled "The State in a Changing World", gave prominence to the concept of social capital, which it associated with citizen involvement in local public affairs and the impact of investments in education and health on economic performance (World Bank, 1997, pp. 114-118). Experts in public administration critiqued the fact that all too many countries had not placed "social development at the top of the development agenda" (UN, 1997, E/1997/86, p. 32). They called on the State to reclaim its "central role in the formulation of public policies" (ibid., p. 30), also reminding governments that "return on investments in human resources are, in some cases, higher than those in physical assets" and that "countries whose contribution of income and assets is more equal have been growing more rapidly than those where distribution is unequal" (ibid.)

Considering the extent of global interdependence, reinforcing public trust and building social capital must be viewed as essential, not merely for the purposes of national development, but also of global peace. Experience demonstrates that building public trust requires concerted efforts to meet the challenges of poverty, inequality and social exclusion. These phenomena have not been tackled with efficiency in recent years, representing a real threat both to individual countries, where they prevail, and also to global society. No day goes past without a stark reminder of this threat. International cooperation among strong, proactive States is therefore urgently needed to begin addressing this problem effectively.

To be sure, there is no more important task than building social capital in a knowledge-based society. Countries that want to benefit from globalization must invest in education, and in upgrading their people's skills and knowledge in order to be competitive in the global economy. Learning is the indispensable investment required for success in the "information age" we are entering. As argued by Reich, "policy makers have failed to understand that a nation's real technological asset are the capacities of its citizens to solve complex problems of the future. It is their knowledge, their contribution to the world economy which determines a country's prosperity" (Reich, quoted in Beck, 2000, p.137).

It is noteworthy that developing countries which have given priority to education and human development are also those that have prospered the most economically, and have been able to integrate more rapidly into the global economy. "Whereas almost everyone in South Korea, Taiwan, Singapore, and Hong Kong received a high-school education when their countries' export drives began decades ago", in many regions of the developing world half of the population never makes it to fifth grade (Business Week, 2000, 6 Nov., pp. 72-100). Not surprisingly, Latin America and South Asia are hit by great poverty. Africa suffers from one of the lowest levels of education in the world and has so far not been able to reap the ben-

Graph III.2. Share of government budget spent on basic social services (%)



Source: World Bank, 2000/2001.

efits of globalization. Accordingly, education may be said to be one of the most significant factors in determining a country's capacity to participate in the new global economy, as well as a tool for people to obtain higher levels of quality of life. Only if people have adequate levels of education, access to health care, and adequate living conditions can there be a vibrant society and economy. There can be no true development without social development.

Developing social capital is also indispensable to create or reinforce domestic market economies. Fostering policies aimed at enhancing the level of education and technological knowledge of citizens is of paramount importance in creating a workforce that is up-to-date, prepared for change and capable of seizing the many new opportunities of a globalizing world. Combating poverty and polarization in terms of power and wealth is extremely important. In the absence of a well-developed middle class, the entrepreneurial forces will be limited, as will the rate of consumption and savings, hindering economic progress. This means that "for the many emerging countries that already have the institutions and income levels to attract private capital and the education levels to prosper in the new information age, the private sector will fuel continued economic development" (Cutter, Spero and D'Andrea Tyson, 2000, p. 93). For those countries that lack certain fundamental conditions, such as basic education for all, training opportunities, adequate pension systems, health care benefits and safety nets, people-centred economic growth - essential for prosperity - will lag behind.

Official development assistance (ODA) could play a significant role in this respect. Funds could be directed towards critical social areas and building public infrastructure. Loans from major international financial institutions could also include human or social conditions. Until now, conditionality has been imposed to monetary, fiscal, exchange-rate, and trade policies. As argued by Streeten, "it has more recently been applied to environmental, political and human rights policies and international reform poli-

cies (under the "banner" of governance), although funds have not been added. ... Human or social conditions could also be added. Indeed, it can be argued that these should have higher priority, because the effects of economic variables are not a matter of scientific certainty but the obligation to reduce human misery is a moral certainty" (Streeten, 1996, p. 32). Whether recipient countries would see this as an infringement on their sovereignty and object to such conditionality is a matter for concern, but one that must be addressed.

Finally, education, especially civic education, is a fundamental pre-requisite in any country in order to enhance citizen's participation at all levels. Education and training deserve special consideration since they are invaluable instruments in building self-reliance in the face of the economic turmoil that globalization can engender, particularly in certain parts of the world. In other words, societies must be ready for change, and education programmes can play a major role in responding to the challenges of globalization.

4.2. Public services for everyone: a desirable goal

Poverty is not simply related to employment or the income of a family group. A core component is the actual access to basic public services. For example, a key risk factor in public health in developing countries is the lack of access by the poor to services that should be guaranteed for the entire population, such as sanitation, electricity and potable water. The same occurs in the vital field of education. If public policies do not actively intervene to facilitate universal access to grammar and highschool education, there will be significant imbalances among the different social sectors that will strengthen the reproduction of the "perverse circles of inequality". Also, without active public policies, only children from the upper and middle classes will be able to attend pre-school - today considered to be an imperative and vital step in the educational process - while the importance of access to education will progressively increase. An Uruguayan research

Societies must be ready for change, and education programmes can play a major role in responding to the challenges of globalization

One of the central missions of a democratic and effective State is to ensure that everyone has access to basic services of appropriate quality

study (Katzman, 1999) concluded that, in Montevideo, in 1981, young people between 20 and 30 years old needed 9 years of schooling to maintain a family, without sinking into poverty. At present that figure has risen to 17 years of education.

The notion of public services should also include the progressive idea, present in the industrialized world, of the necessity of guaranteeing the so-called caregiver services, such as day care for children, care for the elderly, nursing care, support for the family in general, and protection in the event of a crisis. In different countries some of these services are provided by women, who already have a seriously overloaded workday without recognition or remuneration, resulting in significant gender-linked inequalities.

One of the central missions of a democratic and effective State is to ensure that everyone has access to basic services of appropriate quality. Most importantly, States need to adopt an integrated holistic approach to development and to focus on inclusion policies - starting with education for all, especially women and marginalized groups. Universal access to health care, and social protection for the unemployed, elderly and those with disabilities should be a priority not only in developing countries, but in any democratic country as well.

4.3. Establishment of an information system to design and monitor social policies

What are the poverty levels distributed by regions and districts in a country? What are the diverse forms of poverty? What is the offering of social services available in each district in comparison with the magnitude of the demand? How are the basic social variables evolving from the employment levels, the types of employment, all the way through to the costs of the staples of daily living. What are the social impacts of the diverse economic policy alternatives? What economic effects can the different social policies, in turn, have on production?

These and many other key questions for the adequate formulation of social policy are difficult to answer in many developing countries because of the lack of organic systems for generating specialized information about the social area. This leaves all social decision makers in a situation where they must use information generated for other purposes, as well as data that has not been updated or of doubtful quality, along with the fundamental problem of monitoring. Efficient social management requires the generation of information in real time, on the basis of which the results and concrete impacts are being produced. Unplanned effects often appear in the social sphere, some of which may be negative and others positive. This is highly unpredictable ground and monitoring satisfies essential functions.

The establishment of social information systems with modern methodologies, data processing and ongoing contact with reality should be one of the axes of social institutional renewal.

4.4. Inter-organizational management of social programmes

Poverty and vulnerability derive from sets of mutually interacting problems. The determining factors of deprivation, which affects vast sectors of society, act by reinforcing each other. Thus, families in crisis because of the burden of poverty, will lead to low performance at school by children or cause them to drop out. This in turn will make it difficult for these children, when they grow up, to obtain stable employment and raise sound families. Public policies must be adapted to the structural nature of poverty if they are to really impact it. If they act in isolated manner, focusing on a specific factor, the possibility of these policies exerting any type of influence will be severely limited. The greatest productivity and impact of social policies and programmes is found in the organizational integration of efforts. Comparative experience clearly indicates that the most successful social programmes are those that have targeted this substantive combination of different types of efforts. Thus, for example, the programmes with the greatest impact in re-

ducing the grade school drop-out rate, are never those programmes whose focus is strictly limited to "education", to acting only in the classroom. Successful programmes combine actions focusing on family groups, nutrition, and other dimensions, and the most useful preventive health programmes are those with an approach that is not exclusively medical, but rather actively incorporate educational, cultural and psycho-social variables.

In many developing countries, the government structures are designed and geared almost counter to what has been recommended. Everything is set up for isolated sector action. Much work goes into carefully tracing the boundaries among the different ministries. The spheres of influence of the Ministry of Health, or Education, or those dealing with gender, youth, families, or housing, are formally delimited with great detail. Each ministry zealously defends its jurisdiction and tries to keep the others from invading its territory. An infinity of "towers and bureaucratic drawbridges" are raised to prevent access by strangers. In the social area, this is contrary to the basic logic of social policies. Coordination is not only desirable; it is indispensable so that serious action can be taken with respect to the multiple manifestations of poverty and vulnerability. If the ministries and agencies do not integrate actions through inter-organizational formulas, there will be a deficient use of resources and very lean results. Systematic work is imperative so that the transition can be made from a culture of "bureaucratic castles" to one of "organizational networks".

4.5. Toward decentralizing social services

Decentralization of functions, responsibilities, and resources toward levels that are closer to the citizens appears to be the route to organizational renewal of the traditional State with multiple virtues. Many of its advantages appear to lie in the social field. Action in areas such as health, education, the fight against poverty, strengthening of the family, preventing delinquency, and ensuring compensation for people who are displaced

because of economic restructuring caused by greater economic openness, will be more in tune with reality if such action takes place at the local level. It will no longer be a question of long-distance decisions emanating from large urban centers, but of actions that local institutions will take on a daily basis, bearing in mind the variations in the reality of each area. Decentralized social action will make it easier for "face-to-face" contact, which is very relevant in the social field. Conditions will also be created that are the most conducive to citizen participation in social programmes, and there will be increased viability for an effective social monitoring of such programmes. The inter-organizational integration mentioned earlier will be easier to implement on the more limited municipal level.

However, international experience has shown that all these virtues may not be present in their entirety or even partially, if careful attention is not paid to certain risks inherent to the decentralization processes in the developing world. In many cases, there are marked asymmetries among municipalities. If measures are not taken in the resource-transfer processes to ensure regional balance, with a positive bias in favour of the weakest, decentralization could worsen the pre-existing situation. Central government must guarantee equity. The delegation, for example, of taxation powers to finance healthcare or education could have very different results depending on the actual capacity of the different types of municipalities to collect taxes. A different risk is one derived from another type of asymmetry or the degree of social polarization toward the interior of the regional jurisdictions and municipalities. In many cases there are small, local "oligarchies" that from time immemorial have controlled the functioning of local society. If democratizing conditions are not achieved, it is most probable that decentralization will be "taken over" by those minorities for their own interests. Another problem is the degree of actual capacity of the municipalities to implement social policies. The intention of the central government and of the municipal mayors to decentralize, is insufficient. A lo-

Decentralized social action will make it easier for "face-to-face" contact, which is very relevant in the social field

Social programmes with active community participation in their design, management and evaluation have better results than programmes of a vertical bureaucratic nature

cal, social, institutional framework must also be developed. Numerous municipalities in the developing world either have no institutional area specializing in social matters, or else it is part of another area. It is necessary to begin social "institution building" on the municipal level and to provide up-to-date training to local human resources to manage the programmes.

In a recent study, ECLAC included warnings regarding some of the risks identified above in the case of Latin America. ECLAC stresses a point that can also be applied to other regional realities: "Theoretically, decentralization offers advantages derived from a local provision of services that promotes greater responsibility and better control by users and by the respective communities, which can translate into more efficient social management. In view of the disparity of income and availability of human capital in rural areas of the countries of the region, this transfer of social responsibilities could have a serious impact in terms of territorial equity" (ECLAC, 1999).

Steps should be taken to advance along the road to decentralization, but it is also necessary to adopt policies to confront the risks in question.

4.6. Community participation: a strategic key for renewing the social institutional framework

Comparative results are conclusive. Social programmes with active community participation in their design, management and evaluation have better results than programmes of a vertical bureaucratic nature. Among others, a study by the World Bank analyzed the performance, under different organizational modalities, of 121 projects for supplying potable water to groups of poor farmers in 49 countries in Africa, Asia and Latin America. Those projects with a high rate of community participation also had a high return in 80 per cent of the cases, and an average return in 20 per cent of the cases; that is, none of these projects recorded a low yield. How-

ever, among the projects with a low rate of community participation, only 2.7 per cent recorded a high yield; 40 per cent recorded an average yield; and 57.3 per cent a low yield. The most successful projects of recent decades, such as those of the Grameen Bank in Bangladesh, the EUUCO schools in Central America and Villa El Salvador in Peru, all are eminently participatory (Narayan, 1994).

Participation contributes very specific elements to the organizational process, which influence the differences cited. Among others, the co-design of projects with the poor community allows it to incorporate its true priorities. The community's participation in managing the project also gives it a singular strength. When the community feels that it owns a project it also takes the initiative, contributes ideas, and takes an interest in each detail of the project. The community's integration into monitoring and evaluating the project gives that project a permanent "base" in reality. Those benefiting from the project will consistently provide feedback as to whether or not targeted goals have been reached and to what degree, as well as what modifications or corrections need to be made. Community participation ensures the transparency of the project and perhaps, above all, ownership by the community generates an increased importance of such ownership. The community learns and its self-esteem grows as the groundwork is laid for the sustainability of the project once external aid is withdrawn.

However, despite the noteworthy managerial advantages added to the already important positive consequences of democratization, in developing countries participation in social projects is advancing in limited fashion. Government spokespersons often claim to agree with democratization and numerous public policies proclaim it, but in practice there are strong impediments to and difficulties in achieving democratization and the accumulated frustrations of poor communities are uncountable.

One of the most important organizational changes needed in the transformation of the State is to replace the current underhandedly

anti-participatory "bureaucratic" culture, with one that is really interested in participation and willing to promote it. This is not simply a problem of form. Change will not be achieved through decrees or regulations: it is something more profound. There is an entire organizational culture based on hierarchy and verticality, with a strong authoritarian stamp, that clashes with the call for a consultative, shared and democratic management, implicit in participation. Such change is possible if the appropriate strategies are used. There are already diverse experiences in joint work between public service and the community with excellent results on a number of fronts, such as the internationally recognized participatory municipal budget in Porto Alegre, Brazil. Significant experiences with officials themselves participating in managing their own organizations are beginning to emerge. From the outset this will establish the bases for a culture that favours community participation, such as the one that is being implemented in the Canadian social service.

In addition to all the previously mentioned and other ancillary advantages, participation has another very relevant advantage that is connected with the preceding point: decentralization. The sum of decentralization plus community participation is a powerful combination. Active intervention by local communities in the decentralization processes by participating in the design of policies, management and evaluation of the municipality creates conditions that are more conducive to ensuring that the basic elements of decentralization are achieved. This active intervention prevents decentralization from being taken over by the power elites, and promotes and supports actions by civil servants, enriches managerial capacity, is a powerful anti-corruption measure, and contributes a highly efficient evaluation mechanism.

4.7. The focus of social management

An intelligent, democratic State should have exceptional ability in the area of social management. What is social management? Is it good business management? There appear

to be managerial problems in the social area that are similar to some that appear in the regular management of any organization; however, there are also other, very specific problems, that merit particular attention and require the use of appropriate technical criteria in solving them. Some problems arise from the preceding points. A socially efficient management should give preference to community participation; decentralize toward regional and municipal governments; promote the establishment of inter-organizational networks toward the internal workings of the public sector and inter-social networks with other actors from society; systematically practice transparency; generate ongoing information regarding social matters (as was recommended above); and, as a body, monitor and evaluate programmes. All this underscores the need for capabilities, attitudes, orientations and very specific managerial criteria, which must be well differentiated from those of the traditional hierarchical management. In the latter case, participation, decentralization and networks have a limited meaning; in social management they are the key to success.

Furthermore, to all the preceding we should add that the organizational mission of social management is singularly complex. The target objectives of social policies and programmes are not similar to those of other organizational fields. What is sought is to ensure that the programmes are efficient in terms of utilization of the usual target resources, but at the same time that their final impacts on poverty and related problems be those that are really expected, which implies another type of efficiency: that of a quantitative/qualitative type. In effect, the aim is to have the programmes contribute to improving equity, a crucial topic today for the developing world. Therefore, those programmes must address multiple considerations regarding who the final beneficiaries will be. It is also hoped that the programmes will be self-sustaining. This is a very relevant point. Internal reports of the World Bank indicate that about 50 per cent of the Bank's projects do not satisfy this condition. Five or six years after the completion of the project, when the international or-

Active intervention by local communities in the decentralization processes ... creates conditions that are more conducive to ensuring that the basic elements of decentralization are achieved

An in-depth reform of the State in developing countries is essential for development

ganization had withdrawn, the flow of benefits to the community was interrupted because the strengths needed for the self-sustainability of the programmes had not been developed.

However, the dynamics of social programmes in progress appear to differ markedly from what happens in other organizational fields. The programmes are characterized by a high degree of volatility. Multiple actors participate in them, patronage as well as economic and political interests come into play, and the poor communities have basic instabilities. All these, plus other factors, contribute to the continual appearance of variations, some of which pose heretofore unforeseen obstacles while others generate opportunities from which benefit can be obtained. Describing the situation, Dennis Rondinelli observes, after analyzing numerous programmes implemented by international organizations in developing countries: "Regardless of how comprehensive the planning of a project, or the way in which the technical analysis was carried out, rarely is there a comment that the problems encountered could not have been predicted" (Rondinelli, 1983).

States need a social managerial approach to address all these details: the specific mission of social programmes, high volatility dynamics, orientation to participation, decentralization, and the establishment of networks. This would presuppose the specialized training of social managers with the skills to see to such details, and a general organizational culture that gives priority and is ready to confront them.

An in-depth reform of the State in developing countries is essential for development. Reforms should encompass a clear orientation toward basic public services for everyone; the creation of a strong and efficient institutional framework; the establishment of an information system to design and monitor social policies; safety nets; inter-organizational links; decentralization; broad community participation; inter-social networks; transparency; and a social managerial approach.

What basic conditions are needed to steer reforms in this direction and transform the State into the kind that is required to implement innovative public policies, much like those listed above, and that will make it possible to confront the extremely serious problems of exclusion that are rampant today in developing countries? (UNDP, 1999, Human Development Report). Following are some final comments on this problem.

An essential underlying condition for making progress in directions of this type of management is the requirement that the reform in the roles and characteristics of the State have the solid backing of society. Insofar as the reform of the State is concerned, experience has repeatedly shown that changes introduced by just technical rationality "come up short". It is possible to easily prevent or reverse them. In-depth reforms require active social and political support. In this case the support can be convened, given the objectives, which are to have a government that can actively and efficiently help to confront poverty, the gaps in health care, inequality, differential access to technologies, vulnerability and other alarming social phenomena such as the vertiginous increase in criminality. However, in many developing countries, a broad debate regarding very relevant aspects of the problem must be opened up and promoted. There appears to be a consistent tendency to see social deficits as lamentable but postponable problems that will automatically be resolved by "a flow of benefits" which will occur when the economic recipes, favoured in recent decades, are adopted. From this point of view, the social is seen to be basically an expense that is necessary primarily for political reasons, but which should be limited because it diverts resources from the economy.

Progress has been made in recent years in this debate, but there is still a long way to go. It has been demonstrated that social problems cannot be resolved by means of a "flow". The losers continue to increase and the winners expand the gap between themselves and others. A typical case is Latin America. Birdsall and Londoño have demon-

strated that such is the weight of inequality in social development that the high rate of poverty would be half of what it is if the inequality levels (likewise high) of the early 1970s had been maintained and if they had not risen as fast as they did. Therefore, the suggestion is that if the efforts that are indispensable for ensuring that an economy grows, and has stability, technological progress and competitiveness are not accompanied by energetic social public policies, the social deficits will not be resolved (Birdsall and Londoño, 1997). Social policies are not stopgap measures while waiting for the "flow" to begin, but are a fundamental component for balanced development.

However, the debate to be initiated in the developing world must go further. What needs to be discussed is basically that social expenditure is not just a cost, but also an investment. To consistently earmark resources over time for the development of education, to increase the number of years of schooling and the quality of the curriculum, to improve public health rates and expand the areas where potable water and sanitation services are available, is to strengthen the most valuable resource of any economy in the XXI century: the quality of the population. In other areas, as was already mentioned, access to basic conditions for competitiveness is strongly linked with the average level of the labour force in a country. In recent years, diverse "hi-tech" investors selected a Latin American country for their businesses; specifically Costa Rica, small and with limited natural resources. A decisive factor in making this selection was that it is one of the few countries which has systematically invested over the decades in health and education, has a well qualified population and a solid sanitation system.

Social policies, besides being indispensable to confront the deficits in this area are, in accordance with modern development views, a powerful lever for healthy growth and integration in the world economy. As Alain Touraine points out: "Instead of compensating the effects of economic logic, social policies should be perceived as an indispensable condition for economic development"

(Touraine, 1997). It is necessary to promote this great debate in developing countries because it will create a firm support base among citizens for the extremely necessary social reform of the State.

Another fundamental condition for progress in this reform is to confront another type of powerful reasoning that may be found in developing countries. One often hears the claim that it is impossible to do anything of importance in the social area because of the severe restriction of resources. Developing countries have scant resources and are condemned, according to this line of reasoning, to having a significant part of their population live in poverty.

Without a doubt, the topic of resources is fundamental. Absolutely everything possible should be done so that developing countries can grow at the highest possible rates, have economic stability, attract investments, and advance technologically. However, Sen poses a structural question in this regard: how can we explain that certain countries with per capita gross products lower than those of other countries, nonetheless have a better life expectancy, which is a decisive indicator? (Sen, 1998). The Nobel Laureate in Economics maintains that life expectancy should be considered a very important indicator of economic success or failure.

A condition for progressing toward the type of State required now has nothing to do with the discussion of the overall environment, but with the direction reform takes. Reform must respect the diversity of national conditions. The strategy should be selective and gradual. Reform styles should not be elitist, nor vertical, and it is necessary to involve public officials in the reform. The State, with its participatory attitude regarding what it wants to achieve, should be participatory not only from the inside out, but also from the outside in.

A very crucial aspect of reform is to resume the ethical discussion of the public function, which has been relegated to the sideline in purely technocratic reforms.

What needs to be discussed is basically that social expenditure is not just a cost, but also an investment

Who should public policies serve? What ethical dilemmas have been posed? What should the code of ethics of the civil servant encompass? The fact that the civic servant needs to feel that his or her work has the potential of serving the community and take pride in the work being done, should be topics of discussion.

What could be the stimulus for creating conditions, such as those mentioned above, that might favour reform? How to promote an important public debate about the priorities of society, the role of the social sphere, the allotment of scarce resources, participatory reforms toward the outside and also inside the civil service framework, ethics and additional related topics?

It would seem that much can be expected from the ongoing strengthening of democratizing processes, with respect to which important progress has already been made in developing countries. The call for genuine participation has grown increasingly, and slowly but surely the fundamental conditions for democracy are improving. Civil societies are becoming stronger and their role in decentralized entities such as municipalities is growing. There is ever closer monitoring of public actions, more vigorous demands for the efficient functioning of the justice system and of other key institutions, and repudiation of

corruption is on the rise. As Sen points out, one of the consequences of democracy is that it generates "political incentives for decision makers to respond positively to the needs and demands of society" (Sen, 1999/b). The more active democracy is the greater and more effective will be the pressure of these incentives on the decision makers. Sen's example is well known.

The vast contingents of people living in poverty, the extensive sectors of the population that are being left out of the virtual world and which are therefore forming a new disadvantaged group or the "cybernetic illiterates" who cannot take full advantage of globalization, the people affected easily by economic and natural crises, demand immediate answers because they embody immense social suffering. As Pope John Paul II said in 1999: "the problem of poverty is urgent and cannot be left for tomorrow".

A more socially proactive State, supported by democratization processes, can play a very important role in the face of the countless problems that afflict developing countries. The lessons and warnings that can be gleaned, particularly from world experiences in the last decade, are that the development of capabilities, in terms of institutions and high level government skills and leadership, have rarely been important for everyone.

To be sure, globalization calls for improved arrangements for global governance. It also requires the "development of appropriate policies, at national, regional and community levels, for optimal use of the global economy in the interest of ... human welfare and development" (Helleiner, 2000, p.6). Political solutions to the many challenges posed by globalization need to be pursued at these three different levels of governance, possibly in synergy, if we want globalization to work for all.

The failures of the past coupled with the need to make globalization more equitable call for a people-centred approach to globalization. As expressed by the Secretary-General of the United Nations, "no shift in the way we think or act can be more critical than this:

Graph III.3. World Health Indicators 1997

| 26 richest countries | | 49 poorest countries |
|----------------------|--|----------------------|
| 78 | Life expectancy at birth (in years) | 53 |
| 8 | Deaths before age 50 (% of total deaths) | 73 |
| 8 | Deaths before age 5 (for every 1000 births) | 144 |
| 6 | Infant mortality (death in the first year of life for every 1000 births) | 100 |

Source: World Health Organization, 1998.

we must put people at the centre of everything we do" (UN, 2000, Millennium Report, A/54/2000). We need this vision to cope with the challenges of globalization and to tackle the social issues that undermine human development and prosperity both in developed and developing countries.

Social, ethical and environmental values ought to be included in our economic calculus if we want to preserve the earth for future generations and if we want globalization to bring prosperity for all. This implies rethinking the role of the State in development and in social policy. The latter, in turn, entails strengthening State institutions, rather than "shrinking" the State.

5. The case for robust multilateralism

In a rapidly integrating world, cooperation among nation-States is increasingly needed to confront complex world issues. Many of the problems afflicting the world today (such as poverty, environmental pollution, economic crises, international organized crime) are transnational in nature, and cannot be dealt with exclusively at the national level, nor by State to State negotiations (Meny, 1999). The Millennium Assembly stated: "If we are to capture the promise of globalization, while managing its adverse effects, we must learn to govern better, and govern together" (UN, 2000, Millennium Report, A/54/2000). Protectionism is not a viable option. As inter-connections increase and decisions taken in one country have lasting effects on other parts of the world, cooperation and policy coordination among States is increasingly crucial to manage effectively global issues.

With globalization there is a growing need for international agreements and standards in a number of relevant areas, such as the environment, labour rights and human rights, as well as the fight against organized crime. Thus, "many functions of government, in particular the supply of public goods and the pursuit of social objectives, will somehow have to be undertaken at the glob-

al level" (Helleiner, 2000, p. 5). This implies that inter-governmental institutions will play an increasingly vital role in these and other areas that were previously the domain of individual governments. For example, there is no doubt that prevention, control and repression of cross-border organized crime can be dealt with only at the international level. Only concerted action among States can effectively curb such illegal activities as trade of body organs or of children and women. Poverty, violations of human rights, social degradation, the spread of diseases such as HIV/AIDS, just to mention a few, also demand global responses since they have global implications.

It is increasingly evident that social policies are no longer only a matter for national consideration, but also for global governance. "Different societies have different preferences for - among other things - income distribution, welfare provision, cultural diversity, worker protection, and structures of education. Nonetheless, societies increasingly interact and cannot function in isolation. Failures of social development resulting, for example, in involuntary mass migration cannot be confined within national boundaries" (Commission on Global Governance, 1995, p. 143). Similarly, global warming, massive deforestation, and depletion of natural resources are phenomena which also require multilateral solutions because their negative effects are not confined to one region or State.

In order to respond to globalization, national economic governance regimes must be supplemented by regional and global economic governance regimes. The management of the global economy requires complex global governance systems. The global governance framework entails a number of basic options, namely:

- Creation of a world government, which would establish legal and institutional frameworks for global economic governance. This extremely controversial option is highly unrealistic in the foreseeable future;
- Creation of international institutions,

A more socially proactive State, supported by democratization processes, can play a very important role in the face of the countless problems that afflict developing countries

The establishment of principles, norms and rules ... is greatly needed in an increasingly interdependent world

which are based on the pooling and delegation of national sovereignty rights in certain functional policy areas. At present, this approach is encountered only in economic integration processes, notably within the European Union;

- Global economic governance without a global government. This option is based on voluntary agreements between sovereign nation-States, which create international economic regimes (global economic governance regimes) for specific policy areas, such as international trade, international finance, as well as international investment and competition. These global regulatory regimes establish relevant principles, norms and rules for international transactions; and

- International coordination of national economic policies. This option is limited at present to certain policy areas and a small group of countries. In light of present realities, the development of international economic regimes seems to be the most promising option in dealing with economic globalization. Such global economic systems are based on inter-governmental agreements and administered by inter-governmental economic organizations based on international economic law.

The establishment of principles, norms and rules, which guide the actions of economic agents in international transactions (cross-border policies) is greatly needed in an increasingly interdependent world. Global economic governance regimes include mechanisms for supervision of policy implementation and the settlement of disputes. Despite their fragmented nature and lack of comprehensive and consistent global regimes, these global regulatory regimes form the backbone of an emerging basic global economic legal framework. To be sure, the present global economic governance system consists of a loose set of functional regimes with gaps and missing links. Despite its limitations, the functional system in international trade is now the most advanced, whereas the international regime related to capital flows is currently the subject of debate. Comprehensive

regimes on international investments and competition are also still lacking. Increased efforts are required to build a global economic governance system, which is adequate to managing a globalized economy.

The governance of the global economy is largely predicated on national economic policies supplemented by regional and global economic governance regimes, for different functional policy areas such as trade and finance. Arrangements at the regional level also attempt to respond to the pressures of economic globalization; these arrangements need to be linked with compatible global regulatory regimes. The complexity of the global economy creates equally complex problems of global economic governance. The link between different functional regimes (horizontal link) is not often well established. The same concerns arise with regard to the links between bilateral, regional and global economic governance regimes (vertical link). Global competition exerts pressure in the direction of increasing convergence of different national regulatory and institutional systems, but significant differences remain.

To be sure, there is an institutional and regulatory deficit on the global level, which calls for new governance structures; it relates to norm-setting and policy coordination. A better defined multilateral approach and the strengthening of functional regimes is necessary. The system of global governance, in the measure that it has emerged in a somewhat ad hoc way, is characterized by increased complexity manifested in a web of bilateral, regional and global regimes. It has also been marked by the emergence of new issues, which are associated with the liberalization of trade and capital flows.

Technological developments and economic liberalization have often run ahead of the needed adaptation of principles, norms and rules as elements of economic governance. This is particularly pronounced on the international level.

Coping with international economic and financial instability is one of the many press-

ing challenges of our times calling for more effective partnerships among States on the one hand, and financial institutions on the other. National responses are not sufficiently adequate to deal with possible crises. In the absence of a strong international regulatory system coupled with strong national institutions, local financial crises often degenerate into severe crises provoking massive loss of employment and resources as it happened not so long ago in South-East Asia. Such crises were so intense that not only did they affect the countries in which they originated, but also quickly reverberated in other parts of the world.

In other words, "the pace of globalization of financial and other markets is currently outstripping the capacity of governments to provide the necessary frameworks of rules and co-operative arrangements to ensure stability and prevent abuses of monopoly and other market failures" (ibid., p. 137).

There is an urgent need to establish global rules on issues associated with deep economic integration. These issues concern international competition policies, harmonization of corporate taxation, standards of corporate governance and the national treatment of foreign investment. Overall, it may be argued that the present system of global economic governance is untidy, burdened with overlapping jurisdictions and incompatibilities between different functional regimes.

The rules-based international trade system, administered by the World Trade Organization, has made progress in liberalizing market access and reducing both tariff and non-tariff trade barriers. The system is based on the principles of non-discrimination, and reciprocity. A detailed system of norms and rules has been established for different sectors. While some progress has been made, a number of issues require further consideration. These concern non-tariff barriers, the use of export subsidies, anti-dumping, the exclusion of certain sectors, such as agriculture and textiles, and a weak sanctions mechanism. There is also a need to make region-

al trade arrangements compatible with the multilateral regimes.

The linkages between international trade, labour and environmental standards must be considered in the framework of the trade regime. There is also the need for more transparency in the decision-making conducted in the framework of such regimes. Moreover, the monetary and financial regimes need to be closely coordinated with the trade regime. Surveillance mechanisms must be adjusted and institutional arrangements for norm-setting and controls need also to be improved. The existing regimes have obviously not kept up with the range of hazards involved in international finance, including important investments, risks in raising capital and volatility of short-term flows. New regulatory systems and institutions at the international level are necessary to cope with economic globalization in this policy area.

Another policy area which requires greater regulation at the international level is environmental protection. Due to the delicate balance of the global ecosystem and to the spill-over effects of pollution from one part of the world to other parts, it is increasingly evident that protecting the environment is a matter which cannot be dealt with at the national level alone. Furthermore, "although industrial countries, including the United States, are disproportionately responsible for most of the environmental problems, developing countries are also rapidly damaging common environmental resources. Solutions, therefore, require the participation of both developed and developing nations" (Cutter, Spero and D'Andrea Tyson, 2000, p.94). There is also a growing need to hold multinational corporations and local businesses accountable for their actions not only regarding environmental pollution, but also working conditions.

In summary, inter-governmental institutions play an increasingly vital role in what was previously the domain of individual governments. They have helped to forge widespread commitment to agreed-upon objectives, such as the aspirations set out by the vari-

There is an urgent need to establish global rules on issues associated with deep economic integration

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ous UN Global Conferences. These conferences have encouraged the development of new national governmental and inter-governmental machinery. Such bodies have been instrumental in promoting the advancement of women, regulating international activities, ensuring compliance with human rights standards, and coordinating the actions of the international community towards progress in poverty eradication and sustainable development. Yet, inter-governmental institutions still need to be refined to reflect a more integrated global economy.

6. The need for a balanced approach to globalization

At the beginning of the XXI century there is a compelling need to uphold a new approach to globalization, which should be predicated on such values as responsibility, sustainability and respect for human rights. What is most required is a shift to a people-centered approach to globalization. Too much attention has been paid to producers, and too little to consumers.

The lessons of experience point to a balanced approach, one that neither demonizes globalization nor builds it into a force setting the course of humanity in a predetermined direction. In our age of globalization, as in the past, the destinies of people can still be mostly shaped not by impersonal forces fully beyond their control, but through collective efforts of groups and individuals, living and operating in democratic societies, under the rule of law.

The “Minimal State” and the assumption that the market alone can solve most of societies' problems have been proven wrong. The abdication of the State in crucial and strategic areas such as health, education, housing, and sanitation have not favoured poverty alleviation around the world. Therefore, there is a growing need to reconsider the role of the State to foster a new awareness in society at large of such fundamental values as equity, social inclusion, fairness, and social justice.

One thing is clear: democratic and flexible institutions are needed in order to promote an enabling environment for economic growth and to enhance the quality of life of people, making them active participants in the process of globalization.

The challenge that we face lies in the pressing need to refashion or refine the tools and institutions of governance and public administration, so that they apply the knowledge, technologies and skills available to humankind for the greater good of all and not, as may have happened in the past twenty years, mostly for the greater wealth of 20 per cent of the world. This is precisely a task in which inputs and process largely determine the outcome of reform and where, on that account, the values of democracy and human rights must be accorded precedence over the famous triptych - economy, efficiency and effectiveness - important as it is.

Two fundamental factors will determine whether nations will be able to prosper from globalization. First, how each nation-State responds to globalization at the national level and, second, how they act together to shape international rules and processes for a more open trading system, for better governance and enhanced social responsibility.

Chapter IV

Strengthening the administrative capacity of the State



1. The management of change: the State as a “learning organization”

The proliferation of actors on the political scene and great diversification of interests and pursuits in society at large vastly adds to the complexity of the tasks of modern governance. This has been further compounded by the progress of globalization and modern technology, that have radically lowered or indeed eliminated some of the protective barriers which sheltered the operations of governments in the past. A world of public authorities dealing with limited numbers of clients and stakeholders and able to control events within their borders is swiftly giving way to a more complex world; a world in which the range of clients and stakeholders is vastly more diverse, and in which numerous factors, imperfectly understood, loom on the receding horizons of decision-makers.

As governments pass, in most fields of activity, from a relatively homogeneous and stable environment to one that is unstable, complex, heterogeneous and multi-faceted, they need to learn to cope with unpredictability, uncertainty and randomness. Another major challenge to governments and managers comes from the accelerating pace and the very nature of change. Describing this development, Gerald Caiden observed: "What administrative reformers in the early 1960s did not anticipate was that they would not be able to proceed at their own pace in their own good

time. The world was entering what later was to be recognized as virtually a permanent state of turbulence. The natural pace of change would so accelerate that soon everybody would be suffering from future shock as their abilities to accommodate to change would be overtaxed" (Caiden, 1991).

By the late 1990s, the context for most governments and many organizations had been transformed so radically that their traditional structures and modes of operation had slipped into obsolescence. The fused pyramidal structures, hallmark of state bureaucracies, could still perform effectively conducting routine tasks in closeted environments, but they proved increasingly inept in interacting creatively with a diversified, demanding clientele or in responding swiftly to shifting opportunities and new constraints. Likewise, the five-year plans, pillars, until quite recently of the command economies but also, *mutatis mutandis*, a feature of policy-making in many other countries were losing credibility as both a tool and process.

In a significant study of planning, which although chiefly inspired from private sector practices has relevance to government, Canadian author Mintzberg argued that, given the conditions of rapid change, planning must be continuous and incremental (Mintzberg, 1994). Although it seeks to incorporate competent policy-analysis and expert advice, current strategic planning is not viewed as an essentially technocratic process. It also seeks to build on clients' ex-

Success in modern government largely depends on widening the basis of citizen participation and galvanizing support for broadly-shared objectives

pectations, as well as intuition and aspiration (vision of future States). Precisely on this account, it needs to avoid the pitfalls of bureaucratic closure and a top-down approach, which tend to stifle initiative and limit participation.

Success in modern government largely depends on widening the basis of citizen participation and galvanizing support for broadly-shared objectives. This, in turn, is predicated on building and maintaining an institutional framework as open to diversity as it facilitates stakeholders' contributions to policy-making and evaluation processes. This is not always easy. Not all groups of stakeholders are readily amenable to cooperation and compromise. Not all are public-spirited. Seeking to muster support and developing consensus for a given goal or vision is a most challenging task. As a process, it may prove both costly and time-consuming, even though its long-term yield may be broadly beneficial.

Flexible structures and processes are then increasingly favored over the more traditional and bureaucratic patterns. This is so not merely on account of the nature and frequency of change in a highly volatile and turbulent global environment, but also as a result of the cumulative pressures from diverse citizens' groups, which demand to be heard. Ability to include and synergize, as well as disposition to listen and respond, are almost universally accepted as an important source of policy legitimation. Neither comes easily, as most critiques of government and organizations amply show. They call for reaffirming a unity of direction amidst many diverse and often conflicting purposes: reinforcing institutional memory. They also call for fostering a sense of continuity, consistency, stability and predictability, which structures strive to inject into the fluid, uncertain conditions in which numerous countries in today's global society live. "Applying democracy to administration cannot fail to consolidate the State's public image by improving functional and communication channels. In this quest for democracy, citizens must be placed at the centre of public action. The return to

the concept of people as citizens must mark the end of the authoritarian approach to power and the bureaucratic, technocratic and feudalistic style of management. This development, which goes beyond the conventional form of hierarchy, calls for a new style of action and conduct in the exercise of authority" (Sedjari, 2000, p. 5).

Contemporary management theory highlights the value and role of learning organizations in trying to reconcile these difficult dilemmas which government must face and, furthermore, equip them to manage change effectively. In relation to developing countries and countries in transition, attention should be drawn to four areas of need, all of particular moment to the steering tasks of the State:

- **Management of change:** The State must be in the forefront of implementing change and smoothing the path for progress. This entails proactive measures to develop enabling policy frameworks, promote the use of new technologies, set up performance measurement and evaluation systems, overhaul administrative structures and design adequate patterns for the collection of internationally comparable, reliable and accurate data for policy-making purposes;
- **Administrative reform:** In the light of current trends, bureaucratic structures no longer work effectively. Debureaucratization and decentralization must go in tandem with new approaches to management, exemplifying openness, adaptability, participation, flexibility, diversity and responsiveness. Many new tasks of governance require public authorities to act as mediators, advocates or promoters, actively seeking partnerships with business and non-governmental organizations, or otherwise endeavouring to engage civil society in the pursuit of developmental objectives;
- **Human resources development:** skills constantly upgraded, leadership qualities developed, facilitation of change and fostering of a new image for the public service that call for new career structures that emphasize mobility, integrity and professionalism and the

overriding claims of merit in the recruitment, placement and promotion of public servants;

- **Information:** Timely availability of adequate, reliable, accurate and relevant data that has become a sine qua non not only of sound policy-making but also of the measurement, monitoring and evaluation of public sector performance. The United Nations Programme in Public Administration and Finance is playing a vital role in mobilizing and disseminating such information of essential importance to governments, notably through the United Nations Public Administration Network - UNPAN (UN, 1998, E/1998/77, pp. 1-2).

In an era of rapid change and globalization, a learning organization necessarily becomes a changing organization; that is, it learns to listen and to respond to messages that come from its environment. Furthermore, in today's global village, this never-ending process cannot, as in the past, take place under the cover of high protective barriers.

2. Enhancing leadership skills and strategic planning capacities

Capacity to adjust to changing circumstances and face the emerging challenges demands leadership skills and strategic planning capacities. Specifically, it calls for:

- Sound analytical and diagnostic capabilities;
- Careful scanning of the environment for possible constraints or emerging opportunities;
- Ability to galvanize and mobilize support for both the goals and course of organizational change;
- Building of the structures and culture of dialogue and mutual accommodation;
- Encompassing diversity, reconciliation of differences, promotion of consensus; and

- Management of change, in both a peaceful and effective manner.

It follows that although, under today's conditions of swift technological progress any change should incorporate extensive expert advice, a learning organization cannot consider reform in purely technocratic terms. In today's fast-moving world, a process of reform and capacity-building must also encompass clients' and partners' perspectives. It should seek to build on knowledge and expertise, but also on intuition, vision and aspirations (mission statements) because it views success as clearly predicated on:

- Inclusion, integration, participation and empowerment of all key factors, actors and stakeholders;
- Team-building, a key element of motivation; and
- Social or organizational peace and cohesion.

For analogous reasons, change and capacity-building in a learning organization cannot any longer be approached through the traditional, authoritarian and bureaucratic methods. Although they seek to inject an element of continuity, consistency and predictability, which all organizations and societies require in order to operate effectively, the structures and process of change in learning organizations must also induce acceptance of the following:

- A high degree of uncertainty, in an often volatile and turbulent global environment;
- Flexibility consistent with a rapid, non-linear change process in an age of discontinuity.

Swift progress and great uncertainty add an important dimension to managing change and to capacity-building, requiring leaders and managers to plan and steer the course with people, not without them, let alone in spite of them. Learning from the mistakes and lessons of past failures, there is need to address the question of what essential structures

Capacity to adjust to changing circumstances and face the emerging challenges demands leadership skills and strategic planning capacities

Capacity-building ... denotes an effort to expand the existing capabilities of an organization or of the State qualitatively and quantitatively

and core competencies all countries, but especially developing countries and countries with economies in transition, need to build or reinforce in order to secure sustainable progress and growth. Although much of what follows flows from what has been said, we need to be reminded that sustainable reform and capacity-building encompass far more than personnel training or human resources development. Both call for the reinforcement of institutions and their adjustment to the demands of the times in a globalizing world.

3. Fostering capacity-building

Like the concept of "empowerment", the term "capacity-building" has gained a lot of currency in recent years. It is, to say the least, a very elusive concept: the composite of several elements. For the purposes of this Report, attention is drawn to three inter-related facets of this multi-dimensional issue which, aside from its importance, has acquired much topical relevance.

Capacity-building has been defined in many ways and it encompasses various dimensions. In organizational terms, one of the possible definitions of capacity is the volume and complexity of the inputs and activities which an organization is able to handle effectively in any given time. Capacity-building, accordingly, denotes an effort to expand the existing capabilities of an organization or of the State qualitatively and quantitatively. In other words, capacity-building may be defined as the co-efficient of human resources development and institution-building. Two principal dimensions may be distinguished. One is a process involving the establishment, reinforcement or reform of an organizational framework for the conduct of human activities. The other is human resources development, which includes human capital formation, the enrichment and refinement of essential management skills and requisite technical aptitudes and support for value systems conducive to the goals of cost-effective management in organizations.

The two principal dimensions are complementary and mutually reinforcing. A sound institutional framework integrates and synergizes organizational members towards the accomplishment of the set goals. To be sure, the best institutional framework with limited human capacity is of as little use as a million dollar racing car with a timid, incompetent driver at the wheel. However, the reverse is probably even worse. Nothing is more conducive to disaffection among potentially promising and competent staff than a convoluted administrative structure, which frustrates the best designs and corrupts the most efficient and best intentioned personnel. The recent rediscovery of the complementarity of human resources development and institution-building has lent capacity-building its current importance, but also, to an extent, has shaped the ways and methods of seeking to implement it in learning organizations.

Capacity-building concerns have recently grown largely on account of:

- Increasing resource scarcity; and
- Rapid, unanticipated changes in the external environment, occasionally leading to systems' breakdown, when action to adjust and modernize these systems is not initiated in a timely fashion and pursued effectively.

During the 1980s and early 1990s, accordingly, "downsizing" or "rightsizing" and "doing more with less" became the standard mottos of reorganization. Consistent with the criticism that faulted previous practices there was also a shift of focus from the centre to the periphery and from the top to the grass-roots, through a process of devolution and decentralization. This carried in its trail emphasis on outsourcing, reliance on NGOs and other non-state actors for public service delivery, stress on priority tasks and corresponding emphasis on what were designated as an organization's core competencies.

Emphasis on core competencies and ways in which these competencies must be deployed and leveraged to maximum effect has often been accompanied by a process of selective

divestiture of secondary functions which are contracted out to partners in the private or "third" sectors (Reschenthaler and Thompson, 1998). Such focus on essentials, tied to a holistic approach and a critical review of the lessons of experience form part of the current emphasis on both "capacity-building" and the related concept of "the learning organization" (ibid.).

3.1. Building cognitive capacity in the face of globalization

Though few dispute the claims of the political leadership to be the final arbiters of what the public needs, many may still look askance at the role of experts in government and many more discount or fail to understand the need for policy analysts and policy advisers. Developing countries and countries with economies in transition in general have paid a heavy price for their capacity deficit in this regard. While few question the importance of expatriate expert advice, it needs to be emphasized that the value of such advice to governments is largely predicated on the availability of institutional memory at the national level, as well as on the quality of the information and know-how that governments command from indigenous sources, preferably their own.

Even the best advice received from foreign experts needs to be a complement at best to that of the government's own, which it cannot replace. Nothing can effectively replace organized policy planning on the national level. Accordingly, what matters more than the level of individual experts is the country's systemic capacity to generate ideas on major national issues and questions of global concern and institutional memory, which can instill consistency and continuity in policy direction.

Many developing countries and countries with economies in transition have seen, in recent years, the rise of independent think-tanks, whose presence in advanced societies has long been taken for granted. They play a useful part in offering a complement and check to "official thought". However, they are no substitute for a corps of well-organized,

well-trained, professional policy-analysts and advisers in the service of the government. A constant flow of comprehensive, accurate and up-to-date information is also essential for the government's performance of its functions, including playing its part in the management of international regimes. No government can fully "outsource" all of its core functions to outsiders without de facto surrendering an important part of its sovereignty, credibility and prestige. What countries need most is a critical mass of expertise in government, as well as very sound organization and a degree of autonomy in the collection of data and the conduct of research (UN, 1998, E/1998/77).

In many developing countries and countries with economies in transition, the dearth of expertise at the senior policy level is compounded by turnover of specialists in high demand, who find more lucrative outlets in private enterprise or international agencies, both governmental and non-governmental. The problem is further aggravated by basic flaws in the requisite support structures. To help address this issue and to assist the Member States in meeting the commitments which they made at global conferences organized by the United Nations during the past decade, the Fourteenth Meeting of the Group of Experts, which took place in New York in 1998, made a number of recommendations whose intent was to reinforce the systems of data-gathering and to enhance the quality of information available to governments for policy-making purposes. Among these recommendations was the elaboration of:

- A framework for the collection of internationally comparable data, including qualitative as well as quantitative indicators, for the purpose of measuring the changing role of the State as reflected by privatization, deregulation and decentralization;
- A framework for the exchange of information via the Internet, focusing on the provision of advisory services, particularly to least developed and geographically isolated countries, in order to improve accessibility to the Internet, at all levels of government; and

What matters more than the level of individual experts is the country's systemic capacity to generate ideas on major national issues and questions of global concern and institutional memory, which can instill consistency and continuity in policy direction

- An appropriate system of indicators, based on pertinent and timely political, social and economic data, intended to provide an early warning system against impending crises (ibid.).

The Fourteenth Meeting of the Group of Experts stressed the role of the United Nations Programme in Public Administration and Finance in "fostering the exchange of infor-

mation on best practices. Therefore, it strongly welcomes the establishment of the information-clearing house World Wide Web site, as the centerpiece for the performance of the role of the facilitator in the information exchange. The Web site, in particular, would be a useful tool in the management of the global network. The Meeting takes the view that it is also important for the Programme to pursue initiatives relating to the collection of data on the public sector for policy-making purposes" (ibid., Recommendation No. 32).

Box IV.1

THE UNITED NATIONS ONLINE NETWORK IN PUBLIC ADMINISTRATION AND FINANCE (UNPAN)

The Division for Public Economics and Public Administration of the Department of Economic and Social Affairs of the United Nations, as entrusted by the General Assembly in late 1999, developed an important programme entitled "The United Nations Online Network in Public Administration and Finance (UNPAN)" for implementation.

UNPAN's immediate objective is to establish an electronic platform linking the regional and national institutions devoted to public administration and finance online for information exchange, experience sharing and on-the-job training in the areas of public sector policy and management. Its long-term objective is to build the capacity of these regional and national institutions to access, process and disseminate relevant information via up-to-date information and communication technologies (ICTs) for the promotion of a more effective public administration.

UNPAN offers (a) far-reaching access to experience in the practice of public policy development and management at the international, regional, national and local levels; (b) capacity-building and south-south cooperation in information and knowledge management; (c) demand-driven and interactive two-way provision of information and knowledge. Most significantly, UNPAN is a dynamic process, and not a static outcome, which aims at responding to the needs of its users and addresses their most critical areas of work.

UNPAN's immediate beneficiaries are public administration-related regional and national institutions. Its ultimate clients are government agencies, the private sector, NGOs, and academic institutions. It focuses on: (a) public economic policy; (b) governance and institution building; (c) civil service and public sector reform; (d) management innovation and development; and (e) public finance. Within the above-mentioned thematic framework, emphasis will be given to emerging issues, which are of concern to most countries. It provides five major online services/products, including: information; training; technical advisory services; conferencing; and worldwide directories.

UNPAN is executed and managed by the Division for Public Economics and Public Administration (DPEPA), UNDESA, in close partnership with a group of international and regional institutions in public administration and finance, representing all regions of the world.

The UNPAN online network at <http://www.unpan.org> serves as a portal for public administration and finance, and is the only one such network in the world today.

Source: DPEPA/UNDESA, 2001. See also UN, 1998, E/1998/77.

A notable departure in this regard is the establishment of the already mentioned United Nations Online Public Administration Network (UNPAN), which has become operational with related centres in every major region of the world. Yet another important initiative took the form of a regional conference in Thessaloniki, Greece, which inter alia explored the "Making of Highly Qualified, Creative and Conscientious Policy Advisors," as part of "Enhancing Professionalism in Public Policy Planning"¹.

"In relation to building national capacity to diagnose and evaluate national needs and priorities, it is important to underline that each country must elaborate its own types of responses institutionally and operationally, in order to maximize benefits and minimize negative consequences. Clearly, neither the United Nations nor any other intergovernmental organization can give a one-size-fits-all solution. They can only suggest and/or propose potential strategies and reform paths through methodological approaches and tools that seek to uncover what are the essential functions that the State needs to fulfill, at what level and to what extent. These questions can be suitably answered not in the abstract or aggregate, but only in relation to the private sector, the national and international environment inclusively" (UN, 2000, E/2000/66, p. 11).

Consonant with this approach, it should be underscored "that all governments, but specially those of developing countries and countries in transition, should accord prior-

ity to strengthening capacities in public policy formation and public service management" (ibid., Recommendation No. 18). Specifically, institutional and managerial responses to globalization and diversification, should encompass:

- Dedicated think-tanks for policy planning purposes;
- Learning from global experience;
- Inclusive, participatory, decentralized decision-making bodies;
- Strengthening of the capacity to deal with and negotiate disputes and foster a culture of dialogue; and
- Focal points in departments of government to interface with outside agencies and with the public.

It has been pointed out, but it bears repeating that, under modern conditions, few major decisions of policy can be made or implemented in a political, social or economic vacuum. Important though it may be, the contribution of experts and "technocrats" should be complemented by inputs from people representative of civil society groups. Addressing this very issue, a report on Public Administration and Globalization (Timsit and Bouckaert, 2000)² made the point that establishing a balance between economic efficiency and social equity is a major task of government. Inter alia, it entails such measures as the enhancement of labour union strength and support for collective bargaining. Still, according to this report, it behooves the government to develop and articulate policies and strategies expressive of the common good and of the public interest, which cannot be solely the "product of trade negotiations among particular interests" (ibid. p. 37).

4. The need for performance standards for management development

One of the net effects of globalization is the progressive emergence and spread of global performance standards in management development and change. In the measure that such standards are developed, articulated and publicized through the relevant literature, they tend to reproduce a set of values, which often may be prevalent in a particular culture, but are certainly not universal. This is especially true of the influential literature of the past two decades. Written mostly in the English language, it records the tested practices and valuable experience, as well as belief systems of a small range of countries, economically advanced, but still comprising only a relatively small proportion of the world's population. Importing foreign standards and benchmarks, which relate to specific management traditions and sets of expectations, may be a recipe for failure, unless such standards and benchmarks are appropriately reviewed, and adapted to the local culture.

Making this point, however, is not to say that standards in certain major areas may not converge or that the setting of standards and benchmarks should not be accorded its due weight in any management culture. There is some evidence pointing to the effects of globalization on a certain convergence of standards, in the measure that behaviour norms and clients' expectations throughout the world are moving toward a common ground. However, one must acknowledge the findings of research in continental Western Europe, which stresses the profound, pervasive and persistent influence of culture on management behaviour and management techniques, both of which are culture-specific and not readily transposable from one country to another, even when they are contiguous (e.g., the Netherlands and Belgium). According to this school of thought³, cultural differences condition the validity of management philosophies and practices in various countries and should, therefore, be taken into account in the establishment of standards and the making of management policy.

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The formulation of performance standards like the development and articulation of policy represent essential functions of the State, which cannot be surrendered or "outsourced"

The formulation of performance standards like the development and articulation of policy represent essential functions of the State, which cannot be surrendered or "outsourced". To be sure, under conditions of globalization, the exchange of information among governments will lead them, in some cases, to align methods and practices in the quest of shared objectives. However, it is incumbent on governments to establish standard setting, performance indicators and the practice of benchmarking on an institutional basis, as part of their core functions.

Though stress on performance standards has been with us for some time, it has taken on great salience in the past two decades, in part due to the effect of the new trends in management and the emphasis they have placed on results orientation. Mindful of resolution 50/225 of the United Nations General Assembly, which in paras. 7 and 9 called for enhanced effectiveness of public administration systems worldwide (UN, 1996, A/RES/50/225), the Fourteenth Meeting of the Group of Experts made performance monitoring and evaluation one of the major topics of its agenda. Its report (UN, 1998, E/1998/77, paras. 44-46) explores in some detail the issues in performance monitoring and evaluation, and underscores their importance. The Fourteenth Meeting of the Group of Experts viewed this new significance in light of four perspectives:

- The changing role of government from sole provider of services to one of founder, lender, contractor, purchaser and regulator;
- The public's right to know;
- The need to measure the outcomes of policies and programmes, and thus to act as catalyst for periodic reviews, possible reconsideration of resource allocation and the quest for performance improvements; and
- The need to go beyond the traditional forms of accountability to ensure value for money and the cost-effective pursuit of the public interest.

In light of these perspectives and the ongoing pursuit of subsidiarity through decentralization, deconcentration, devolution of responsibility and offloading or outsourcing, one must incorporate performance indicators in the formulation of policies and programmes, which serve to mobilize stakeholders' support and involvement, but also help to structure and guide the evaluation of progress and results. Seen in this light, performance measurement, monitoring and evaluation represent a necessary compass in the quest of complex objectives involving contributions from the several partners under conditions of democratic and accountable governance.

4.1. Purposes of performance measures

The fundamental purpose of instituting performance measures in an organization is to evaluate its performance. Briefly, they may be used in accounting for past activities, managing current operations and assessing progress toward planned objectives. One of the oldest uses of performance measures was for purposes of accountability, specifically related to the budget process. Performance measures were to be incorporated in agency budget presentations in an effort to replace:

- Workload or activity levels, such as applications processed, inventory levels, inspections carried out, students in class;
- Outputs, such as the number of children vaccinated, miles of road built, tons of trash picked up, students graduated;
- Outcomes of products or services, such as illnesses prevented, percentage of taxes collected, clean air levels achieved, accident-free workplaces attained, poverty alleviated;
- Productivity, such as cases investigated per detective, applications processed per person, emergency calls handled per dispatcher;
- Costs, such as coverage costs to build one mile of highway, educate one child, maintain one swimming pool;

- Customer satisfaction, such as numbers of complaints received over a period of time, results of surveys, use of participative processes;

- Service quality and timeliness, such as police response times, ability to contact an agency by telephone, compliance with transportation timetables, breakdown rates, service availability.

Where levels are specified for any measure, these constitute "performance standards". Where reference is made to identifying and implementing best practices in order to set out a standard for comparison of results and to drive performance improvement, this is known as "benchmarking". When output is not directly measurable, proxies known as "indicators" may be used. "Performance incentives" may be used to assess individual performance in determining remuneration. These measures are designed to assess the economy, efficiency and effectiveness with which an organization delivers its services.

Economy is concerned with the capacity of an organization to operate at the lowest possible cost and may be assessed through input measures and comparisons through benchmarking. Efficiency is the relationship between input and outputs, i.e., using minimum inputs to achieve a given output, or gaining maximum outputs for a given level of input. It may be measured through output, productivity and cost measures. Effectiveness delineates the success of programmes and focuses on their results, as assessed through outcome measures. In addition, the quality of services may be assessed through process measures relating to customer satisfaction and perceptions.

While any of these measures might be used to assess an organization's performance, recent emphasis has been on quantitative effectiveness or outcomes measurement. A report of the United States General Accounting Office on Performance Budgeting has suggested a change of focus from "ensuring that funds are spent properly" to "managing dollars to produce agreed upon results" (Unit-

ed States General Accounting Office, February 1999, p. 3). If such a change is really taking place, it is not a trivial one. It is a move associated with administrative reforms in many European countries as well as Australia, Canada, New Zealand and the United States. Such reforms go beyond reorganization to question whether specific programme areas continue to serve a public interest; whether they should be transferred, entirely or in part, to the private or voluntary sectors; and how, if the programme continues, it might be made more efficient and affordable. In effect, programme evaluation is tied to the evaluation of the entire role of government.

5. The need for top-level managers

The progress of globalization brings out a new dimension in standard setting, and in performance measurement, monitoring and evaluation: the need to elaborate and to articulate a range of shared approaches, values and methodologies, which ease communication in international dealings and make the cooperation of diverse groups more fruitful and rewarding. Referring to changing what needs to be changed, a similar remark might be made about the need for a new cadre of able and responsible top managers to face the emerging challenges and handle the global agenda in an increasingly interactive and competitive global environment.

Although technology, innovative systems and processes of work organization and user-friendly methods of public service delivery are increasingly important ingredients of the managerial response to globalization, building the capacity of the human resources represents a crucial dimension of governments' response to globalization (UN, 2000, E/2000/66, pp. 12-15).

It is important to note that governments, increasingly, perform significant tasks on a supranational level. This is true not only of entities like the European Union, which represents an advanced manifestation of this

Where reference is made to identifying and implementing best practices in order to set out a standard for comparison of results and to drive performance improvement, this is known as "benchmarking"

Attention ought to be focused on competencies needed to operate effectively on the supra-national level, and on ways of building capacity on the national level

trend, but also of the formation and operation of international regimes in many fields of activities. All depend for their effectiveness on an elaborate framework of rules, processes and practices, which determine how power is exercised and governance conducted with consistency, transparency, coherence and accountability, as well as on a cadre of top-level managers from the governments of Member States, who can bring this framework to life and operate effectively in the new global environment.

Attention ought to be focused on competencies needed to operate effectively on the supra-national level, and on ways of building capacity on the national level. It should be pointed out that the ability to field such a cadre of top managers and leaders conditions a country's effectiveness as an actor in inter-governmental negotiations and global regimes. With such individuals, Member States are effectively "in the loop" and have the possibility to promote their country's interests. Dearth of such people, by contrast, may consign States to the margins and to the role of spectators of the progress accomplished by others.

"Tell me and I'll forget.
Show me and I'll remember.
Involve me and I'll understand."
Chinese proverb

In view of the pressures that globalization create, "public servants should be trained to operate on the national, sub-national and international levels and participate in leadership training. Governments should build a framework of public personnel structure, policies and career paths able to attract, retain, develop and motivate the right people and to direct their energies towards the public good" (ibid., Recommendation No. 19).

Furthermore, "the United Nations should assist national governments in acquiring the necessary negotiating capacities to prepare for negotiations of global economic governance regimes" (ibid., Recommendation No. 15), and it "should assist national governments in adjusting their national economic gover-

nance systems (policies and institutions) in response to globalization. This includes support for policy development and implementation capacities in developing and transition economies" (ibid., Recommendation, No. 16).

The Fifteenth Meeting of the Group of Experts drew attention to the weaknesses of the developing countries and countries with economies in transition resulting from "the scarcity of world-wide economists and specialists with knowledge of the working of international agreements, treaties and regimes, as well as technical skills" (ibid., p. 14). Significantly, however, the Meeting took the view that analogous shortcomings could be observed in the operation of States at the national and sub-national levels. Everywhere, it may be argued, globalization and democratization have increased the pace of change, complexity and ambiguity, making demands on cadres for which they are ill-prepared.

6. Competencies needed to meet the challenges of globalization

The competencies needed to meet the critical challenges of contemporary governance refer to a combination of knowledge, skills, behaviours and attitudes, which often goes beyond what was required of "bureaucrats", or officials operating in traditional, closed-system work environments. No two countries need to agree on the desired profile of a senior public manager or on the relative weight and indeed precise definition of the most often-mentioned competencies, some of which are described in the following paragraphs.

Knowledge, a hard substantive core, is part of the competencies that senior professional managers need to bring into their office as a basic precondition of being able to exercise effective guidance and leadership.

A component of technical knowledge will always be required. Though this may vary widely depending on a manager's assigned responsibilities, substantive knowledge is needed to grasp the issues involved in the ex-

exercise of one's duties to make intelligent choices. Traditionally, the study of law provided a common core of required technical knowledge for top public managers in many of the foremost administrative cultures. Though this remains the case in several parts of the world, now law is complemented by the study of social sciences, especially economics. Knowledge of economics is basic not merely to the management of any given field, but also to interacting effectively with other public managers on the sub-national, national, and international levels.

Another core component of the substantive knowledge required of an effective professional public manager is, what may be described as the management of the resources assigned to his or her care. These preeminently include:

- Human resources;
- Financial resources; and
- Information resources.

Most managers need not be specialists in finance, organizational theory or information management to ensure the responsible stewardship and use of the above resources. Appreciation, however, of their true value, as well as a sound understanding of all the relevant issues can greatly enhance effectiveness on the job and, therefore, should form part of pre-entry and in-service preparation for the job.

As to skills, they manifest themselves in the ways in which a manager performs his or her major roles. These comprise:

- The exercise of leadership, including managerial skills;
- Decisional roles; and
- Informational roles.

Leadership calls for vision, ability to identify and seize an opportunity, anticipate a crisis and cope with constraints effectively. It is exemplified in the persistent quest for ex-

cellence, innovative ideas and actions or behaviour, which seek constructive ways to establish and secure a country's or organization's competitive edge. Within the organization, leadership is demonstrated through building trust, communicating vision, empowering colleagues, serving as a role model and managing performance effectively.

Decision-making skills include the effective use of information, data, technologies and ideas; a clear sense of direction, priorities and needs; sound planning and good timing; and client orientation, which also means responsiveness to changes and developments in the organization's external environment. They call for critical judgment, sagacity and discernment, courage and intuition, but also uncommon capacity to cope with ambiguity, diversity, complexity and turbulence.

In essence, information as a function of management, is effective communication. It calls for clarity of expression, verbal or written, sound knowledge of the language and ability to tailor it, in style and tone, to match the needs and expectations of a particular audience. Culture is an important determinant of effective communication. Thus, a clear appreciation of the culture of the target audience represents a key ingredient of success in reaching out and having an impact on it. In today's diverse societies and organizations, this is no easy task. To operate effectively on the international plane, senior managers require more than vicarious knowledge of the main international languages and cultures in which they need to operate. However, even at the national and sub-national levels, the presence of diversity and the diffusion of power that have come with democratization have added to the importance of good listening skills, effective use of the media and information technologies, and above all, the need to keep the channels of communication open at all times. One of the many effects of globalization has been to enhance the value of these and other related "soft skills", making it necessary to use in-service training, even more intensively than in the past, for the purpose of fine-tuning these valuable skills.

Leadership calls for vision, ability to identify and seize an opportunity, anticipate a crisis and cope with constraints effectively

Professionalism in government ... is observable ... through relevant deep knowledge and aptitudes or skills, but also through a coherent, widely-shared and profoundly-internalized values system

Furthermore, as already indicated, in an increasingly interconnected world public servants will need to master foreign languages. In order to deal with a variety of international actors and to conduct negotiations in international fora, it will be crucial for the public servant of the XXI century to know more than one foreign language. Knowledge of languages should become part of public service training and lifelong learning programmes.

7. Public service professionalism

Cutting across the range of skills and knowledge needed to build effective management in today's fast-moving world is the concept of professionalism, which, in the past few years, has made a marked re-entry into the field of management, where it had been neglected. Suddenly, since approximately 1996, conferences and publications on public service professionalism and the related concept of public sector ethics have become legion. Much of the current interest has focused on the fight against corruption. A concern over the decline of standards and corresponding need for integrity in public life has driven the debate on the scope and significance of public service professionalism.

Professionalism in government, as in any other field, is observable through competence in ways outlined above, i.e., through relevant deep knowledge and aptitudes or skills, but also through a coherent, widely-shared and profoundly-internalized values system which manifests itself in the pursuit and thorough application of knowledge, the use of particular skills, and the exercise of control over practice. Indeed, it may be argued that professionalism consists in standards and values which underpin the day-to-day practices and conduct of a group. Although these values and standards must, to some extent, reflect the changing expectations of clients of the group and recipients of its services, they also represent the group's own aspirations and deep sense of its mission. Hence, their worth is an important guide and motivational tool.

Historically, professionalism has played a major role in the growth and organization of major occupational groups (doctors and lawyers, for instance), as well as in providing a measure of consistency, continuity and predictability in the conduct of their activities. There is reason to believe that increasing interdependence, both at the level of government and that of civil society in the wake of globalization, has greatly enhanced the importance of consistency and predictability in inter-governmental and non-governmental relations.

It is easy to understand why kleptocracies have emerged in some cases, but more generally why the prevalence of corrupt or even mercenary behaviour has come to be perceived as an obstacle and a threat not merely to democracy and development at the national level, but also to the effective operation of the emerging system of global governance. What may be harder to grasp, in light of the prevailing "neo-managerial culture", is that professional ethics in any major field, be it medicine or law, teaching or architecture, sets limits to "responsiveness" to customers' demands, requiring of professionals that they exercise instead their best professional judgement in light of best available knowledge or expertise.

At the United Nations, a recent definition and statement of the "competencies for the future" has underscored integrity, professionalism and respect for diversity as core United Nations values for its staff. These include:

- (a) pride in work and mastery of subject matter;
- (b) motivation by intrinsic, professional, rather than extrinsic or personal concerns;
- (c) persistence in the face of challenges and crises;
- (d) resistance to "undue" political pressure in decision-making;
- (e) defence of the Organization's interests, even under fire; and

(f) the legitimate use of power and authority.

7.1. Transparency: a generalized demand

One of the main criticisms leveled at the State in recent decades has been the fact that corrupt practices often exist and such practices are not punished. This is a very widespread problem that does not exclusively affect the developing world. These practices are not solely confined to social areas. Modern research into corruption points out that whenever there is a corrupt person in the public sector, there is someone who does the corrupting from the private sector. Corruption has to do with intra-social combinations that are often of vast scope. Some episodes of the most blatant corruption in Latin America in recent years did not occur in the public sector. The embezzlement that took place in a number of large banks in the area a few years ago, which translated into a sizable loss of resources for the countries involved, was spurred by the corrupt practices of important private bankers, often aided and abetted by the ineptitude of some public regulating bodies. The episodes of corruption that accompanied privatization processes in certain developing countries were connected to public/private interest arrangements.

Today, worldwide, there is a generalized demand to put an end to corruption. Its costs for the economies of developing countries are extremely high and the moral consequences are even worse. In the social sphere, corruption in the guise of skimming resources from policies and programmes set up to help the poorest members of society, is a true ethical crime. The State must undergo a radical transformation in this area. All anti-corruption strategies that could be effective should be brought into play, among which, the first should be the monumental task of educating people about corruption. Spaces must systematically be created to discuss the problem in all educational venues for civil servants; clear cut codes of ethics that can be strictly enforced must be devised. It is also necessary to make all actions taken by the

State in the social area transparent to citizens. Information concerning social programmes must be complete, ongoing and totally accessible. The purpose of the programmes, the resources to be used, sources of financing and implementation processes must constitute information that is as accessible as any other elemental administrative data, and this is precisely where IT and the Internet can make valuable contributions. At the same time, channels should be set up so that social control of public administration can make itself felt. The entire system should also contain clear and indisputable measures for penalizing and punishing corruption.

Corruption must be transformed into an exceptional occurrence, morally penalized; but the risk of criminal prosecution should also exist. In summary, it should be difficult and dangerous to engage in corrupt practices, because of permanent controls by the preventive systems in place and monitoring by the citizens themselves, as well as by the threat of punishment.

7.2. Managing diversity

Diversity takes on many forms. Globalization and progress bring in their wake the proliferation of preferences, sub-cultures, interest groups, religions, cults, ideologies and groups demanding recognition and protection of their identity or indeed representation in decision-making processes which impact on their status and rights.

Repression of such groups is not a viable option. It has proved counter-productive and, as experience shows, is costly economically and politically. Experience demonstrates a pressing need to strengthen the capacity of States both in accommodating and managing diversity and change. It comes as no surprise that the greater the diversity, the faster the process of change and the more vitally important the role of the State becomes in managing this process. International cooperation and the force of global example may help in building up the State's much-needed capacity to serve as guarantor, time-keep-

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**Accommodating
diversity makes good
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er, moderator and manager of a process of change involving multiple partners and stakeholders, while all along safeguarding the interests and rights of all concerned. A dynamic market economy requires an effective State, where the instruments for strengthening the nation-State obviously needed, for instance in some of the former Republics of the former Soviet Union, have to be balanced with adequate decentralized policies. This is needed partly in response to the expectations of groups aspiring to administer their own cultures and traditions as part of the newly formed national entities. The greatest challenge, while moving into the new millennium, will prove to be the building of viable political institutions for the new nation-States of the region. Institutions should be capable of respecting the aspirations of minorities that are part of these nations, and of establishing a balance between what is dictated by economic logic and clamoured for in political expectations. The political process of the breaking up of the Soviet Union has been remarkably peaceful. However, in its aftermath, the forces of ethnicity and minority and of the periphery in relation to the centre demand political leadership to promote policies that are all inclusive, a commodity rare even in normal times and certainly harder to come by when the economic and social indicators are worsening.

“Those who applauded the lifting of the ‘Iron Curtain’, which separated people between countries, never expected ‘Glass Curtains’ to descend separating people within countries. The challenge now is to achieve political rights in an environment of growing economic insecurity. Human insecurity breeds human violence, making it even more necessary for economic growth to aim at enriching human development” (UNDP, 1999, Human Development Report, p. 11). Training programmes on diversity and "conflict resolution" have multiplied and spread, in several parts of the world, both in the public service and academic establishments. Still, it should be noted that the scope of such departures is, in some countries, limited to three main target groups: women, minorities and people with special needs.

One cannot over-emphasize the urgency and complexity of gender mainstreaming, on the one hand, and progressive integration of hitherto underprivileged and under-represented categories of citizens, on the other. This has seldom proved an easy task. Not only special measures and facilities may be required, but also language and culture have proved in some cases to be steep barriers to surmount.

One of the many effects of globalization has been to ease the movement of peoples across borders and bring them closer together. Proximity, however, has not invariably helped to combat or assuage stereotyping, let alone eliminate prejudice and discrimination. Recent events in the world have brought home to some governments a sense of the diversity of their respective countries and the dangers of exclusion. Still, it would be an error to view the current stress on diversity management purely in terms of "affirmative action", equalizing opportunities or righting historical wrongs, important though these may be.

Accommodating diversity makes good business sense in any organization. It represents a necessity primarily on account of the process of diversification present in all societies and all organizations. Such growing heterogeneity reflects more than plurality and visibility of cultures, which must be accommodated in any one workplace. On a more basic level, heterogeneity springs from the diversity of occupational groups, the product of specialization, which rapid advances in science and technology have carried in their trail. Today, very few policies or programmes, decisions or operations can either be designed or implemented without the cooperation of many different specialties and sub-specialties. Bringing them together into a cohesive group, building them into a team, is hardly an easy task. Distinct occupational groups have often different values, divergent methodologies or problem-solving techniques, let alone competing interests. Occasionally, they exhibit what others may consider an exaggerated sense of their own relative importance. Building a balanced synthesis of many complementary but still dis-

similar elements is a challenge which requires sensitivity to difference, perseverance, open-mindedness, negotiating skills and capacity to reconcile conflicting views and interests.

Coping with diversity represents a reasoned response, by top managers and by the State, to the challenge of globalization and the related processes of differentiation and fragmentation, which are pronounced in most advanced societies, but present all over the world. In fact, it constitutes an important new dimension of the functions of management, requiring new perspectives on its role, methods and mission. Particularly relevant to the needs of global management, the management of diversity calls for the investment of time and resources in building or refining the structures and a culture of dialogue and accommodation. Inclusive of both people and viewpoints, these structures and this culture endeavour to manage with differences, not in spite of or against them. Managers look to long-term progress over short-term expediency and take a broader view of the three "Es" (economy, efficiency and effectiveness). These are obviously the antithesis of reductionist approaches and "macho-managerialism" (Timsit and Bouckaert, 2000, p. 299).

On the national as well as the international levels, the structures and the culture of dialogue and peace are clearly the mark and creation of fully democratic States. They endeavour to redress market failures and try to give a voice "to the poor and to the future", which all too often have none (UN, 1997, E/1997/86, para. 62). It has become apparent that persisting poverty and inequality between and within nations has been accompanied, in many cases, by a sharp deterioration in the prevalent conditions of life and work which "have rendered necessary a redefinition of the role of the State" precisely in this direction (Timsit and Bouckaert, 2000).

8. Organizational responses for human resources development

The need for redefinition and growing interest in diversity management worldwide bring into sharp relief the critical role of the State and of its public service as guardians of the common good, charged with the critical tasks of elaborating, articulating and defending the public interest. In pluralistic societies, let alone the global community, these tasks need to be accomplished through democratic processes of dialogue and consensus. These processes, in turn, require elaborate structures, but also special skills - already discussed at length above - and a mindset, which senior managers especially will need to develop and internalize. How to acquire this mindset and high-level skills could be the subject of debate at national, regional and interregional fora, although in the last analysis, countries may opt to formulate their own specific responses to this generic challenge.

Many regional initiatives since 1997 suggest that the revaluation of public service professionalism including ethics must be included in this response.⁴ A synthesis of the outcomes of these several UN-sponsored activities is provided in a document published by the Department of Economic and Social Affairs under the title "Professionalism and Ethics in the Public Service: Issues and Practices in Selected Regions" (UN, 2000, ST/ESA/PAD/SER.E/5). It has been rightly argued that, in a way, there is not one single profession of government, but many. "Governments employ all kinds of persons - such as doctors, meteorologists, teachers, lawyers, public security personnel, as well as those whose field of expertise does not easily fit under any single heading. Yet government professionals have certain attributes in common. They work in a common institutional and legal framework, which offers its own constraints and opportunities. They share a commitment to use their skills for the public good, in public service as against private gain, for fixed remuneration. They are sub-

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ject to public accountability for their actions" (UN, 1999, ST/ESA/PAD/SER.E/3, p. 80).

How governments recruit and under what conditions they employ their personnel are institutional issues, where wide diversity of practice may be observed. Obviously, there is no one-best-way, and "no-one-size-fits-all." In many parts of the world, patterns in public employment have long been bound with tenure and the concept of careers. The growth of political pluralism during the XIX and XX centuries reinforced this trend. For reasons related as much to political probity as to the proper working of the administrative system, civil service reforms have promoted the separation between political functions and civil service posts. The latter were progressively brought into career structures, one of whose main objectives was to buffer public servants from external political pressures and to safeguard their "neutrality".

To be sure, respect for this neutrality and lack of political tampering with the public service have been variously observed in different parts of the world. More recently, however, both "career" and "permanence" have come under attack from several quarters. Among the arguments put forward in favour of the abandonment of this traditional doctrine, the diversification and changing configuration of personnel requirements in the public sector stand out as incontrovertible. The civil service profile in most countries today bears no relation to its counterpart before the Second World War. What is more, it is constantly changing. With efforts on the way to curb public expenditures and calls to privatize or outsource large sectors of activity, several governments and public organizations have come to regard permanent contracts or "tenure" as an obstacle to change, or as an obstruction to rapid response. At times of resource scarcity, constraints on "trimming down" redundant personnel are both found unacceptable to some and accentuate the feeling that permanent appointments provide strong disincentives to work hard and to adjustment.

Accordingly, many governments and inter-governmental organizations are currently experimenting with innovative approaches which seek to redefine the scope of the public sector, change the traditional structures of public organizations and introduce more flexible, often private-sector-inspired modalities for the employment of personnel in the public sector. It should be pointed out that success of such experiments in one country does not necessarily mean they would work in others. Uncritical acceptance of foreign policy transfers, as we have seen, has often led to unhappy consequences. There are, nevertheless, important ways in which comparison of civil service reforms in different parts of the world could prove extremely useful by shedding light on factors which contributed to the success of reforms. Such factors are, for instance, the presence of a well-organized market for high-level skills, a developed and expanding private sector, a culture of respect for the rule of law and a generally supportive legal and institutional framework. With the analysis of outcomes, cross-cultural comparisons should explore the factors which contributed to the success of policies and shaped these final outcomes.

After more than two decades of experiments with change, it would be very useful to proceed with an objective analysis of benefits and costs and try to demonstrate the strengths and weaknesses, advantages and disadvantages of the policies pursued: what worked and what did not; where, how and, most importantly, why.

States' responses to the challenge of globalization ought to accord priority to the enrichment of the stock of competencies available to governments for purposes of management and policy-making. However, the value of a structured institutionalized approach should not be overlooked. Governments need to build "a framework of public personnel structures, policies and career paths able to attract, retain, develop and motivate the right people and motivate their energies towards the public good" (UN, 2000, E/2000/66, Recommendation No. 19). Furthermore, "governments should take urgent concerted

measures to reinforce the ethics infrastructure of their respective countries and to introduce a comprehensive set of mechanisms, including merit pay and performance benchmarks, to deal with corruption and generally raise the standards of public life, nationally and globally" (ibid., Recommendation No. 20).

The role of infrastructures and institutional frameworks is to act as the key determinant of the nature and levels of the competencies and values that a country wants to foster both in the public service and public life in general. Notwithstanding cultural differences, most countries would agree in including, in the latter, objectivity, equity, tolerance, intellectual courage, integrity and, even more importantly today, commitment to democracy, and respect for human rights and for the rule of law. Although it would be risky to generalize, it may be fair to argue that countries find it hard to nurture and sustain such values and competencies in the public service in the absence of certain conditions, which need to be highlighted:

- An institutional framework and a professional cadre for human resources management and development ensuring for the service a measure of coherence, consistency, transparency, credibility and predictability;
- A culture of respect for service to society and to the State, and for recognition of merit.

Many developing countries and countries with economies in transition are facing serious problems in this regard. For example, due to the paucity of pay, which is so low in some countries and so rarely disbursed, public servants are forced to choose between service to their country and meeting their family's basic needs. Experience throughout the world corroborates the dictum that a "cheap public servant can cost the State a lot".

However increasing salary levels of public officers would not yield proper results and might be counterproductive if it were not accompanied by a commensurate rise in performance levels. Raising performance levels

demands concerted action. In turn, such action demands a truly professional management of public sector human resources and a holistic approach to their sustained development. The former would require building a cadre of top-level professionals. The latter would entail well-coordinated action through (a) pre- and in-service training; (b) mobility and rotation; (c) ending the patronage system, where it exists; and (d) recruitment, posting and promotion strictly on the basis of merit (with allowances for affirmative action). In this regard, it would be advisable that "the State stop being an employer of last resort" (ibid., p. 14).

To give substance to this approach in concrete terms, the Meeting of the Group of Experts recommended "the proclamation of a United Nations Public Service Day, which would celebrate the value and the virtue of service to the community on the local, national and global levels, with prizes to be awarded by the Secretary-General for contributions made to the cause of enhancing the role, prestige and visibility of public service" (ibid., Recommendation No. 3).

It may be worth exploring, in the framework of the United Nations Programme in Public Administration and Finance, other measures to enhance the prestige accorded to public service worldwide and the relative autonomy of the public service profession. For too long and in too many countries, public employment has been viewed as instrumental to extraneous ends and human resource management subordinated to short-term considerations unrelated to the goal of sound overall performance in the public service.

Specifically, in several countries, a spoils system still prevails. Positions at all levels, though paid from public funds, are virtually appropriated by the political leadership and used for electoral purposes or the exercise of patronage. The effects of "clientelism" are compounded, in most cases, by the tendency to use the public service as a means or as an instrument to combat or conceal unemployment. The negative effects of such practices have been manifold and visible. Not only have

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Capacity-reinforcement must ... be understood in broad strategic terms as a ... continual task of shaping, redefining and revamping institutions with the help of evolving technologies and refining human competencies in this light

they contributed to inflating staff costs and adding to tax burdens on citizen taxpayers, but they have also tended to "debase the civil service coin". A once prestigious profession, it has gradually become the butt of attacks and derision from many quarters.

Efforts to enhance the role, professionalism, performance, ethical values and standards in the public service ought to begin by addressing this issue. Whatever must be done to further job creation, using the public service is not the way. Staffing, recruitment, posting, promotion, career development and remuneration practices must follow objective principles with only the prestige, performance and integrity of the service in mind.

Though policies will vary from one country to another, one thing seems certain: that policies and practices of human resources management and development must rest in professional hands. How to recruit, retain, develop and motivate professionals, at various levels, is an issue that must be addressed. A complex of activities which seeks to apply the lessons of international practice, international cooperation in institution-building and human resources development conveys a powerful message. The means available, in terms of knowledge, science, technology and know-how open immense possibilities for the world as a whole. Building a public service worthy of a democracy is well within the reach of most governments. Will the determination to use these possibilities prove commensurate to the challenge of the times?

9. Technology and reform

It has become apparent that globalization has invested reform with new meaning. Once an occasional task of bureaucrats and politicians, it is fast becoming a recurrent event and a facet of the process of modernization. Increasingly, however, two new dimensions are added. One dimension is the progressive exposure of previously veiled structures to public view and growing public scrutiny; the other may be termed the "internationalization" of administrative change. On both

fronts, major strides have been made in recent years. Most governments now welcome an exchange of information and some indeed accept a measure of convergence of administrative practice, notably as a prerequisite of their accession to wider regional groups (e.g., the *acquis communautaire*, required for future membership of the European Union).

Reflective of the effects of technological progress in accelerating the transition from a closed to an open systems approach and in promoting transparency of government operations, this new exposure of national administration to domestic civil society and international scrutiny is welcome on the whole. It fosters sensitivity to public expectations and may serve to reinforce greater respect for professionalism in the public service. There are nevertheless also potential downsides. One is a certain risk that the responsibility for administrative action may be dangerously diffracted and that accountability may suffer, as a result. The other is the tendency to exaggerate the scope for meaningful comparisons and policy transfers.

Capacity-reinforcement must therefore be understood in broad strategic terms as a long-term endeavour, indeed a continual task of shaping, redefining and revamping institutions with the help of evolving technologies and refining human competencies in this light. The potential is enormous. But how to ensure that progress driven by modern technologies follows the paths of reason and serves the public interest is the challenge that public institutions at the national, sub-national and international levels must face.

9.1. Information technology: its promise and potential for reform

IT carries in it the prospect of major reforms in the whole field of governance and public administration. These could take shape and form in any of the following ways:

- More efficient and effective public management;

- More accessible and better information for the public;
- Better delivery of services; and
- Building partnerships for interactive and participative governance.

Though in the 1960s and 1970s computers were already widely used by governments to improve the efficiency and effectiveness of their operations, it is since the 1980s that information technology has been applied more massively, not only on the operational, but also on the tactical or managerial and strategic levels. Innovations, in the form of Management Information Systems (MIS) and Decision Support Systems (DSS), are gradually transforming the processes of governance. Thus, they have made governments in most developed countries the largest single users of IT and predominant consumers of IT products in many developing countries.

Information systems have greatly improved effectiveness, efficiency and productivity in government. For example, an integrated network-based national revenue management system will collect information speedily and effectively, enable revenue officers to receive cases more quickly and also automate and modernize the tax collection process. Furthermore, it will empower the treasury department to collect taxes more productively, which is, of course, a benefit to government and the country.

A significant concomitant of computerization is the exploitation and utilization of government data/information resources. The process of computerizing government business is de facto a process of exploitation of government information resources. It is well known that one of the primary activities of government is record-keeping. On the operational level especially, government authorities collect, process, maintain and update various kinds of data on individuals, families and organizations. As a result, the government becomes the largest public information owner and manages vast resources of data. In many developing countries, the government is fre-

quently the only producer and manager of relevant economic and social data.

Information is a valuable resource. However, it must be developed so that it can better serve users. The traditional means for obtaining and disseminating information were books, journals, indexes, libraries and archives. Favoured today, by contrast, are digitization and computerization of data and information in such forms as digitized documents, digitized images, audios and videos, databases, data mining and data warehousing. Thus large amounts of data/information can be effectively, promptly and easily stored, reprocessed, retrieved and transmitted widely.

In this and other ways, IT facilitates government information services. In democratic societies, one of the government's principal responsibilities is to report on its affairs to its citizens. The administration has the duty to inform individuals of their rights and obligations and to maintain good relations with them. An individual citizen's understanding of the public service depends not on its outcomes only, but also on the way in which he or she is informed. Therefore, to make information accessible and intelligible to the public is a critical component of government services to citizens and a powerful means to facilitate popular participation in the processes of government.

IT is changing the ways of public information. Electronic distribution of government documentation and increasing public access to government information are being developed very quickly in many countries. Many governments have set up websites and connected databases and information systems to the Internet, thus enabling the public to search, locate, view and download government reports, studies, computer software, data files and databases. IT promotes the sharing of information resources and makes governments able to provide more and better information services cost-effectively.

By improving public access to information, IT has helped to foster transparency and ac-

IT is changing the ways of public information. Electronic distribution of government documentation and increasing public access to government information are being developed very quickly in many countries

Box IV.2

HOW DID THE INTERNET DEVELOP?

The Internet began as a government project, more specifically, as a project of the Advanced Research Projects Agency (ARPA) of the United States Department of Defence. The Pentagon asked ARPA to design a computer network that would be secure and resist attack in the event of war. Researchers at ARPA developed the concept of packet-switching, in which data is split into tiny packets that may take different routes to arrive at a final destination, where they are re-assembled. From a military point of view, such a network is secure for two reasons. First, it is difficult for an enemy to make sense of intercepted, unassembled packets. Second, since there is more than one route to a destination, if one node is destroyed by enemy action, the packets can travel by an alternative route.

ARPANET, precursor of today's Internet, linked four research centres in 1969, and 15 by the year 1971. In 1973 ARPANET went international, with links to University College of London and the Royal Radar Establishment in Norway. The developers of ARPANET had in mind communication between machines (long distance computing and file transfers) rather than communication between persons (electronic mail and discussion groups). It turned out that, contrary to expectations, communication between people became much more popular than communication between machines. In 1971, Ray Tomlinson of ARPANET invented e-mail, and it was an instant success. Various discussion groups sprang up, where a person asks to receive all posts on a particular topic, and the volume of e-mail in ARPANET accelerated. To the dismay of the Pentagon, which was financing the network, the most popular discussion group was one on science fiction.

The first step toward extending this new tool of communication beyond the small group of ARPA subcontractors occurred in 1974, with the creation of Telnet, a public version of ARPANET. In 1979, two graduate students made use of Telnet to establish USENET "newsgroups" that exist to this day, and continue to grow. Newsgroups differ from the discussion groups of ARPA in that, instead of signing up for receipt of all posted messages, a member accesses an electronic bulletin board where the messages are temporarily stored. Various other networks, such as BITNET and CSNET, were established to provide services (especially e-mail) to university researchers with no access to ARPANET.

On January 1, 1983 ARPANET adopted Transmission Control Protocol/Internet Protocol (TCP/IP), a date that, for many, marks the birth of the Internet. The Internet is the global interconnection of millions of otherwise independent computers and information systems. TCP/IP makes this interconnection possible. The Internet Protocol (IP) provides an address for each tiny packet of data, which can then be transmitted by any of a number of routes, using otherwise incompatible computers of different makes and models. The next higher layer of protocol, the TCP, handles the re-sending of any packets that might have been lost, and reassembles the packets at their destination. The authors of TCP/IP use the analogy of "electronic postcards" to explain how the Internet is able to transmit packets (Kahn and Cerf, 1999).

After TCP/IP, the most important development to date for the Internet was the release in 1991 of the World Wide Web (WWW), which was developed by Tim Berners-Lee at CERN (Switzerland). The WWW "browser/editor" gave anyone with a modem and a computer access to documents throughout the world. Users of the browser do not have to know this, but it functions thanks to a special protocol known as Hypertext Transfer Protocol (HTTP), and, for fast retrieval, documents can be written in Hypertext Markup Language (HTML). The first browser did not support graphics, but this changed in 1993 with the release of Mosaic (which developed into Netscape) and the WWW revolution truly began. Business and media began for the first time to take notice of the Internet, and the number of web sites mushroomed from 623 in December 1993 to 100,000 in January 1996, one million in April 1997, 3.7 million by year-end 1998 and 9.5 million by year-end 1999.

As of November 2000, an estimated 407 million persons worldwide were accessing the Internet, more than twice the 201 million of September 1999, and more than 15 times the 26 million estimated to have been online in 1995 (Nua, 2001). As impressive as such growth is, it implies that the Internet still reaches fewer than 7 percent of the world's population. Moreover, it tends to reach the wealthiest and most educated of this population, for the Internet, like earlier ICT, has spread unevenly. (It is said that half the inhabitants of our planet have never used a telephone and, more than five centuries after Gutenberg, illiteracy continues to block the access of many to both books and the Internet.) There are more users of the Internet in affluent Sweden than in the entire continent of Africa, more in Britain than in Latin America and the Caribbean. The number of unique documents on the World Wide Web, as of January 2000, is estimated at more than one billion, posted on 4.2 million unique servers, and additional documents are being posted at a rate of more than 20 million a month. Not surprisingly, English is the language of preference on the web, for 86.55% of all pages are written in this language, and an additional 2.36% in the French language (Inktomi, 2001).

Source: Willmore, 2001.

countability in government. In the past two decades, IT has also played a major role in helping to spread the concept of a more efficient and responsive public sector, based on "service management". Emphasis on this concept has also led to extensive use of IT tools for measuring the effectiveness and efficiency of public services.

IT has made a start at changing the modalities of public service delivery. For centuries, the notion that citizens might actively participate in all public affairs and make substantive inputs in policy decisions remained a distant prospect. Now government websites, e-mail and other means could turn such participation into a reality. Electronic polling, for instance, by either public or private institutions, will probably take place in the very near future. If family computers are connected to a national or local information infrastructure and wired up to government websites, a two-way communication system will have been established. At the local community level, an Intranet may also be set up. This Intranet may be used to sample opinions in a quick and painless fashion. Questions put on an administration's website would appear on the computer screens of all the households connected to it. Viewers could click the icon which they select on the screen, and thus a poll is taken. Each household on the network could then be briefly scanned; the choices and results accumulated would appear in a matter of a few seconds.

Electronic referenda and electronic voting may also happen eventually. An on-line voter guide could provide the public with current information about elections. Consultation on national issues may take place and elections, either local or national, could be conducted through the Internet. The voting can take place wherever the voter is, provided that electronic votes are properly designed. It goes without saying that such electronic polls, referenda and voting systems must meet political as well as technical requirements of accuracy, reliability and eligibility, when required.

In the public and private sectors, IT is rapidly changing not merely work processes

and ways of doing business, but also forms and structures in organizations. For example, with the Internet and on-line databases, all kinds of information text, graphics, images, voice or video can be accessed and handled by many individuals concurrently. Accordingly, it is possible to carry out activities and workflows at different posts simultaneously if computers and information networks are in place. Knowledge management systems, with the help of a search engine on the Internet can capture the knowledge of specialists and non-specialists for routine decision-making. Delegation of authority to lower levels of responsibility within an organization thus becomes a distinct possibility. Traditional hierarchical organizational structures based on pyramidal flows of information could be rendered obsolete. IT has the potential to bring about significantly altered organizational structures previously based on hierarchical distribution of information, diminish the value of departmental boundaries, and change the way decisions are taken and communicated.

Since the mid 1980s, accordingly, the focus of IT has shifted, from the quest for efficiency and productivity by automating routine tasks, to the achievement of effectiveness in terms of new approaches to traditional tasks and solutions to new tasks. State agencies and enterprises in many countries are currently engaged in restructuring their organizations in manners more appropriate to the new IT environment. In this process, they are removing layers of traditional management, compressing job categories, creating work teams, training employees in multi-level skills, simplifying business processes and streamlining administration. The outcomes of this re-engineering have demonstrated the scope for administrative reform as well as shown that, ultimately, decisions on the pace and extent of such reform depend on the quality of top management.

9.2. Delivering on promises: coping with the digital divide

The paradigm of a knowledge-based economy is not an impossible dream for the de-

Traditional hierarchical organizational structures based on pyramidal flows of information could be rendered obsolete

For national governments, the most important and immediate task is the formulation and implementation of a coherent national IT strategy

veloping countries. Still, moving to a knowledge-based economy may not be either feasible or meaningful for all countries, especially in the short term. "It is important to note that bridging the 'digital divide' is not simply an issue of building an information infrastructure, nor of buying and handing out computers and modems to everyone in a society. Indeed, moving to a knowledge-based economy and becoming integrated into the globalization process involves more than just acquiring and using IT. Specific policy choices, the ability to absorb new technologies and success in creating a national 'IT culture' are also important variables. It should also be noted that in some developing countries there are major technical problems. For example, in many rural areas of South Africa and in the rest of Africa, electricity is a scarce or even unavailable commodity" (Thornhill, 2000, p. 13).

These critical prerequisites highlight the crucial role that only States can play. The initiative must come from duly empowered governments acting in cooperation with civil society. Governments need to articulate a vision and a strategy based on the situation in their respective countries. They must then galvanize the needed political will, commit the resources and mobilize for action that will eventually lead their countries to integration in the process of globalization and the emerging information-based global system. With a keen sense of priorities, governments must be aware of the advantages and pitfalls of IT. Notwithstanding the widely acknowledged potential of IT, evidence of its impact is still limited, particularly in developing countries. It is also instructive to note that IT-based concepts such as e-government and e-commerce, in which all internal activities as well as external relations with partners are conducted substantively through electronic means, have yet to become a widespread reality. The problems in achieving and measuring the immediate impact on productivity and competitiveness are common to both the public and private sectors.

For national governments, the most important and immediate task is the formulation

and implementation of a coherent national IT strategy which clarifies priorities, maps out an action plan over the short, medium and long term, and establishes roles for both the public and private sectors. In many developed countries, such a national IT strategy exists only implicitly because of the high level of understanding of IT and the existence of numerous specialized institutions with substantial experience in IT. However, for all countries, an explicit IT strategy is required which would serve to catalyze inducements of acquisition and diffusion of IT.

The information revolution poses significant challenges to States not only in the developing countries but also in the developed world. By way of simplification, it may be said that governments are confronted with the following challenges:

- To introduce IT in the public sector, to train civil servants, to enhance the efficiency of service delivery through the use of IT, and to improve effectiveness, accountability and citizen participation;
- To elaborate policies, which ensure computer training and affordable access to information technology for the disadvantaged groups in society;
- To encourage, through appropriate measures, on-the-job training and re-training, as well as to promote life-long learning in the public sector;
- To elaborate policies aimed at creating safety nets for those laid off as a consequence of the introduction of IT in the workplace;
- To assist countries, particularly developing countries, in building or improving their capacity to access, manage and exchange the information that is so critical for efficient public sectors and effective policy development.

In this sphere of activity, as in other areas, the progress of technology and globalization has served to accentuate the importance of

democratic, efficient States acting singly or in unison through inter-governmental organizations. IT has also enhanced the need for highly skilled professionals in the service of the government. Ultimately, to quote an ancient dictum: "the measure of all things is Man" (i.e., men and women).

Footnotes - Chapter IV

¹ See also Yehezkel Dror, "Workshop on Governance for the 21st Century: Upgrading Capacities to Govern," unpublished report submitted to UNDESA/DPEPA, 1997; report to the Director of DPEPA/DESA, in preparation of the Fourteenth Meeting of the Group of Experts on the United Nations Programme in Public Administration and Finance.

² G. Timsit and G. Bouckaert, "Administrations et Mondialisations". Report prepared for the International Institute of Administrative Sciences and the United Nations, submitted to the Director of DPEPA/DESA for the Fourteenth Meeting of the Group of Experts.

³ Institute for Research on Inter-Cultural Cooperation, The Netherlands.

⁴ A regional initiative in this direction was taken by the Second Pan-African Conference of Ministers of Civil Service. A Ministers' task force, broadly representative of the main groups and traditions on the Continent, was set up to design a code of ethics for African public servants. It reported on its findings to an Experts Meeting convened at United Nations Headquarters in New York, on 24-26 November 1999 under the joint auspices of the United Nations and CAFRAD. The Meeting approved a draft, which was submitted at a meeting of Ministers in Rabat, Morocco (17-19 January 2000). It was presented at the Fifteenth Meeting of the Group of Experts, held in New York (8-12 May 2000). It was adopted at the Third Pan-African Conference of Ministers of Civil Service in Windhoek, Namibia (5-6 February 2001). This public service code might serve as a model for similar codes on public service professionalism and ethics of a regional scope. Other related conferences on this theme include the International Seminar on Ethics and Public Administration in Latin American Countries, cosponsored by UNDESA, at Isla Margarita, Venezuela (October 1997) and a Symposium on Ethics in the Public Service: Challenges and Opportunities for OECD Countries, organized by the Public Management Service (PUMA) of OECD (November 1997). This was followed by a Multi-Country Seminar on Normative and Institutional Structures Supporting Public Service Ethics organized by Support for Improvement in Governance and Management (SIGMA) in Central and Eastern European Countries, at OECD Headquarters in Paris. Their findings were fed into the proceedings of yet another conference held in Thessaloniki, Greece (November 1997). The subject of that conference was Public Service in Transition: Enhancing its Role, Professionalism, Ethical Values and Standards. Other subsequent events included the Colloquium on Promoting Ethics in the Public Service, co-organized by UN/DESA, the Federal Government of Brazil and the Hyundai Corporation in Brasilia (8-10 December 1997).

Chapter V

Looking towards the future

This Report embraces the opinion, put forward by the Secretary-General of the United Nations, that globalization must be properly understood as a complex phenomenon, as well as a source of opportunities which can be widely spread, but which so far have touched and benefited only a few. The challenge that confronts us is to ensure that more people around the world can benefit from globalization.

1. What went wrong?

The weight of the available evidence strongly suggests that, in the past two decades, many developing countries and countries in transition were victims of advice on policy decisions which, in the last analysis, not always bore relevance to their particular circumstances and needs. In contrast to the strategies pursued in prior years, such policy prescriptions de-emphasized the role of the institutions of government, which they portrayed in essentially negative terms, as obstacles to growth and the progress of globalization. This negative view of the State went in tandem with attacks against the public service and the glorification of private sector ways over the public sector.

Experience demonstrates that States with weak institutions have not been able to empower their citizens to take part in globalization or to fend off the implied social costs. The language of discourse and measures advocated reflected the ideology which held sway in the West, during the 1980s and early 1990s. Devolution of responsibility, de-

centralization, deregulation and privatization were also accorded prominence. What can we say of the outcomes? There have been reported successes, mostly in the North and West, but also stories of failures in many developing countries and countries in transition. The characterization of the 1980s as “the lost decade” and of the 1990s as a “mixed bag at best” gives the measure of the distance between expectations and outcomes.

2. Reforms must be home-grown and made to fit real needs

Preliminary findings embodied in this document give only a partial picture of what clearly is a highly complex, prismatic situation worldwide. A systematic study of past programmes and policies would greatly assist the quest for more appropriate strategies and methods of reform than those already tried in the past two decades. It must be carried out, and the United Nations, first in the field and sponsor of arguably the oldest programme of technical cooperation in public administration and governance, is well positioned to put it into effect. However, the weight of available evidence, as shown in this Report, points to a convergence of views on certain salient features of past approaches and measures:

- A rather dogmatic and technocratic approach, which failed to take account of the complexities of particular national circumstances and overemphasized one facet of reform (e.g., cutback management) over all others. Now widely criticized as “reduction-



The State is indispensable to democratic governance ... however ... several of its tasks cannot be carried out, as in the past, in centripetal fashion out of the national capital

ist”, this approach took for granted a measure of convergence of managerial cultures which appears, in retrospect, as somewhat unrealistic. It correspondingly pressed for “one best way” solutions which earned it the description: “one-size-fits-all”. What is needed are customized approaches to meet the diverse needs of individual countries” (UN, 2000, E/2000/66, p. 15). In fact, “an overly technocratic or purely economic growth approach to institutional development divorces the institutional strategy from the socio-economic strategy and political environment which it is meant to serve.” (ibid., p. 11)

- A related criticism has faulted the relationship between recipient and donor. Contrary to officially accepted doctrine, too many programmes proved to have been supply-driven. In many cases, accordingly, reforms have been externally induced. Too often, as a result, style has invaded substance and programmes were concerned with “quick fixes” rather than long-term progress.

The lessons of experience strongly point to the conclusion that reforms to be successful and, accordingly, aid programmes to produce “user-friendly” results, must clearly be:

- Home-grown;
- Demand-driven; and
- Internally consistent and duly coordinated on the national policy level.

It has become apparent that the design and conduct of programmes of reform require the steady involvement of competent national teams, which must be in the driver’s seat. Main policy decisions cannot be “outsourced” to consultants, however good. However well-intentioned and technically accomplished, foreign advice must stay within the bounds of counselling and guidance. Overstepping that limit is both counter-productive and dangerously shortsighted. Carried too far, it undermines the confidence of peoples in their respective governments and institutions. Democracy is “hollowed-out” and accountability lost when citizens conclude

that their elected government has lost control of events.

3. Making democracy meaningful: the need for a strong, strategic State

Experience demonstrates that the failure of democracies to make any meaningful changes in the social and economic conditions of their citizens, lead to public cynicism, apathy and alienation. What we call “the nation-State” which, needless to point out, is different today than half a century ago, is the best instrumentality we have at our disposal in order to accomplish our purposes in democratic ways.

The State is indispensable to democratic governance. It has been pointed out, however, that several of its tasks cannot be carried out, as in the past, in centripetal fashion out of the national capital. Important functions of government have been devolved on the sub-national level and, more significantly, major decisions of government are taken in the framework, or subject to provisions of inter-governmental regimes (e.g. World Trade Organization) and supra-national bodies (e.g. European Union). As the Fifteenth Meeting of the Group of Experts has aptly pointed out, this situation makes major new demands on Member States of the United Nations, for which developing countries and countries in transition are often ill prepared. Indeed, it may be argued that the capacity deficit, that is to say the distance between what countries have and what it takes to make them well-functioning democracies, as well as effective players on the international scene, is one of the main causes of the crises plaguing the world.

4. The State as linking pin: a strong supportive centre

One of the principal findings and messages of this Report is that we need the State, and that the State, increasingly, will function on three levels:

- the national, or central government level;
- the sub-national level, as a result of a process of devolution of functions, to local government structures, or even non-state actors operating within bounds established by the State and under its supervision; and
- the international level, where an entire edifice set up for global governance is slowly taking shape, but clearly is underpinned by nation-States and driven by the initiatives which they deploy.

Increasingly, the State is called upon to serve as linking pin of these three levels, to harmonize and coordinate activities and processes involving diverse actors, governmental and non-governmental, national and international, with interests and agendas that may differ substantially. A strong supportive centre within each nation-State represents an essential prerequisite of:

- Domestic peace, tranquillity, socio-economic development and progress on the path to decentralization, deregulation and debureaucratization; and
- International cooperation in ways that bring prosperity not only to a minority, but to the great majority of the world's population.

The present Report explores the concept of an “intelligent, democratic State,” which it views as the antithesis of “bureaucracy” and “big government”. The stress is squarely on quality, integrity and equity rather than volume or quantity. It emphasizes leadership, empowerment, example, motivation, discussion, negotiation, accommodation and conciliation, rather than “slash and burn” and similar top-down command approaches. To raise performance levels in this regard, the Report calls for:

- professionalism in government; and
- capacity-building or capacity-reinforcement.

5. Building the essential competence for an intelligent, democratic State

There can be little doubt that giving democracy meaning and raising the level of competence in governance begin with the reinforcement of the capacity of States to meet the needs and expectations of their citizens. Precisely on this account, a major recommendation of this Report is the urgent need to build up in all developing countries and countries in transition:

- Diagnostic capacity; and
- Strategic capacity for the design, the conduct, monitoring and evaluation of programmes of reform.

In this age of globalization and rapid advances of science and technology, there will always be need for foreign expertise and specialized assistance. However, what is necessary is for developing countries and governments in general to have at their disposal and under their command the necessary deep knowledge, know-how and range of skills in order to be able:

- To design, implement and evaluate effective national policies;
- To conduct the consultations and negotiations needed at both the international and the sub-national levels in order to elicit, articulate, promote and defend the public interest; and
- To help establish and consolidate peace, both nationally and internationally, and play their part as members of the global community effectively.

Here are some generic requirements, which this study has revealed:

- Professionalism in public policy planning and development;
- Professionalism in policy and programme implementation;

There can be little doubt that giving democracy meaning and raising the level of competence in governance begin with the reinforcement of the capacity of States to meet the needs and expectations of their citizens

Assisting developing countries and countries with economies in transition in building or refining ... structures and policy frameworks represents an urgent priority

- Professionalism in human resources management and development;

- Professionalism in the management of money, equipment, technology and information; and

- Professionalism in performance measurement, monitoring and evaluation.

As pointed out in a recent report of the United Nations:

“Professionalism in government, or any other field, rests on two foundations: one is a competence base, a special body of knowledge or a definable skill acquired through study and practice. The concept of professionalism, however, also suggests a shared values system, a code of ethical conduct that manifest themselves in the application of knowledge, the use of particular skills, and in the exercise of control over practice” (UN, 1999, ST/ESA/PAD/SER.E./3, p. 97).

Enhancing professionalism is also predicated on two related objectives:

- First, to restore, enhance and highlight the virtue, value and dignity of service to the community;

- Second, to promote and take concerted measures which are required to raise motivation, morale, integrity and commitment among all public servants, elected and appointed, and at all levels of government.

6. Reinforcing core public service values

Reinforcing core public values should be based on a number of elements:

- Revaluation of learning, integrity and competence;

- Stress on the merit system, while paying due regard to affirmative action in favour of minorities and historically or otherwise disadvantaged groups;

- Growing sensitivity towards and respect for the citizens’ needs;

- Low tolerance for laxity, corruption and crime;

- Increasing recognition of the need to acknowledge and to reward industry, loyalty, accomplishment and merit;

- Increasing recognition of the value of neutrality of civil servants and of the need to secure a degree of autonomy of public personnel management from extraneous pressures in order to safeguard high quality performance, motivation, integrity and professionalism in the public service;

- Increasing recognition of the value of cross-cultural and international links as means towards the improvement of the professional image and performance of the public service (ibid., p. 24)

7. Assisting developing countries with institution-building

It is idle to pretend that such values can be established and fostered overnight or without any regard to the political, social and cultural environment in which a public service operates, but also and most importantly, without appropriate structures, legislative and policy frameworks designed to tap, attract, retain, develop and motivate the needed men and women using their skills productively and effectively. Assisting developing countries and countries with economies in transition in building or refining these structures and policy frameworks represents an urgent priority and a strong recommendation of this Report. It cannot be overstressed that policy advice and programmatic assistance offered by either the bilateral or the multi-lateral programmes must respect the distinct legal and political traditions of different countries, which vary widely. Some countries, for example, adhere to a tenure career system, while others, by contrast, prefer more flexible staffing arrangements. One size does

not fit all. Nevertheless, experience strongly suggests the need to professionalize human resources management and development in the public service sector. It seems rather incongruous that a large body of knowledge and accumulated experience on these subjects has yet to make its mark on civil service reform and public administration, in all too many countries. It is even more regrettable that public service employment remains, in several countries, a haven of clientelism, patronage and partisanship. Not surprisingly, in such countries, the State is also regarded as the employer of last resort. We must reevaluate public service as a necessary prerequisite to reinforcing democracy, the State and sustainable development. Whatever measures are needed to combat unemployment, using the public sector as refuge for the jobless is certainly not the way.

8. Building networks among public services: the United Nations can help

One of the visible outcomes of globalization is that it has expanded the range of contacts among senior civil servants and government officials from different parts of the world. Delegates and representatives from North and South periodically meet at international conferences, which are convened for purposes of trade negotiations or to develop the basis of international cooperation in any of a number of major policy areas. At meetings of this nature, national representatives from the developing countries suffer from many drawbacks, which cannot be readily remedied. Not only are they required to bargain from a weaker negotiating position, but in so doing they may also compete unfavourably in terms of information, degree of specialization and time they may devote to mastering a subject. They often lack the equipment, databases, and support staff, which are not as readily available in the South and East as in the North and West. They live from hand to mouth, coping with emerging crises, dealing with top priorities but, for that very reason, also tempted on occasions to leave other matters aside. Under such conditions, the broader long-

term issues, including global agendas, may not receive the attention which they deserve.

There is no easy solution to this difficult predicament of small developing countries and countries in transition. However, there are ways in which the international community could facilitate a more active and effective participation of the developing countries in international governance. One obvious modality is policy advice and briefing on emerging major issues of policy; another is assistance in coping with the deficit in diagnostic, negotiating and related skills; a third could take the form of online networks providing up-to-date and comparable data in readily usable form. The United Nations Online Public Administration Network (UNPAN) affords an illustration of what advanced technology can do to bring policy advice, information and training within the reach of officers in the developing countries.

Globalization and rapid change trigger two antithetical although concurrent trends: convergence in some aspects, but also divergence and diversification in others. There exists today an infinitely greater variety of specializations, group interests, ideologies, and points of view than fifty years ago. This growing differentiation poses a challenge to managers that goes beyond the need for tolerance of diversity. It calls for listening skills, capacity to mediate and arbitrate, finding a common ground between opposing views, turning potential conflicts into win-win situations, and sources of opportunity for the greater good of all.

9. Helping developing countries to cope with complexity and change

Helping developing countries and countries in transition confront the pressing challenges of globalization must also encompass programmes designed to enhance capacity in coping with diversity, complexity and change. The need is institutional, in other words, it requires the crafting or fine-tuning

Globalization and rapid change trigger two antithetical although concurrent trends: convergence in some aspects, but also divergence and diversification in others

Mobilizing world opinion for international action on issues of global concern is our best chance [for success]

of structures for consultation, mediation and policy coordination, but also manifests itself in the new required profile for senior policy advisers and senior public managers. At the national, sub-national and international levels, both policy advisers and senior public managers are increasingly faced with the demanding tasks of reconciling differences, mediating disputes, resolving thorny conflicts, negotiating agreements and trying to build consensus in a volatile environment where differentiation takes on a variety of forms:

- Diversity of cultures, ethnicity, language, religion or ideology;
- Diversity of political, legal and economic systems; and
- Diversity of conditions, interests and viewpoints.

The above are all compounded by an enormous range of fields of specializations that go into policy-making and policy-implementation. Tackling complex issues effectively calls for substantial knowledge of economics, politics, psychology and law, as well as other disciplines depending on the nature of the problem at hand. It calls for historical depth and comparative perspective, and uncommon sensitivity to the dynamics of human interaction. There is a pressing need for proper responses to globalization, which can bring many opportunities to developing countries. Nevertheless, as indicated in the Report, it also has social adjustment costs which require both States and other players on the international scene to strengthen their capacity for long-term policy planning. They call for institutions and competencies needed to handle consultations on multi-faceted issues of considerable complexity. The international community can play a major role in this respect through policy advisory services, targeted training programmes, and information exchanges. Its task is really twofold:

- On the level of the States, it needs to cooperate with the developing countries and countries in transition in building the capacity which makes for democratic and more effective

governance, but also will enable them to be more active players on the international scene;

- On the international level, it needs to cooperate with all the States, as well as NGOs and other non-state actors in improving, modernizing and fine-tuning the machinery for global governance.

10. Making globalization an instrument of inclusion

To turn globalization into an effective instrument of inclusion and opportunity, not fear, we should endeavour to make it work for the good of all and of the future; not just for the short-term and for the good of a few. This is no easy task, given the vast disparities of power and wealth and the realities of global power politics. Still, even within these constraints, possibilities do exist; we must seize these opportunities. Mobilizing world opinion for international action on issues of global concern is our best chance. Success is predicated on democratic States shouldering their responsibilities and playing an active part in global governance. Reinforcing state capacity, as well as making the global institutional framework more democratic, are necessary conditions for people to enjoy the benefits of globalization and to protect and promote the interests of vulnerable groups in society. In fact, globalization is an opportunity and a challenge. Working together it can be made into a formidable tool for the progress of all humanity.

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PART TWO

Part Two

Introduction

Part Two of this Report is meant to be a constant feature of all future issues. It will present data on the public sector, measurement tools and relevant statistical information. Its goal will be to provide a meaningful indication on how quantitatively the public sector changes along the years, and possibly to make some connection between these changes and its functioning. In this inaugural issue of the Report a first methodological analysis is carried out, aimed at answering three basic questions: (a) How can the size of the public sector be measured in theory? (b) How can it be measured in fact, given the constraints of existing data? (c) What accounts for observed variation in the size of the public sector?

The first question is extremely difficult. To measure the total impact of the State on society is a very complex task, in part because the impact of government regulations cannot be quantified in any meaningful way. Nonetheless, it is possible to measure specific aspects of the size of the public sector. There are three broad approaches: production, consumption and expenditure. The production and consumption approaches rely on information from basic national accounts, whereas the expenditure approach requires knowledge of government taxation and outlays; expenditure is the most comprehensive of the three approaches, in that it focuses on government, but includes public and private corporations to the extent that government subsidizes goods and services sold in the market.

The second question presents another set of problems dealing with actual measurement. For the production approach, output statistics are not generally available. Employ-

ment statistics are available for governments or less frequently for the entire public sector, but only for a limited number of countries and years. The employment figures suffer from lack of comparability in addition to their limited availability. Statistics on government consumption expenditure (but not actual final consumption) are widely available. However, these also suffer from poor inter-country comparability, primarily because governments sometimes choose to record public spending on health and education as government consumption (transfers in kind), sometimes as subsidies (negative taxes), and sometimes as cash transfers to households. Expenditure data are available in most cases only for central governments, without any estimate of the value of tax expenditures, much less the value of implicit subsidies given to producers.

For the third question, despite these theoretical ambiguities and the poor quality of available data, it is possible to provide some surprisingly robust answers. When government is measured by employment or by consumption expenditure, there is strong evidence of economies of scale in the provision of services, but no evidence that the size of government is reduced by globalization. When government is measured by central government expenditure, it is globalization that determines its size, with no evidence of economies of scale. In sum, there are economies of scale in the provision of government services such as defense, health and education, but a government's budget is driven by globalization, not by the land area or population of a country.

Part Two

Defining and measuring the size of the State

1. Conceptual framework

What does it mean to say that the public sector of one country is larger than that of another, or that the public sector in a particular country has increased in size over time? Since the public sector is the embodiment of the State, to answer this question one must first clarify the meaning of the word “State”.

In no country is it legal for individuals, acting in their own self-interest, to force others to do something against their will. In many countries citizens are allowed to organize business firms, trade unions or religious societies, but these institutions rely, for the most part, on the market and on persuasion to recruit members and to influence the behaviour of others. Large corporations such as General Motors (or Volkswagen or Toyota) offer automobiles for sale. They persuade, or attempt to persuade, with advertising, but there is no way they can force consumers to purchase these products. Market transactions are voluntary, as is participation in civic and social causes. Individuals purchase goods or services only if they find the cost to be less than the satisfaction or utility they expect to derive from them. And they join a firm, church or sporting club only if it is in their interest to do so.

The State is different. It is not a voluntary organization. It is concerned not with maximization of profit or utility, but with public policy. More importantly, it enjoys a monopoly of legitimate force, limited perhaps by

democratic tradition, a written constitution or a bill of rights. The State is able to (a) impose regulations on and collect taxes from other sectors of the economy, (b) produce goods and services that it can either sell in the market or supply free of charge to individuals and the community, and (c) distribute funds through transfers. We examine each of these forms of State intervention under five headings: regulation, taxation, production, consumption and cash transfers.

1.1. The State as regulator

The State is able to regulate economic activities in myriad ways that affect virtually everyone. There are many examples. The State establishes and enforces standards regarding health, safety, hours of work, minimum wages and emission of pollutants. It issues and limits the number of licenses for taxis, restaurants, hairdressers, radio stations, and countless other businesses. It establishes quotas for the import and export of specific products. It requires automobile drivers to purchase liability insurance and workers to save for their old age.

It is extremely difficult to quantify the extent of this regulation of economic activity. It is possible to count the number of regulatory laws that are in effect, and some researchers have done so. But the number of laws may bear little relation to the extent of regulation. An alternative is to estimate the amount of economic activity that is subject to regulation; but this measures the size of the formal, as opposed to the informal, sector of an economy. Such a statistic would not



Without tax revenue, a State cannot survive. It can order its central bank to print money, but that is a form of taxation

allow one to rank countries by degree of regulation nor measure changes in the extent of regulation over time. Indeed, the relationship between regulation and formality is not necessarily positive, for onerous regulations encourage growth of the informal sector.

In sum, even though regulation is an important function of the State, it is virtually impossible to measure in any meaningful way, and thus will be ignored in the remainder of this Part.

1.2. The State as tax collector

Without tax revenue, a State cannot survive. It can order its central bank to print money, but that is a form of taxation since the resulting inflation erodes the real value of cash balances held by the public. The State can also finance its expenditures by borrowing, but it is the capacity to collect taxes in the future that gives it access to capital markets today.

The amount of taxes collected is determined by expenditure requirements, at least in the long-run. But the State affects profoundly the economy and the distribution of income by the way in which it collects taxes. Groups of citizens or particular activities are favoured when they are exempted from payment of taxes. These “tax expenditures” give the illusion that the State is smaller in terms of revenue or expenditure, and distort inter-country comparisons. To cite a simple example, governments typically allow taxpayers an income tax deduction for each dependent child. A number of European countries provide in addition generous monthly payments to the family of each child, with the result that government expenditure and taxation is larger than it would be if the State relied solely on income tax deductions. Another example is subsidies given to homeowners by allowing deduction of mortgage interest payments. Other things being equal, one would like to conclude that the State is larger with this preferential treatment of homeowners over renters. Yet, because the mortgage interest deduction is tax expenditure rather than a

cash subsidy, it does not show up as increased government expenditure or taxation. Other examples are the tax concessions granted to firms that locate in a specific area, export certain products, or behave in other ways desired by the State.

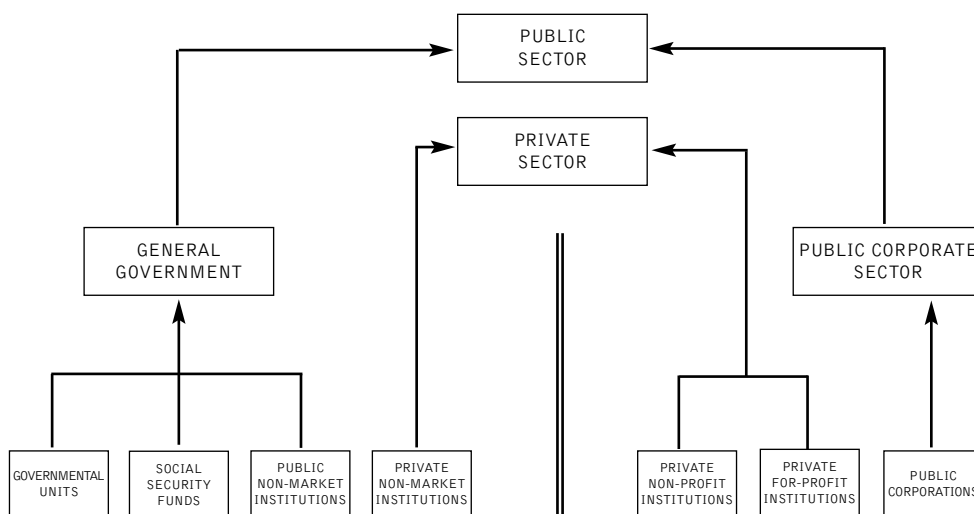
It would be informative to sum all tax expenditures in each country for purposes of comparison. Unfortunately such data are collected in few countries. Tax expenditure, unlike regulation, is simple to measure; nonetheless it is seldom done.

1.3. The State as producer

A third function of the State is the production of goods and services. Those destined for final consumption are either sold or distributed without charge to residents. The System of National Accounts (SNA)¹ distinguishes between these two types of production, and refers to them as market and non-market activities (see figure 1 below). Goods and services sold on the market are regarded as output of public corporations, not government. They are valued at market prices, even if these prices are less than cost. Examples are publicly-owned telecommunications, railways, electric utilities, and postal services. Goods and services which are produced by employees of the State and distributed without charge (or at prices which are not economically significant) are deemed to be the output of general government. This includes the activities of government ministries, but it also includes activities of public non-market institutions such as schools, provided they are both controlled and financed by government. “Government” in the SNA refers to activities of the central government and all lower levels of government, such as municipalities.

An institution that is not controlled by the government, regardless of the extent of public financial support, is deemed to be private. This is true for public universities that enjoy considerable autonomy and for schools and hospitals that are wholly or partially financed by government but run by religious orders or other non-profit institutions.

Figure 1. The Public Sector in the 1993 System of National Accounts (SNA)



Source: Adapted from OECD, *Statistical Sources on Public Sector Employment* (Paris, 1994), p. 38.

Other definitions of public sector production are possible. Discussion is limited here to the SNA because it is a system that was prepared under the auspices of an Inter-Secretariat Working Group drawn from five organizations: the European Commission (Eurostat), the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), the United Nations (DESA's Statistics Division and regional commissions) and the World Bank². Moreover, it is a system accepted, even if not fully implemented, by the vast majority of countries today.

When goods and services are distributed free of charge, or are sold for low, non-market prices, national income accountants typically value the output at cost rather than at market price. The value of the output of public schools, for example, is assumed to equal the sum of salaries paid, plus textbooks and other purchased materials, plus depreciation and maintenance of buildings, grounds, furniture and equipment. Occasionally, goods and services similar to those distributed for free are offered for sale at market prices, providing useful information that can be used to impute the value of the output of public or private institutions operating outside the mar-

ket. But this is rare. In nearly all cases, the value of non-marketed goods and services is assumed to equal their cost of production.

It should be straightforward to measure the size of the public sector by summing the output of the general government (which is not sold on the market) and the output of the public corporate sector (which is). To avoid double counting, this would have to be done as value-added, that is, as the value of production less the cost of intermediate inputs. Value-added comprises depreciation and the cost of capital as well as the cost of labour.

Unfortunately, public production statistics are not generally available. What is available, for some countries and some years, are estimates of the number of persons employed by the central government or by the entire public sector. Estimates of government employment are thought to be more reliable, or at least more comparable, than estimates of employment in public corporations, largely because of problems in the definition of what constitutes a public as opposed to a private corporation.

Estimates of government employment suffer from problems of inter-country comparabil-

There is no term in the accounting identity for corporate or business consumption. The SNA assumes that all private consumption of final goods and services is by households

ity as well. Some countries report the total number of employees (both full-and part-time), whereas others report only the number of full-time workers. Few countries follow the SNA recommendation of reporting full-time or equivalent employees. A more serious problem is that some countries include military personnel, whereas others exclude them. Furthermore, some of these statistics include military conscripts, even though the SNA stipulates that labour that is not paid an economically significant wage be excluded from national accounts. Another serious problem is the occasional inclusion of market activities in figures for government employment. Italy, for example, until 1993 included postal and telecommunications employees in total government employment. These individuals were excluded in 1994, but previous data were not corrected, and so Italy reported a large drop in government employment in that year because of this reclassification of public employees. However, even close adherence to SNA guidelines can create problems for analysis. Austria, for example, registered a 13.5 per cent fall in government employment in 1997, which was not the result of any contraction of government spending, but rather as a reform of the health sector, with more autonomy given to public hospitals and clinics, and their subsequent reclassification as private institutions.

1.4. The State as consumer

It is said that the State participates in the economy as a consumer as well as a producer. The famous accounting identity of elementary macroeconomics is:

$$GDP = C + I + G + (X-M),$$

i.e., gross domestic product is the sum of private consumption plus gross investment³ plus government consumption plus net exports. Private consumption is of final goods and services only. Intermediate goods, which are inputs into the production of final goods, are not counted separately since their value is already included in the price of final goods. Investment includes public as well as private expenditure on new buildings, highways,

port facilities and equipment. Construction is often shown separately from expenditure on capital equipment.

There is no term in the accounting identity for corporate or business consumption. The SNA assumes that all private consumption of final goods and services is by households. Corporations consume only intermediate goods, inputs into the production process. Workers, managers and stockholders consume final goods and services, but corporations do not.

Why, then, is there a term for government consumption? Is it not true that all government output intended for final consumption is distributed to the public either free of charge or for a nominal fee? A case can be made that government consumption of final goods and services, like corporate consumption, is in all instances equal to zero. Much of the output of government, such as schooling, health services and defence, could easily be classified as final consumption of households. Government output that is not capital formation and does not benefit consumers directly could be classified as an intermediate input into final production. Public highways, for example, are used to transport goods as well as people, and delivery is part of the cost of production. The justice system benefits parties to a business contract, who otherwise would have to hire someone as an intermediary in the event of disputes. Also, agricultural extension services are intermediate inputs into food production.

The SNA does not take this approach. It assumes that all government output other than capital formation is for final consumption and defines actual final consumption of government to be equal to its consumption expenditure on collective services. "Although collective services benefit the community, or certain sections of the community, rather than the government, the actual consumption of these services cannot be distributed among individual households, or even among groups of households such as subsectors of the household sector"⁴. This limits government consumption to general adminis-

tration and other collective consumption goods such as defence. Since there is no provision for government production of intermediate goods, the remainder of government output is allocated to capital formation (investment) and private consumption.

No country publishes estimates of actual final consumption of government as defined in the SNA. Published statistics refer to consumption expenditure, which is also defined in the SNA. The measured size of government is much larger under this approach. Government consumption expenditure is the output of general government less sales less capital formation plus goods and services purchased from the private sector and transferred in kind to households or the community. Transfers “in kind” include goods and services purchased by households or non-profit institutions and reimbursed by government.

The philosophy behind the expenditure approach is that consumption is private only when households are free to save or to switch the value of the expenditure to some other item of consumption⁵. When government provides free goods or services, such as health care or schooling or weather reports, this is classified as government consumption. An individual is free to consume or not consume free health care, but is not free to reduce consumption of free health care in order to increase his or her savings or consumption of food. It makes no difference whether the institution that produces the goods or services is private or public. All that matters is that government finance the specific consumption. If the consumer pays something out of pocket, such as tuition fees for education or charges for visits to a clinic or hospital, then part of the expenditure is allocated to government and part to private consumption. If the consumer pays nothing, the entire expenditure is allocated to government consumption, even if the school, hospital or clinic is in the private sector.

In summary, government consumption expenditure is equal to the sum of government production (less any fees collected) plus government purchases of (or reim-

bursements for) goods and services that are distributed without charge to individuals and to the community at large. Government consumption expenditure is often abbreviated as “government consumption”, and is typically much larger than government production.

Data on government consumption expenditure are readily available from the national accounts of a large number of countries, and for this reason are popular measures of the size of government. Inter-country comparability of the data is unfortunately marred by two problems. First, some countries are known to understate government consumption by classifying transfers in kind as cash transfers to households. An example is the United States, which, in its national accounts, classifies reimbursements through Medicare and Medicaid as cash transfers to households rather than as government consumption of health services. Similar practices exist in the compilation of national accounts for expenditures on health care in Australia, Austria and Spain⁶. At the same time, other countries with extensive systems of private medical care, such as Canada, following SNA guidelines, classify public expenditures on health care as government consumption. Similar discrepancies exist in the treatment of other social transfers in kind, such as education. The resulting statistics for government consumption are thus not fully comparable between countries.

A second and more serious problem arises from the classification of government expenditures as production subsidies rather than as social transfers in kind. This is a more serious problem because that classification is allowed by the SNA. Governments are free to classify expenditures in support of independent universities and hospitals, for example, as either (a) transfers to households, which is part of government consumption, or (b) production subsidies, which are treated as negative taxes. Subsidies to producers reduce the value of measured output and consumption whereas transfers to households do not. This affects significantly the comparability of estimates of government consumption across countries and across time⁷.

Data on government consumption expenditure are readily available from the national accounts of a large number of countries, and for this reason are popular measures of the size of government

For the purpose of measuring the size of government, it makes little sense to look at subsidies and cash transfers separately from social transfers in kind or ... from government provision of collective consumption goods

1.5. The State as provider of cash transfers and subsidies

As has been shown, consumption expenditures of government consist of goods and services supplied to individual households and to the community as a whole. Governments also provide cash payments to households and producers. When the recipient is a household the payment is defined in the SNA as a current transfer payment. When the recipient is a private or public institution it is defined as a subsidy or, when tied to the acquisition of fixed assets, as a capital transfer.

Transfer payments include payment of interest on the national debt, provision of public pensions for the elderly, income support for the unemployed, and other cash outlays. These expenditures do not add to government consumption expenditure, but they transfer purchasing power from the taxpayer and the purchaser of government bonds to designated individuals and institutions. This redistribution of income is an essential feature of the modern Welfare State.

For the purpose of measuring the size of government, it makes little sense to look at subsidies and cash transfers separately from social transfers in kind or, for that matter, from government provision of collective consumption goods. A useful measure of the presence of government in an economy would thus be government consumption expenditure plus subsidies and cash transfers. Unfortunately, this statistic is not available at the present time, though national accounts are moving in this direction with satellite tables known as “income and outlay” accounts.

One important subsidy that is never recorded in national accounts is the implicit subsidy to producers provided by tariffs on imports. Protection allows domestic producers to raise their prices, in effect forcing consumers to subsidize their products. Governments could achieve the same result by taxing the consumption of specific goods, then returning the tax as a subsidy to domestic producers but not to importers. This policy, except for

administrative expenses, would replicate tariffs, but it would be recorded as explicit taxes and subsidies. With tariffs, governments record only taxes collected on actual imports, not the implicit taxes paid by consumers who purchase protected domestic output. With very high tariffs, or import prohibitions, protection is high yet few or no taxes are collected.

What is widely available are data on actual taxes collected and expenditures made by central governments. With few exceptions these do not provide information on government consumption, for there is almost never an estimate of depreciation of buildings and equipment. Instead, the data include capital expenditures, which are often not collected separately from other expenditures. The entire expense of a new building, for example, is allocated to the year of its construction even though it provides services for many subsequent years. This is an important limitation of the data. A more serious drawback, however, is the fact that, with few exceptions, information on taxes and expenditures of lower levels of government is not available for developing countries. Sometimes researchers report total government tax revenue and expenditures for developed countries, then central government tax revenue and expenditures for developing countries, eliminating from their sample two obvious federal states (Brazil and India). This does not seem to be appropriate, since many unitary States also have large local government expenditures, and thus central government taxes and expenditures are reported for all countries, developed as well as developing⁸.

1.6. Measuring the size of the public sector

It has been shown that there are many ways to measure the size of the public sector, and that policies chosen by governments to achieve specific goals have a profound effect on these measures. This can perhaps best be illustrated with a simple example.

Suppose that the State wants to improve air quality through generalized use of catalytic converters on motor vehicles. There are a number of ways to accomplish this goal. The State may simply use its power to regulate, that is, decree that each motor vehicle sold in the country be equipped with a catalytic converter. A cost is imposed on the consumer, which shows up in the national accounts as private consumption expenditure. There is no change in the size of the public sector, at least in so far as we are able to measure it.

Alternatively, the State may choose to produce catalytic converters in publicly owned plants, then sell them to consumers, who are required to install them on their vehicles. This policy increases the size of the public corporate sector, but it has no effect on government production or consumption.

Rather than sell the catalytic converters it produces, the State might choose to give them away (or charge an economically insignificant price) to all owners of motor vehicles. With this policy, the cost of production of catalytic converters is registered in national accounts as government production, and consumption of catalytic converters is registered as government consumption expenditure. By either measure, the size of government increases. If instead of giving the product away, the State subsidizes purchasers by granting them an income tax credit, there would be no measurable effect on government production (since the catalytic converters are sold in the first instance) or consumption (for the same reason).

Now suppose that the State chooses not to produce catalytic converters, but rather to purchase them from the private sector and distribute them free of charge to owners of vehicles. The result (compared to the situation prior to mandated catalytic converters) is an increase in government consumption expenditure, with no change in government production.

Finally, suppose that the State decides, rather than provide each owner of a motor vehicle with a transfer in kind, to subsidize

the private production of catalytic converters so that their price is close to zero. Subsidies are not part of government consumption, and so government expenditure is the only measure that will capture this increase in the size of government.

In any of these scenarios, the costs to society are the same: the resources needed to produce the required number of catalytic converters. And the benefits to society are also the same: improved air quality. But effects on measured size of the public sector vary greatly, as do effects on household budgets. With pure regulation, costs of cleaner air are borne proportionately by those contributing to pollution. With free government provision of catalytic converters, costs are borne by taxpayers in general, irrespective of their contribution to air pollution.

In this particular example, countries everywhere rely solely on regulation to mandate the use of catalytic converters. But policy-makers by no means pursue all goals in this manner. In the above discussion, substitute “primary education” for “catalytic converters” and “households with children” for “owners of motor vehicles”. All of the options are again equally plausible, yet countries around the world do not stop with regulation (requiring each child to attend school); they almost invariably offer residents free public schooling or, at the very least, provide generous subsidies and tax credits for independent schools.

Subsidies are not part of government consumption, and so government expenditure is the only measure that will capture this increase in the size of government

2. Measures of the size of government

Rather than focus on a single measure of the size of the public sector, this Part of the Report presents available data for a variety of measures: government and public sector employment, government consumption expenditures, central government expenditure and central government tax revenue. This Part ends with a discussion of possible determinants of the size of the public sector and a brief conclusion. The emphasis throughout is on differences between countries and re-

gions of the world at the beginning of the decade and in the latest available year, which is usually the year 1997.

2.1. Government and public sector employment, 1990 and 1997

Table 1 below reports data on government and public sector employment for the years 1990 and 1997 or closest to those two years that are available. The main source of information is a Survey on public sector employment statistics that the International Labour Organization carried out in October of 1998⁹. This was supplemented with data from the OECD for eight countries. In all cases the data are comprehensive, in that they include employment at all levels of government.

To facilitate comparisons, the number of persons employed is shown for each country as a percentage of the total population. The ILO reports government employment as a percentage of total employment. This is not done here because “total employment” misses a large percentage of workers in some countries¹⁰. Calculations were also made for the total population aged 15 through 59; these are not reported because this alternative measure did not affect comparisons of regions, nor the statistical results for determinants of the size of the public sector.

Detailed results can be seen in table 1 above, while figures 2a through 3c below provide a quick overview. Two types of diagrams are used in the figures of this and subsequent sections. The first type of diagram contains bars, one for each region of the world. The bottom of the bar is the minimum value registered by countries in the region, and the top is the maximum value. In other words, the bar represents the range of observations that are observed. The solid horizontal line represents the median, or midpoint, of the distribution. One-half of all observations lie below, and one-half above the median. Unless a distribution is very symmetrical, the median is not equal to the simple average (mean) reported in table 1 below.

The second type of diagram provides a quick overview of trends. It consists of a square with a diagonal line running from the lower left hand side to the upper right hand side corner. For each country, a single point is entered into the box. The vertical axis measures the statistic for 1997 and the horizontal axis the same statistic for 1990. If an observation lies below the diagonal line, this means that employment is falling as a proportion of population. If it lies above the line, this indicates that employment is rising.

Figures 2a and 2b below contain the bar diagrams for government employment in five regions of the world; three features are striking. First, government, as measured by the share of government employees in the total population, is surprisingly large in the developed and transitional economies compared to developing countries. Second, by this measure, governments are smallest in Africa, followed by Asia and Latin America, in that order. Third, there is an impressive diversity of government sizes in all regions, especially for the transitional and developed countries, and this seems more important than any measure of central tendency such as the mean or the median.

Estimates of government employment exist for 51 countries in 1990 and 54 in 1997 (or proximate years), but only for 47 countries are there estimates for both years. Figure 2c below illustrates the trend in government employment for these 47 countries. Most of the observations are close to the diagonal, an indication that there was little change in government size. But two economies in transition (Azerbaijan and Kazakhstan) register impressive reductions in the ratio of government employment to total population.

Figures 3a and 3b below show the same statistics for employment in the public sector (general government plus public corporations). The public sector, as is the case with government narrowly defined, tends to be larger in developed and transitional economies compared to developing countries. Observations for Latin America and the Caribbean are

Estimates of government employment exist for 51 countries in 1990 and 54 in 1997 ... but only for 47 countries are there estimates for both years

Table 1. Government and Public Employment as a Percentage of Population
(available countries and simple averages for groups of countries)

| Country | Year | Government | Public Sector | Year | Government | Public Sector |
|-----------------------------|------|-------------|---------------|------|------------|---------------|
| Complete Sample | | 6.2 | 11.9 | | 5.7 | 9.4 |
| Developed Countries | | 7.8 | 9.4 | | 7.8 | 10.9 |
| Australia | 1990 | 7.6 | | 1997 | 6.8 | |
| Austria | 1990 | 5.7 | | 1996 | 5.8 | |
| Canada | 1990 | 9.6 | 10.9 | 1997 | 8.4 | 9.2 |
| Denmark | 1990 | 12.5 | | 1997 | 15.6 | 17.9 |
| Finland | 1990 | 10.8 | 14.2 | 1997 | 10.2 | 12.1 |
| France | 1990 | 8.1 | | 1996 | 7.5 | |
| Germany | | | | 1997 | 6.3 | 7.9 |
| Iceland | 1990 | 7.2 | | | | |
| Ireland | 1990 | 5.9 | 7.8 | 1996 | 6.2 | 7.7 |
| Isle of Man | | | | 1996 | | 10.3 |
| Italy | 1990 | 6.4 | | 1995 | 6.1 | |
| Japan | 1991 | 4.0 | | 1996 | 4.1 | |
| Luxembourg | 1990 | 4.0 | | | | |
| Malta | | | | 1998 | 8.4 | 13.0 |
| Netherlands | 1990 | 4.9 | | 1995 | 4.6 | |
| New Zealand | 1990 | 6.7 | 8.8 | 1997 | 5.6 | 6.5 |
| Norway | 1990 | 13.7 | | 1995 | 14.9 | 18.2 |
| Spain | 1990 | 4.3 | 5.4 | 1997 | 5.0 | 5.7 |
| Sweden | 1990 | 14.9 | | 1995 | 11.9 | |
| United Kingdom | 1990 | 7.6 | | 1997 | 6.5 | |
| United States | 1990 | 7.2 | | 1997 | 7.3 | |
| Transition Economies | | 10.1 | 29.8 | | 7.1 | 16.0 |
| Albania | 1993 | 5.6 | 11.6 | 1997 | 4.6 | 7.2 |
| Azerbaijan | 1990 | 23.6 | 30.3 | 1995 | 17.2 | 21.5 |
| Belarus | 1991 | 10.2 | 34.5 | 1997 | 10.9 | 24.5 |
| Croatia | 1990 | | 33.4 | 1997 | | 12.1 |
| Czech Republic | | | | 1997 | 7.3 | 11.3 |
| Estonia | 1990 | 14.1 | 38.5 | 1996 | 10.5 | 16.3 |
| Hungary | 1992 | 7.8 | | 1997 | 7.5 | 9.5 |
| Kazakhstan | 1994 | 22.6 | 32.9 | 1997 | 11.6 | 34.2 |
| Latvia | | | | 1997 | | 14.5 |
| Moldova, Rep. Of | 1990 | 0.7 | 29.8 | 1997 | 1.1 | 10.2 |
| Poland | 1990 | 6.3 | 23.4 | 1996 | 6.3 | 13.8 |
| Romania | 1990 | 0.4 | 34.1 | 1996 | 0.6 | 16.9 |

Table 1. (concluded)

| Country | Year | Government | Public Sector | Year | Government | Public Sector |
|------------------------------------|------|------------|---------------|------|------------|---------------|
| Complete Sample | | 6.2 | 11.9 | | 5.7 | 9.4 |
| Developing Countries | | 3.4 | 5.9 | | 3.4 | 5.7 |
| Africa | | 1.9 | 3.9 | | 1.9 | 4.6 |
| Botswana | 1990 | 5.1 | 6.0 | 1995 | 5.8 | 6.7 |
| Burkina Faso | 1990 | 0.4 | | 1997 | 0.4 | |
| Egypt | 1990 | | 2.0 | 1995 | | 1.9 |
| Ethiopia | | | | 1994 | | 1.3 |
| Gambia | | | | 1998 | 1.3 | 1.6 |
| Kenya | 1990 | | 2.9 | 1996 | | 2.5 |
| Libya | | | | 1995 | | 13.7 |
| Malawi | 1990 | 1.1 | 1.4 | 1995 | 1.1 | 1.6 |
| Senegal | 1992 | 0.8 | 1.1 | 1997 | 0.8 | 0.8 |
| Seychelles | 1990 | | 12.8 | 1995 | | 12.9 |
| South Africa | 1994 | 1.5 | | 1997 | 1.1 | |
| Tanzania | 1991 | 1.2 | 1.9 | | | |
| Zimbabwe | 1990 | 2.9 | 3.4 | 1997 | 2.5 | 2.9 |
| Latin America and Caribbean | | 5.4 | 7.0 | | 4.8 | 6.1 |
| Barbados | 1991 | | 9.5 | 1997 | | 9.4 |
| Belize | | | | 1997 | 2.6 | 4.4 |
| Brazil | 1992 | 3.8 | 4.9 | 1996 | 3.9 | 4.9 |
| Cayman Islands | 1991 | 7.2 | 7.8 | 1996 | 6.3 | 7.0 |
| Costa Rica | 1990 | | 6.5 | 1997 | | 5.4 |
| Dominican Republic | | | | 1998 | | 3.5 |
| Ecuador | 1990 | | 4.0 | 1997 | | 3.5 |
| Mexico | 1990 | 4.5 | 5.6 | 1996 | 4.4 | 5.0 |
| Panama | 1990 | 3.3 | 5.7 | 1997 | 3.4 | 5.7 |
| Puerto Rico | 1991 | | 8.0 | 1997 | | 8.2 |
| Trinidad and Tobago | 1990 | 8.3 | 10.5 | 1997 | 8.2 | 10.2 |
| Asia and Oceania | | 3.5 | 6.6 | | 3.6 | 6.3 |
| Bangladesh | 1993 | 0.9 | | | | |
| China | 1990 | | 17.0 | 1996 | | 20.1 |
| Cyprus | 1990 | 5.0 | 6.0 | 1995 | 5.1 | 6.3 |
| Fiji | 1989 | 4.3 | 5.9 | 1996 | 4.0 | 5.9 |
| India | 1990 | | 2.2 | 1995 | | 2.1 |
| Indonesia | 1990 | 2.1 | | 1997 | 2.0 | |
| Iran, Islamic Rep. Of | 1991 | | 7.5 | 1996 | | 6.7 |
| Korea, Rep. Of | 1990 | 1.9 | | 1996 | 2.0 | |
| Macau | 1990 | 3.9 | | 1997 | 3.9 | |
| Malaysia | 1990 | 3.9 | | 1998 | 3.1 | |
| Oman | 1990 | 4.5 | 4.7 | 1997 | 4.2 | 4.5 |
| Philippines | 1990 | 1.9 | 2.1 | 1995 | 1.8 | 1.9 |
| Singapore | 1990 | 3.0 | | 1997 | 2.8 | |
| Sri Lanka | | | | 1994 | | 4.2 |
| Syrian Arab Rep. | 1990 | 5.3 | | 1995 | 5.4 | |
| Tonga | 1988 | 5.1 | 7.0 | 1996 | 5.4 | 7.1 |
| Turkey | | | | 1998 | | 4.6 |

Source: Government and public sector employment data are from ILO, Survey on public sector employment statistics, October 1998, except for Australia, Austria, France, Italy, Luxembourg, Netherlands, Sweden and the United Kingdom, where the source is OECD. Population estimates are those of United Nations DESA, Statistics Division.

surprisingly compressed (the bar has a short height). The vast majority of the 38 countries for which we have data for both years show little change in the ratio of public employment to population: nearly all observations lie on or close to the diagonal line of figure 3c. Seven “outliers” show a large drop in public sector employment; all of these are transition economies that experienced massive privatization of State enterprises (see also figure 3c below).

2.2. Government consumption, 1990 and 1997

Consumption is an alternative way to measure the size of government, and government consumption is typically expressed as a share of GDP. Note that this is a measure of the size of government, not of the entire public sector. In national accounts, government consumption is the sum of all goods and services provided without charge to individual households and collectively to the community. It includes goods and services purchased from the private sector as well as those produced by government, so is not directly related to government employment. It is perfectly possible for a country with low government employment to have high government consumption if government purchases large amounts of schooling, health care and other services from private institutions.

One problem affecting the comparability of these statistics between countries, as has been shown above, is the fact that national accounts sometimes disguise transfers in kind as cash transfers or subsidies that are excluded from government consumption expenditure. Another serious problem is that, at prevailing exchange rates, the cost of government consumption varies widely among countries. Services, such as schooling, nursing or general administration, are seldom traded internationally, so their cost is much lower in countries with low wages. Goods tend to be exported and imported, so the cost and prices of goods tend to be similar regardless of the level of wages. In other words, the relative price of services is low in low-wage countries. Services weigh heavily in government con-

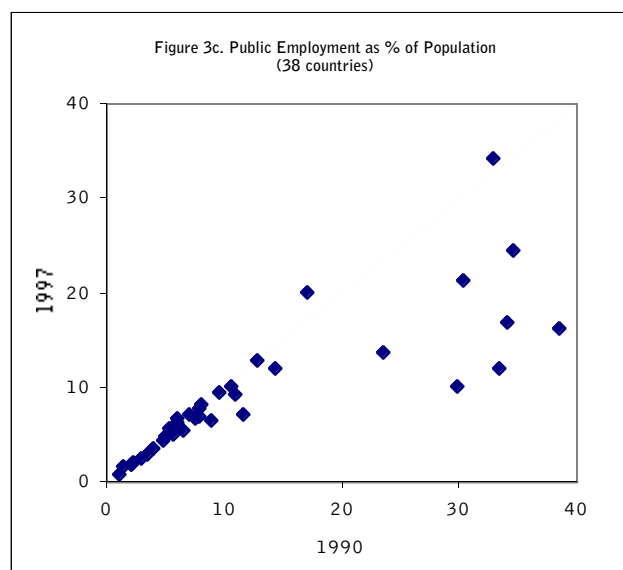
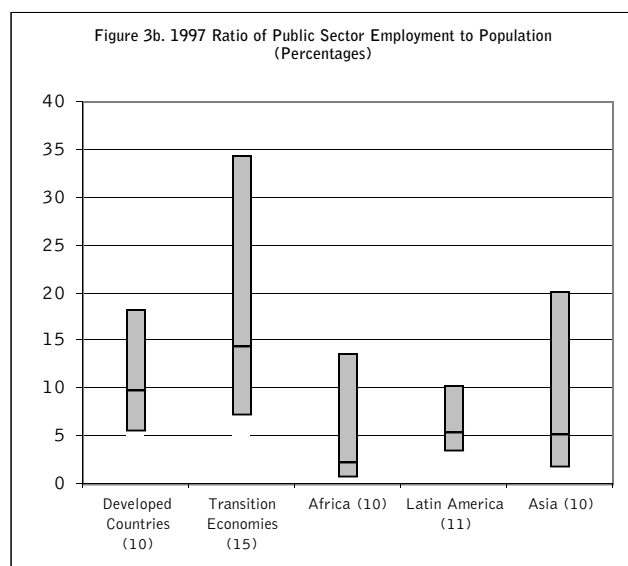
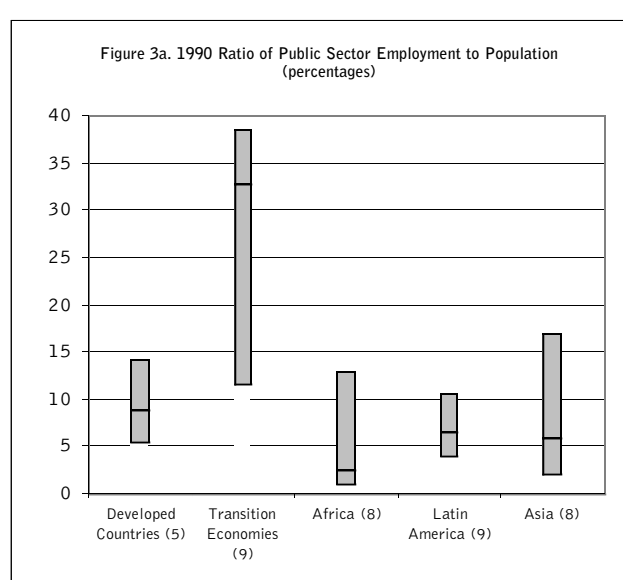
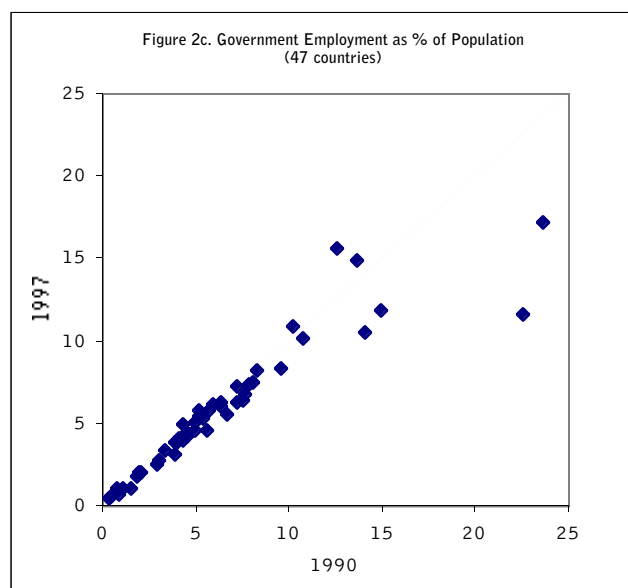
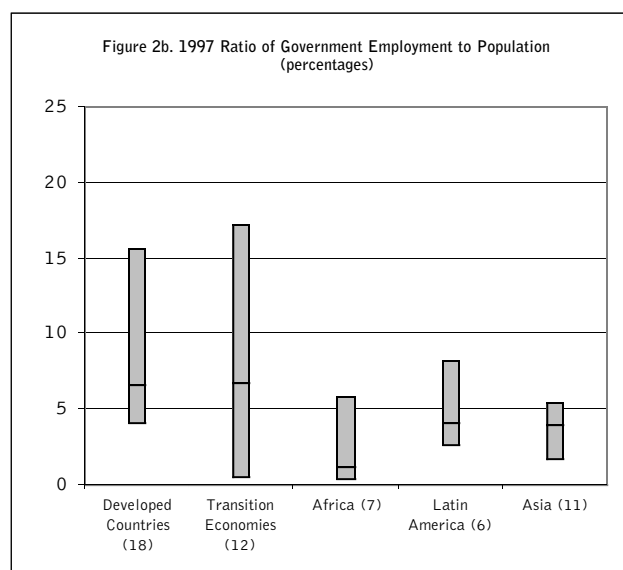
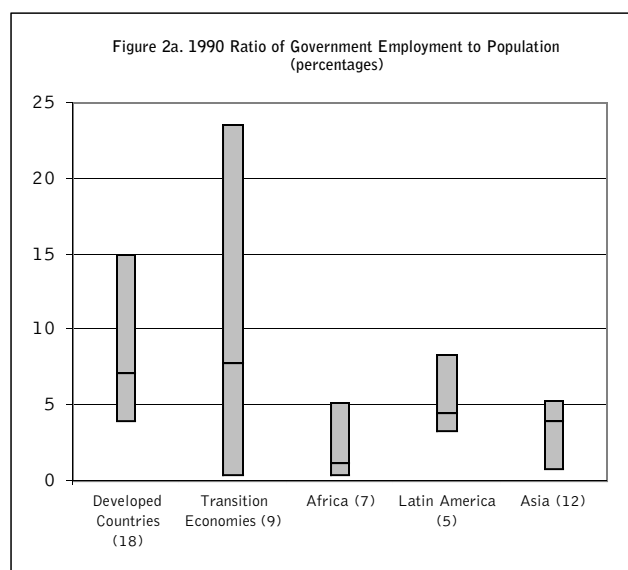
sumption, so division of government consumption expenditure (in local prices) by GDP (also in local prices) biases downwards the estimates of the share of government consumption in the GDP of low-income countries. Similar biases apply to comparisons over long periods of time because productivity in services lags behind productivity in goods, causing the relative price of services to increase¹¹.

The International Comparison Programme (ICP) of the United Nations attempts to solve this problem by estimating the GDP of each economy not in domestic prices, but in prices of a *numéraire* country, the United States. These prices are known as purchasing power parity (PPP) prices because with them one US dollar has the same purchasing power everywhere in the world for a uniform basket of goods and services. It is not enough to know prices in the United States; prices in each economy must also be known in order to transform the GDP components from domestic to PPP prices. The most recent PPP estimates are for the year 1985 and cover 64 countries¹²; the ICP is currently preparing estimates for 1993 covering a larger set of countries.

A group of researchers noted certain regularities between shares of major expenditure components of GDP measured in domestic prices and shares of the same components measured in PPP prices. They used statistical techniques to extrapolate the PPP estimates to years and to countries not included in the ICP. The results are known as the Penn World Tables. The latest version contains statistics for 152 countries, in most cases for the years from 1950 through 1991 or 1992¹³.

The Statistical Appendix comprises tables B1 to B3. Table B1 reports government consumption as a share of GDP in 1990 (PPP prices and domestic prices) and 1997 (only domestic prices). The 1990 government consumption shares in domestic prices were transformed to government consumption shares in PPP prices, using estimates of price levels of GDP and price levels of gov-

Consumption is an alternative way to measure the size of government, and government consumption is typically expressed as a share of GDP



ernment consumption reported in the Penn World Table (Mark 5.6)¹⁴.

Table 2 below summarizes these data with simple averages for the complete sample and for the five main regions of interest. The second and third columns of the table refer to the same statistic: 1990 government consumption in domestic prices; they differ because the sample of countries in the second column is constrained in order to equal the countries for which PPP price data are available. In other words, the first and second columns differ only because prices differ (PPP versus domestic), not because the samples differ.

In comparing the PPP ratios to those for domestic prices, three results deserve mention.

First, government consumption as a share of GDP is much smaller measured in PPP prices than in domestic prices for developed countries, but it is much larger in PPP prices for the developing countries. This pattern is to be expected, since PPP prices are much higher than domestic prices for services in low-income countries. For the very small sample (four countries) of economies in transition, there is little difference on average between government consumption as a share of GDP in PPP prices and the same statistic in domestic prices.

Second, government size, as measured by consumption with domestic prices, is larger in the developed than in the developing countries; this is reversed with PPP prices, which show developing countries to have far larger governments. While there is no doubt that domestic prices understate the importance of government consumption in low-income countries, it may well be that PPP prices create a bias in the opposite direction. Services provided by government are not sold on domestic markets, much less international markets, so output is assumed to equal the sum of inputs and it is very difficult to correct for differences in quality. Schoolteachers and tax collectors in Ghana are paid much less than schoolteachers and tax

collectors in the United States. Is the quality of their work and their productivity identical? PPP estimates assume that they are, provided they have identical years of training, so adjust only for differences in the amount of education that such workers bring to their jobs.

Third, by using this measure, a reduction resulted in the average size of government over the decade in Africa and Asia. In contrast, there was little change in the average ratio of government consumption to GDP in the developed countries or in Latin America and the Caribbean. Surprisingly, the economies in transition registered an increase in government consumption, from an average of 16 per cent of GDP in 1990 to 17 per cent in 1997.

These same data are summarized in a different way in figures 4a, 4b and 4c below. What is striking about these graphs is the fact that in every case a very large range (long bar) overshadows the measures of central tendency. In other words, there appears to be more variation within regions than between regions, with the possible exception of the PPP estimates for developed countries shown in figure 4a below.

2.3. Central government expenditure, 1990 and 1997

A third measure of government size is central government expenditure, which includes cash transfers and subsidies as well as outlays for consumption and investment. These statistics, which are almost as widely used as government consumption statistics, have two unfortunate drawbacks. First, they record investment expenditure rather than depreciation of capital, and consequently all the outlay for a large highway or a new port, for example, shows up in the year of construction and not in subsequent years when it is actually in use. Second, the statistics include only transfers to lower levels of government, and thus ignore self-financed expenditures of provincial and municipal governments.

A third measure of government size is central government expenditure, which includes cash transfers and subsidies as well as outlays for consumption and investment

Table 2. Government Consumption as a Percentage of GDP
(simple averages for groups of countries in a sample)

| | Year 1990 | | Domestic Prices | |
|---------------------------|-----------|----------|-----------------|------|
| | PPP | Domestic | 1990 | 1997 |
| Complete Sample | 19.2 | 15.4 | 16.3 | 15.8 |
| Developed Countries | 13.7 | 17.8 | 17.8 | 17.8 |
| Transition Economies | 17.0 | 17.6 | 16.0 | 17.2 |
| Developing Countries | 21.0 | 14.5 | 15.9 | 15.0 |
| Africa | 25.3 | 15.3 | 15.7 | 14.3 |
| Latin America & Caribbean | 17.0 | 13.2 | 14.2 | 14.1 |
| Asia & Oceania | 19.4 | 14.8 | 17.8 | 16.8 |

Note: PPP refers to "purchasing power parity" prices. The countries averaged in the second column are restricted to match those in the first column.

Source: Statistical Appendix Table B1.

Table 3 below reports the available data on central government expenditure for 1990 and 1997 (or proximate years) as published in the IMF annual Government Finance Statistics. The figures are expressed as a share of GDP. It should be noted, however, that expenditure, unlike consumption, is not a component of GDP, and so it is possible for government expenditure to exceed GDP.

The simple averages of these statistics are reported for groups of countries also in table 3 below. The sample size is not the same in the two years, so not too much importance should be given to comparisons of 1990 with 1997. Note, however, that central government expenditures of the developed countries, which average 37 per cent of GDP, are much larger than those of the developing countries. Latin America and the Caribbean is a region with low central government expenditure, amounting on average to less than 23 per cent of GDP in 1997.

These same data are displayed in graphic form in figures 5a and 5b below. Note that the range of observed ratios is extremely large (the bars are very long) in both years. In each of the five regions there are countries with very low and countries with very high government expenditures. This indicates that there is a great

deal of diversity in styles of government within regions.

Table 4 below summarizes, for the entire sample and for regions, the distribution of central government expenditures by type of expenditure and by function. The basic data are not included in this report, but are available from the IMF publication Government Finance Statistics. Looking first at type of expenditure, for the developed and transitional economies "subsidies and cash transfers" is by far the most important category of expenditure. This is not true for developing countries, where wage payments exceed subsidies and cash transfers, unless one includes interest payments, which are a form of cash transfer.

Expenditures by function are grouped under four main headings: traditional State functions, modern State functions, interest payments and other expenditures. Traditional expenditures are those for general administration, justice, police and defence. For the most part these are expenditures on collective consumption goods. Modern State functions refer to transfers in kind, largely education and health care, plus cash transfers and subsidies. Modern expenditures are thus directed to individual households and pro-

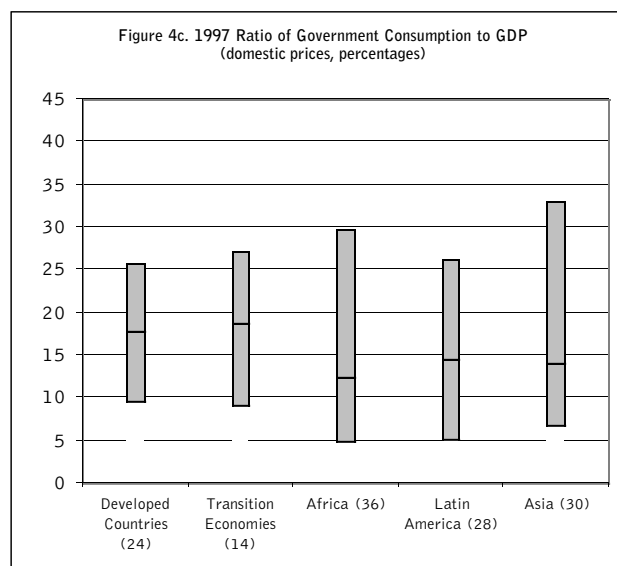
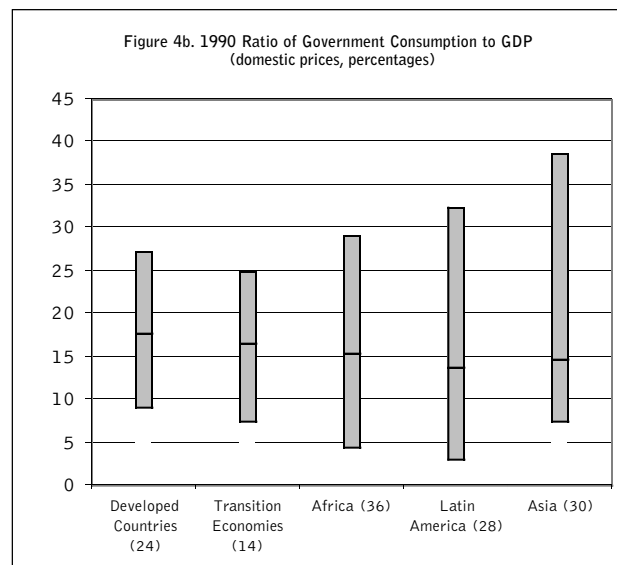
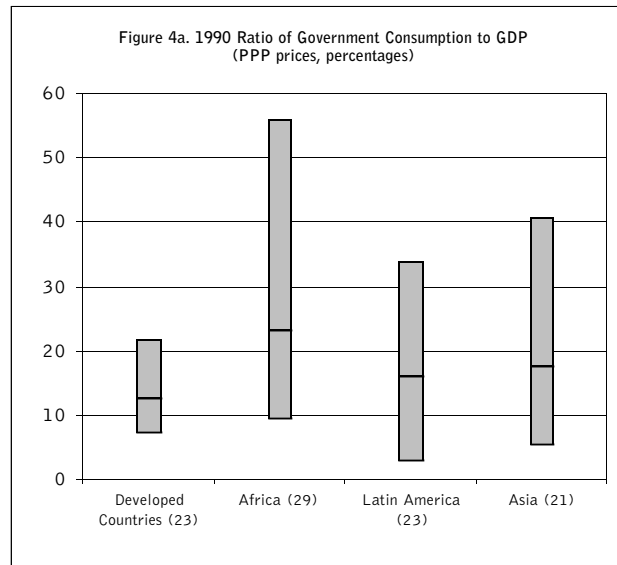
ductive enterprises; they form the basis of the modern welfare State. Interest payments need no explanation, but it should be noted that these represent payments of nominal interest. For countries with high inflation, a large part of these payments might more properly be classified as debt repayment rather than debt servicing¹⁵. “Other expenditures”, for the most part, are cash transfers to lower levels of government, which are ultimately spent on traditional State functions, on modern State functions, or on payment of interest.

Modern State functions account for more than two-thirds of the budget of central governments in developed countries and in countries with economies in transition, a reflection of a long tradition of social expenditures in those countries. But modern functions are surprisingly important in the budgets of developing countries as well, and account for more than half of central government expenditures in Africa and Asia, and nearly two-thirds of expenditures in Latin America. Developing countries allocate a large share of their budget to education compared to central government expenditures in developed countries, but this may reflect in part that responsibility for education is more often transferred to lower levels of government in the developed world.

Figures 5a and 5b below illustrate the range for the ratio of central government expenditures to GDP in five major groupings of countries. As was the case with employment and consumption, there is considerable overlap between the five groups. In sum, there exists considerable diversity within the developed, transitional and each of the three groups of developing countries.

2.4. Central government tax revenue, 1990 and 1997

Table 5 below reports information for groups of countries on central government tax revenue. It is interesting to note that information is available for more countries on taxation than on expenditure: over 100 countries as compared to about 80 countries respectively.



Tax revenue tends to be lower than expenditure because governments have sources of revenue other than taxes: they charge fees for licenses and for use of public property, they collect royalties on the extraction of oil and minerals, and they borrow money. Nonetheless, the pattern of tax revenue as a share of GDP is similar to that of expenditure: highest in the developed and transitional economies, lowest in the developing countries.

Table 5 also reports ratios for four broad types of taxes: taxes on international trade, taxes on retail sales (including value-added taxes), taxes on wages and direct taxes on income and wealth. Over the decade, there was increased taxation of sales and modest decreases in revenue from trade taxes almost everywhere, but little change in other types of taxes. Trade taxes remain quite important in the developing countries, particularly in Africa, whereas developed countries rely more on other taxes.

3. Determinants of the size of government

Regardless how one measures it, size of government varies widely from country to country. The tables of the Technical Appendix (tables A1 to A9) report our effort to relate measures of the size of government to variables such as income per capita, degree of globalization, and size of country (population and land area). Other variables, known as

“dummies” because they take values of zero and one, control for independent effects common to a particular group of countries (developed, transitional, African, Asian or Latin American). The statistical technique applied, which is known as ordinary least squares regression, involves fitting an equation that minimizes the sum of the squared distances between each data point and the regression equation. Readers familiar with this type of analysis may want to examine the detailed results in the technical appendix tables. What follows is a non-technical overview of those tables.

To summarize briefly the statistical findings: there is a dichotomy. There are two distinct types of regression equations that have only the control variable “income per capita” in common. When government size is measured by employment or by consumption expenditure, the variables that “explain” government size are population and land area. But, when government size is measured by central government expenditure, globalization is a significant explanatory variable, though not population or land area.

3.1. Economies of scale in government

In each of the regression equations for the ratio of government employment to population (table A3 of the Technical Appendix), and for the ratio of government consumption to

Table 3. Central Government Expenditure as a Percentage of GDP, domestic prices (simple averages for groups of countries in a sample)

| | 1990 | 1997 |
|----------------------|------|------|
| Complete Sample | 28.1 | 28.0 |
| Developed Countries | 36.9 | 36.8 |
| Transition Economies | 38.1 | 31.3 |
| Developing Countries | 23.8 | 25.0 |
| Africa | 25.5 | 27.6 |
| Latin America | 20.2 | 22.6 |
| Asia | 25.7 | 24.7 |

Source: Statistical Appendix Table B2.

Table 4. Central Government Expenditure by Type and by Function, as Percentage of All Central Government Expenditure, 1997 (simple averages for groups of countries in sample)

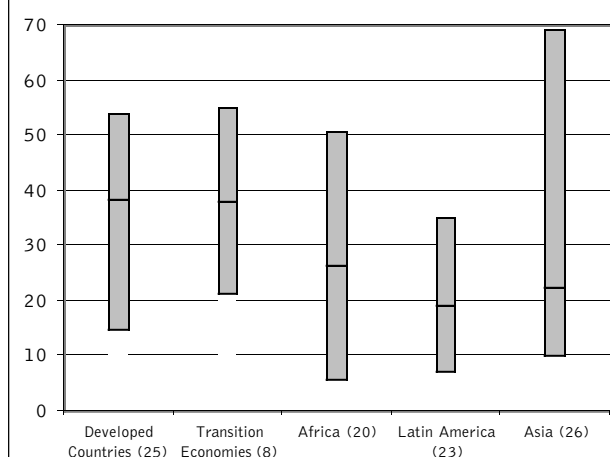
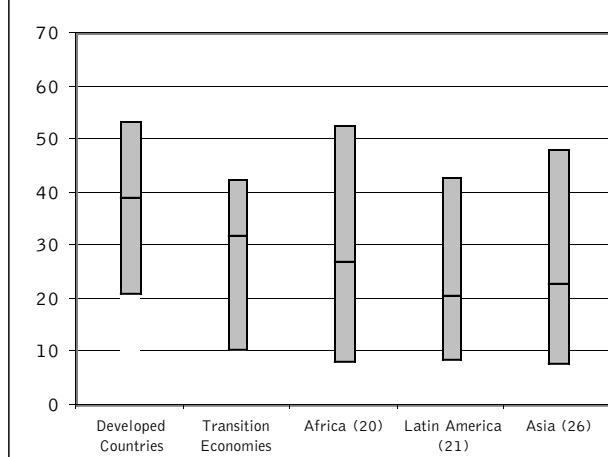
| | Complete Sample | Developed | Transition | Developing | Africa | Latin America | Asia |
|--------------------------------|--------------------|--------------|--------------|--------------|--------------|------------------|--------------|
| BY TYPE OF EXPENDITURE | | | | | | | |
| No. of observations | 75 | 18 | 10 | 47 | 8 | 18 | 21 |
| Wages | 22.4 | 14.5 | 12.1 | 27.6 | 30.9 | 28.7 | 25.4 |
| Purchase of goods and services | 16.7 | 10.7 | 21.2 | 18.1 | 21.0 | 14.6 | 19.9 |
| Interest payments | 10.5 | 11.5 | 8.2 | 10.6 | 9.1 | 11.9 | 9.9 |
| Subsidies and transfers | 35.3 | 56.6 | 48.3 | 24.3 | 20.1 | 28.0 | 22.8 |
| Capital expenditure | 15.2 | 6.7 | 10.2 | 19.5 | 18.9 | 16.8 | 22.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| BY FUNCTION | | | | | | | |
| No. of observations | 81 | 19 | 12 | 50 | 11 | 16 | 23 |
| Traditional state functions | 22.7 | 13.9 | 17.4 | 27.3 | 27.7 | 21.5 | 31.2 |
| G. adm+order | 13.6 | 8.6 | 11.5 | 16.1 | 20.4 | 16.8 | 13.5 |
| Defence | 8.3 | 4.9 | 5.6 | 10.3 | 7.5 | 4.3 | 15.7 |
| Modern state functions | 60.6 | 69.2 | 64.4 | 56.5 | 51.9 | 63.6 | 53.7 |
| Education | 11.8 | 8.2 | 6.5 | 14.5 | 15.5 | 14.7 | 13.8 |
| Health | 8.1 | 10.8 | 9.6 | 6.8 | 5.4 | 9.4 | 5.6 |
| Other social functions | 25.4 | 40.6 | 36.2 | 17.0 | 12.9 | 25.0 | 13.4 |
| Economic services | 15.3 | 9.6 | 12.2 | 18.2 | 18.0 | 14.5 | 20.9 |
| Interest payments | 10.7 | 10.9 | 7.9 | 11.3 | 13.3 | 12.6 | 9.6 |
| Other | 5.9 | 6.0 | 10.2 | 4.8 | 7.2 | 2.3 | 5.5 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: IMF, Government Finance Statistics (consolidated central government expenditures).

GDP (table A4), the population variable has a highly significant and negative coefficient, while the land area variable has an equally significant but positive coefficient. Globalization, measured as openness to trade, is never significant. This is true for the year 1990 as well as 1997, and for consumption measured in PPP prices as well as in domestic prices, and thus constitutes strong evidence of economies of scale in the provision of government services. If there are economies of scale in provision of government services, costs (and presumably expenditures) are lower in countries with large populations (holding territorial size constant) or small territories (holding population constant). In other

words, high population density facilitates provision of defence, highways, schools, medical care and other government services.

The regression results using the government employment/population equation for 1997 are illustrated in figure 6a below for a small country the size of Belgium and in figure 6b below for a large country the size of the United States. Income per capita is also a variable in the equation, and is assumed to equal the actual income of each respective country in the year 1997. Government employment is not known for Belgium, but the equation depicted in figure 6a below predicts that this would amount to approximately 5.9

Figure 5a. 1990 Ratio of Central Government Expenditure to GDP
(domestic prices, percentages)Figure 5b. 1997 Ratio of Central Government Expenditure to GDP
(domestic prices, percentages)

per cent of Belgium's population of 10.1 million persons. Reading down the curve, a country with Belgium's income per capita and land area but twice its population would require less than twice the number of government employees, 4.8 per cent of the 20.2 million residents, to be precise.

Government provided jobs for approximately 7.3 per cent of the 270 million residents of the United States in 1997. The equation depicted in figure 6b below, predicts government employment/ population ratio of only 5.7 per cent, so by this measure, government in the United States is larger than expected. Canada, with more land and a population of only 30 million, is expected, from our regression equation, to suffer "dis-economies" of scale and employ 10.3 per cent of its population at all levels of government. Actual government employment amounts to only 8.4 per cent of population. Thus, from the raw statistics, Canada appears to have larger government for its population than the United States. Taking into account the "dis-economies" of serving a small population dispersed over a wide area, Canada actually has a rather small government compared to that of the United States. Similar considerations help to explain the large size of government in countries of northern Europe, especially Finland, Norway and Sweden, compared to more densely populated coun-

tries in southern Europe. But the statistics used are crude and may require some adjustment for quality of land. It is easier to police frozen tundra or desert wasteland than to administer areas that are actually inhabited by people spread over large distances.

3.2. Income per capita

One of the best-known stylized facts of public economics is "Wagner's Law," formulated more than a hundred years ago by Adolph Wagner, a leading German economist of his day. It asserts that there is a long-run tendency for government activity to grow faster than the economy¹⁶. In a cross-section of countries, the law predicts a positive relationship between income per capita and all measures of government size.

The income variable is, indeed, statistically significant in most of the regression equations. But there is one problem. Its coefficient, though highly significant in each instance, is negative in the equation for government consumption in PPP prices, but positive in the equation for government consumption measured in domestic prices. The coefficient is also positive in the regression equations for government employment and central government expenditure, and so it is difficult to interpret the PPP result as a refutation of Wagner's Law. It more likely reflects a fail-

ure to adjust adequately for differences in the quality and productivity of employees in the service sector of low-income countries compared to their counterparts in developed countries. In other words, this finding constitutes evidence that the PPP estimates of government consumption in low-income countries are biased upwards.

3.3. Globalization and size of government

The second type of regression equation is that for central government expenditures (table A5) and tax revenue (table A6), each expressed as a share of GDP. Globalization is a significant explanatory variable in all these regressions, but population and land area are not. The fit of the equation is somewhat better for expenditure on modern State functions than for total expenditure. These results are consistent with the recent work of Alberto Alesina and Romain Wacziarg, who report similar findings in a cross-country comparison of government consumption and expenditure¹⁷. And it is true regardless of whether one measures "globalization" as

the ratio of trade to GDP or as the presence of foreign direct investment. It was not possible to distinguish between effects of trade and effects of foreign direct investment because of strong collinearity: transnationals are known to be effective conduits for both exports and imports¹⁸.

The positive relationship between openness and central government expenditure and taxation is evident, though not as strongly, even without controlling for the effect of income per capita and regional dummies. This is shown in figures 7, 8 and 9 below for total expenditure, expenditure on modern State functions and tax revenue, respectively (data in all cases are for the year 1997). The fit is not quite as good for taxation as for expenditure because some governments are able to combine high expenditure with low taxation thanks to revenue from royalties on the extraction of oil and other minerals.

Income per capita is not a significant determinant of tax revenue in the regressions reported in table A6. In regressions of compo-

Table 5. Central Government Tax Revenue as a Percentage of GDP, 1990 and 1997 (simple averages)

| | No. of obs. | Tax Revenue of Central Government | | | | |
|----------------------|-------------|-----------------------------------|-------------|------------------|---------------|--------------|
| | | Total | Trade Taxes | Retail Sales Tax | Payroll Taxes | Direct Taxes |
| 1990 | | | | | | |
| Complete Sample | 108 | 20.1 | 3.4 | 6.2 | 3.4 | 6.8 |
| Developed Countries | 24 | 30.0 | 0.7 | 9.4 | 8.1 | 11.5 |
| Transition Economies | 8 | 32.0 | 1.3 | 11.2 | 10.9 | 8.2 |
| Developing Countries | 76 | 15.8 | 4.4 | 4.7 | 1.2 | 5.2 |
| Africa | 23 | 18.7 | 6.2 | 5.1 | 1.0 | 6.0 |
| Latin America | 25 | 15.9 | 4.2 | 4.8 | 1.9 | 4.4 |
| Asia | 28 | 13.2 | 3.0 | 4.1 | 0.6 | 5.1 |
| 1997 | | | | | | |
| Complete Sample | 109 | 21.0 | 2.9 | 7.2 | 3.9 | 6.6 |
| Developed Countries | 24 | 30.6 | 0.2 | 9.9 | 8.8 | 11.3 |
| Transition Economies | 12 | 27.3 | 1.6 | 11.1 | 9.3 | 5.1 |
| Developing Countries | 73 | 16.8 | 4.0 | 5.7 | 1.3 | 5.3 |
| Africa | 21 | 19.9 | 6.5 | 5.5 | 1.0 | 6.5 |
| Latin America | 24 | 17.5 | 3.6 | 6.7 | 2.2 | 4.4 |
| Asia | 28 | 14.0 | 2.5 | 4.9 | 0.9 | 5.2 |

Note: Components do not add to total tax revenue because of the exclusion of "other taxes".

Source: Statistical Appendix Table B3.

nents of tax revenue, it is positive and significant only for payroll taxes, not for trade taxes, sales taxes or direct taxes on income and wealth (see tables A7 and A8). Since income per capita is measured in PPP prices, this might reflect to some extent the poor quality of the underlying statistics. It also reflects the fact that some high-income countries enjoy considerable revenue from royalties on oil and other minerals, and thus have little need to impose taxes on their population.

From a policy perspective, it is remarkable that openness, though positive and signifi-

cant in the regression of total tax revenue, is not significant in the regressions of any of the components of tax revenue. The coefficient of openness in fact takes a positive, though insignificant, sign in 10 of the 12 regressions for components of central government taxes. One might have expected reduced revenue from trade taxes to be offset with revenue from sales taxes or direct taxes. There is no evidence of this, and thus it appears that governments with relatively open economies are better at collecting all types of tax, even taxes on trade.

In any case, revenue needs are no reason to impose discriminatory taxes on international trade. If government wants to tax the consumption of a luxury good, such as television sets or passenger automobiles, it can impose a selective consumption tax, and collect it at the customs house, in the case of imports, and at the factory, in the case of domestic production. Discriminatory taxation of imported goods encourages expansion of untaxed domestic production behind tariff walls, with a consequent loss of tax revenue.

3.4. Changes in the size of government

The cross-section evidence on the relationship between openness and the size of central governments, as measured by expenditure and taxation, is evidence that in the long-run there is no conflict between openness and government expenditure. Open economies are not laissez-faire economies. Indeed, on average, governments of open economies spend a significantly larger portion of GDP and collect the additional taxes needed therefore.

But what about the short run? Is an increase in openness associated with an increase or a decrease in the size of government? One might expect a negative relation, even if the long-run relation is positive, if policymakers who open their economies to the outside world also reduce government spending and taxation. Even if it is not required, a negative correlation may result if

Figure 6a. Small Territory: Economies of Scale in Government

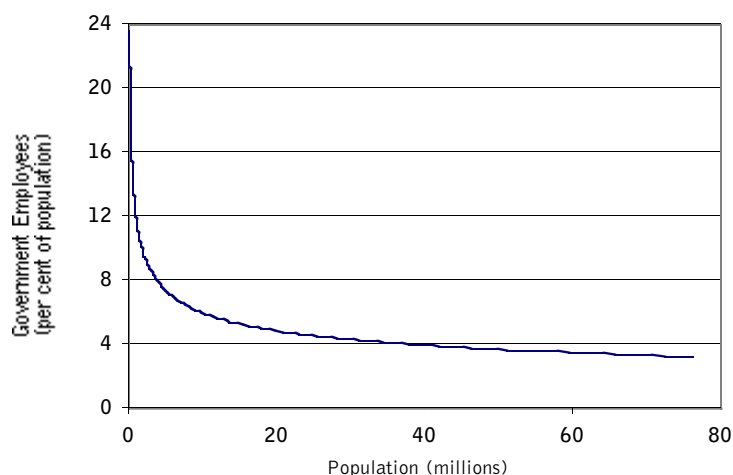
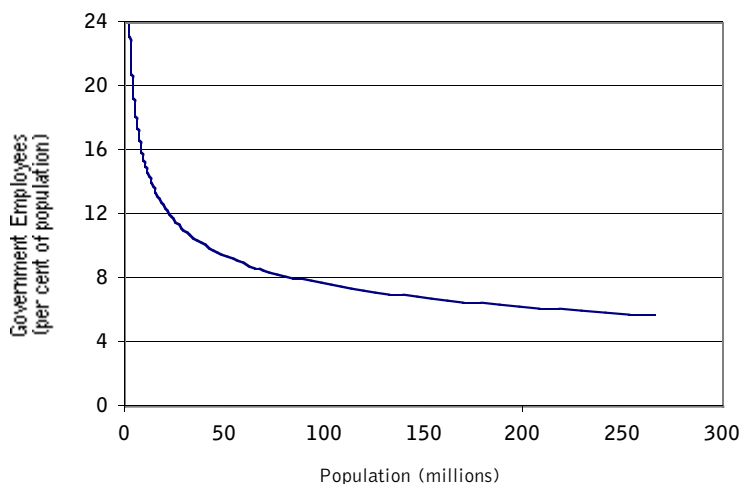


Figure 6b. Large Territory: Economies of Scale in Government



policy-makers believe that small government is a condition for open markets.

There is no evidence for the systematic presence of a negative relation of this type in the decade of the 1990s. Of the 116 countries for which export and import data are available, 81 registered an increase in the ratio of trade to GDP. Of these 81 countries, information is available on changes in central government expenditure for 54 countries, and information on changes in tax revenue for 60 countries. Only in a minority of countries did expenditure and taxation decrease along with trade. More precisely, 23 of the 54 countries registered a decrease in government expenditure, 25 of the 60 countries registered a fall in total tax revenue and 24 of the latter registered a decrease in revenue from direct taxes. The majority of the “globalizers”, then, actually registered increases in expenditure and tax revenue.

The regression results reported in table A9 of the technical appendix below, also provide no evidence that globalizers have successfully shrunk central government budgets in the last decade. In fact, the regressions provide strong evidence that an increase in openness is associated with an increase in central government expenditure and revenue. After controlling for changes in income per capita, which has a positive, independent effect on the size of government budgets, increased openness has a positive and significant effect on government expenditure, total tax revenue, and revenue from direct taxes. These variables should be monitored, for there is no guarantee that such a relationship will continue in the future. In the last decade, however, globalization and budgets of central governments increased hand in hand. The faster the pace of globalization, the larger was the increase in central government expenditure and taxation. There is no evidence so far that globalization is causing the demise of the nation-State. On the contrary, globalization is placing increasing demands on budgets of central governments, and governments are responding to these demands.

4. Conclusion

By way of conclusion, we return to the three questions posed in the Introduction to this Part.

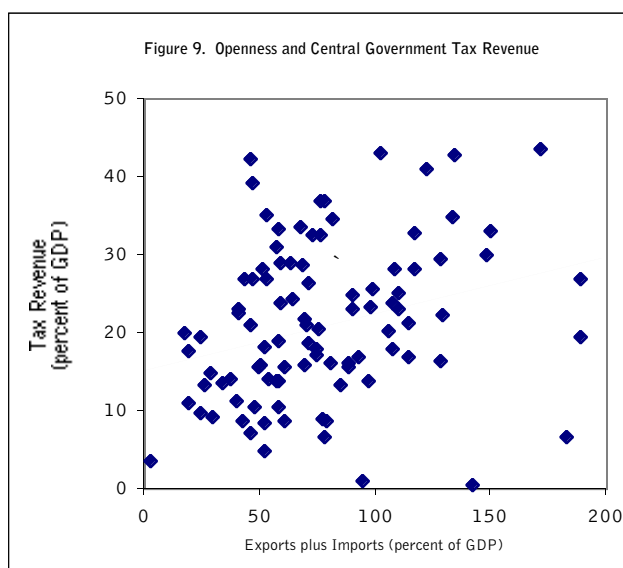
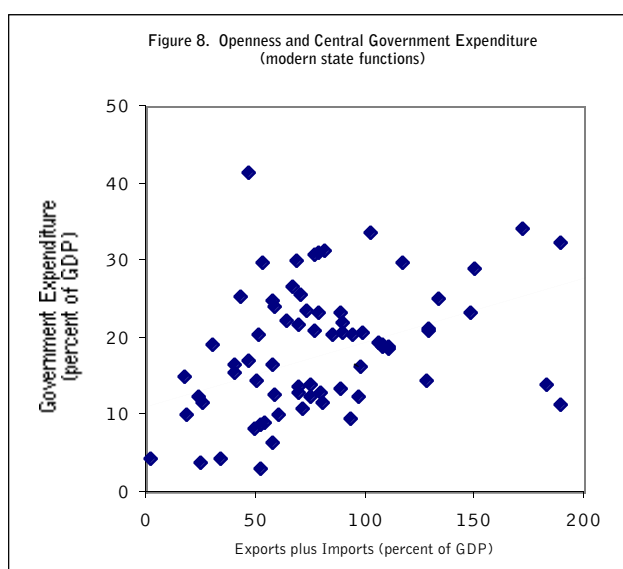
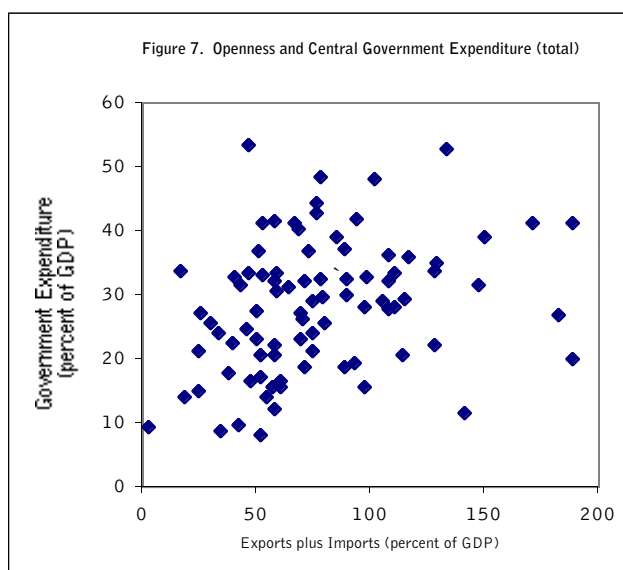
4.1. How can the size of the public sector be measured in theory?

To measure the total impact of the State on society is a complex task, in part because it is difficult to quantify the impact of government regulations in any meaningful way. Nonetheless, it is possible to measure some aspects of the size of the public sector. There are three broad approaches: production, consumption and expenditure. The production and consumption approaches rely on information from basic national accounts, whereas the expenditure approach requires knowledge of government taxation and outlays.

Using the production approach, one would like to divide gross domestic product (GDP) into two parts: output of the private sector and output of the public sector. In addition, remunerated labour could be divided into private and public employment. In the System of National Accounts (SNA), the public sector is the sum of general government (all levels) plus public corporations. Public corporations, like private firms, sell goods and services at market prices, whereas government (by definition) does not, and consequently for some purposes it is better to measure only government output (or employment) rather than output (employment) of the entire public sector.

The consumption approach is more complex. It is difficult, even conceptually, to distinguish between public and private consumption. According to the SNA, public corporations produce but do not consume final goods and services, and so it follows that public consumption must equal government consumption. In this spirit, one might conclude that households consume all final goods and services, in which case it makes no more sense to speak of government consumption than to speak of business consumption. A less extreme view

To measure the total impact of the State on society is a complex task ... Nonetheless, it is possible to measure some aspects of the size of the public sector



is to classify as government consumption those services that benefit the community but cannot be allocated to individual households. In the jargon of the SNA, collective consumption of these services (such as defence) make up the actual final consumption of government; all other consumption is defined as actual final consumption of households. A broader measure defines government consumption as the sum of collective consumption goods plus transfers in kind (such as schooling) to households. In the SNA, this broad measure is known as government consumption expenditure. Total consumption in the national accounts is not affected by one's definition of government consumption: only its division into public and private consumption is affected.

Expenditure is the most comprehensive of the three approaches. It focuses on government, but includes public and private corporations to the extent that government subsidizes goods and services sold in the market. As a first approximation, government expenditure ought to record outlays of all levels of government, cash transfers as well as expenditure on transfers in kind and on collective consumption goods. Ideally, the measure should include also the value of tax expenditures (credits granted to specific taxpayers) as well as the value of implicit subsidies to producers engendered by trade restrictions. A drawback of the expenditure approach is that it sums capital and current expenditures. Expenditure on an asset with a long life, such as a highway, bridge or building, is recorded in the year (or years) of construction, and is not spread over the useful life of the asset. This can easily be corrected by replacing spending on capital formation with an estimate of the current cost (including depreciation) of fixed assets owned by government.

4.2. How can the size of the public sector be measured in fact?

Actual measurement presents myriad problems. For the production approach, output statistics are not generally available. Employment statistics, for a limited number of

countries and years, are often available for government but, less often, for the entire public sector. The employment figures suffer from lack of comparability in addition to their limited availability. Statistics on government consumption expenditure (but not actual final consumption) are widely available. These also suffer from poor inter-country comparability, primarily because governments sometimes choose to record public spending on health and education as government consumption (transfers in kind), sometimes as subsidies (negative taxes), and sometimes as cash transfers to households. Expenditure data are available in most cases only for central governments, without any estimate of the value of tax expenditures, much less the value of implicit subsidies given to producers.

4.3. What accounts for observed variation in the size of the public sector?

Despite the poor quality of available data, statistical tests on determinants of government size produce interesting and surprisingly robust results. When government is measured by employment or by consumption expenditure, there is strong evidence of economies of scale in the provision of services, but no evidence that the amount of government services is reduced by the extent that a country is integrated into world markets. When government is measured by central government expenditure, it is integration into world markets “globalization” that determines size, with no evidence of economies of scale. Moreover, the relationship between globalization and government expenditure is positive, and it persists when one looks at changes in expenditure and changes in globalization over the past decade rather than their levels at the beginning or end of the decade. In sum, there are economies of scale in the provision of government services such as defence, health and education, but a government’s budget is driven by globalization, not by the land area or population of a country.

Future research would benefit greatly from improvement in both the quantity and the quality of data. First priority should be given to expenditure by all levels of government. In many countries, lower levels of government are responsible for education and health, with the result that these social expenditures are missing from central government statistics. Second priority could be given to collection of data on government employment, in terms of full-time equivalent workers and excluding conscript labour in order to facilitate inter-country comparisons. Third priority could be given to the estimation of the value of tax expenditures, including the value of implicit subsidies provided to producers through protective tariffs and quotas.

Despite the poor quality of available data, statistical tests on determinants of government size produce interesting and surprisingly robust results

Technical Appendix

Table A1. Dependent Variables used in Regressions

| | <u>Year</u> | <u>Sample Size</u> | <u>Mean</u> |
|--|-------------|------------------------|-------------|
| Government employment (% of population) | 1990 | 51 | 6.4 |
| | 1997 | 54 | 5.7 |
| Government consumption (% of GDP): | | | |
| Purchasing Power parity prices | 1990 | 100 | 19.2 |
| Domestic prices | 1990 | 132 | 16.3 |
| Domestic prices | 1997 | 132 | 15.8 |
| Central government expenditure (% of GDP) | 1990 | 102 | 28.2 |
| | 1997 | 98 | 28.0 |
| Central government expenditure on modern state functions (% of GDP) | 1997 | 78 | 18.2 |
| Central government tax revenue (% of GDP) | 1990 | 106 | 20.1 |
| | 1997 | 109 | 21.0 |
| Revenue from trade taxes (% of GDP) | 1990 | 106 | 3.3 |
| | 1997 | 109 | 2.9 |
| Revenue from sales taxes (including VAT, % of GDP) | 1990 | 106 | 6.2 |
| | 1997 | 109 | 7.2 |
| Revenue from payroll taxes (largely social security, % of GDP) | 1990 | 106 | 3.5 |
| | 1997 | 109 | 3.9 |
| Revenue from direct taxes on income and wealth (% of GDP) | 1990 | 106 | 6.8 |
| | 1997 | 109 | 6.6 |

Table A2. Independent Variables used in Regressions

| | <u>Year</u> | <u>Sample Size</u> | <u>Mean</u> |
|---|-------------|------------------------|-------------|
| Government employment (% of population) | 1990 | 51 | 6.4 |
| | 1997 | 54 | 5.7 |
| Government employment (% of population) | 1990 | 51 | 6.4 |
| | 1997 | 54 | 5.7 |
| Income: Per capita GDP, PPP exchange rates, from DESA, WESS99 data base | 1990 | 128 | 7271.0 |
| | 1997 | 128 | 10876.0 |
| Open: Ratio of exports plus imports to GDP, average of three years ending in and in | 1990 | 120 | 0.7 |
| | 1997 | 128 | 0.8 |
| FDI: Stock of foreign direct investment (% of GDP, from UNCTAD World Investment Report) | 1990 | 130 | 18.6 |
| | 1997 | 144 | 25.5 |
| Population: Number of inhabitants | 1990 | 150 | 33m |
| | 1997 | 150 | 37m |
| Area: Land area (square kilometres) | | 150 | 815k |
| Transition: Dummy, =1 if transition economy, =0 otherwise | | | |
| Africa: Dummy, =1 if African economy, =0 otherwise | | | |
| Asia: Dummy, =1 if Asian economy, =0 otherwise | | | |
| Latin America: Dummy, =1 if Latin America or Caribbean country, =0 otherwise | | | |

Table A3. Regression of government employment/population ratios on country size and other variables

| <u>Independent variable</u> | Regression Coefficients | | | |
|-----------------------------|-------------------------|---------------------|----------------------|---------------------|
| | 1990 | 1990 | 1997 | 1997 |
| Constant | -0.940 [2.21] | 0.172 [1.80] | 2.265 [2.17] | 2.193 [1.68] |
| Income | 0.326 [0.17] | 0.372 ** [0.13] | 0.284 [0.19] | 0.283 [0.15] |
| Open | 0.289 [0.19] | | 0.072 [0.19] | |
| Population | -0.0154 * [0.07] | -0.284 ** [0.07] | -0.290 ** [0.087] | -0.298 ** [0.06] |
| Area | 0.190 ** [0.05] | 0.22 ** [0.05] | 0.141 [0.06] | 0.152 ** [0.05] |
| Transition | -0.392 [0.84] | | -0.212 [0.32] | |
| Africa | -0.917 [0.49] | -0.845 * [0.38] | -1.398 * [0.55] | -1.362 ** [0.46] |
| Asia | -0.026 [0.30] | | -0.177 [0.27] | |
| LatinAmerica | -0.515 [0.26] | | -0.646 ** [0.24] | -0.529 * [0.22] |
| R-squared | 0.652 | 0.506 | 0.675 | 0.613 |
| No. of observations | 42 | 50 | 46 | 52 |

** Significant at the 1 percent level.

* Significant at the 5 percent level.

Note: Numbers in brackets are heteroscedasticity-consistent standard errors. Estimation is by OLS. Except for the dummies, all variables enter regressions in logs, so the estimated coefficients are elasticities. Replacement of population with population aged 15-59 produced similar results, with a somewhat poorer fit.

Table A4. Regression of government consumption/GDP ratios on country size and other variables

| <u>Independent variable</u> | <u>Regression Coefficients</u> | | | | | |
|-----------------------------|--------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | PPP 1990 | PPP 1990 | 1990 | 1990 | 1997 | 1997 |
| Constant | 5.671 ** [0.82] | 5.532 ** [0.43] | 4.147 ** [0.86] | 3.817 ** [0.42] | 3.761 ** [0.66] | 3.356 ** [0.42] |
| Income | -0.194 * [0.08] | -0.225 ** [0.03] | 0.072 [0.06] | 0.072 ** [0.03] | 0.091 * [0.04] | 0.113 ** [0.03] |
| Open | -0.087 [0.12] | | -0.063 [0.11] | | -0.035 [0.09] | |
| Population | -0.131 ** [0.05] | -0.111 ** [0.04] | -0.184 ** [0.04] | -0.158 ** [0.03] | -0.168 ** [0.03] | -0.154 ** [0.03] |
| Area | 0.073 * [0.03] | 0.084 ** [0.03] | 0.079 ** [0.02] | 0.074 ** [0.02] | 0.074 ** [0.02] | 0.073 ** [0.02] |
| Transition | -0.293 [0.15] | | -0.041 [0.19] | | 0.036 [0.12] | |
| Africa | -0.049 [0.21] | | -0.054 [0.17] | | -0.142 [0.14] | |
| Asia | -0.213 [0.15] | -0.231 * [0.11] | -0.415 ** [0.14] | -0.393 ** [0.12] | -0.349 ** [0.12] | -0.322 ** [0.09] |
| LatinAmerica | 0.049 [0.21] | | 0.068 [0.13] | | 0.046 [0.10] | |
| R-squared | 0.401 | 0.399 | 0.337 | 0.300 | 0.401 | 0.364 |
| No. of observations | 87 | 91 | 103 | 117 | 113 | 117 |

** Significant at the 1 percent level.

* Significant at the 5 percent level.

Note: Numbers in brackets are heteroscedasticity-consistent standard errors. Estimation is by OLS. Results reported in first two columns refer to government consumption in international prices (purchasing power parity); results reported in the other four columns refer to government consumption in domestic prices. Except for the dummies, all variables enter regressions in logs, so the estimated coefficients are elasticities.

Table A5. Regression of central government expenditure/GDP ratios on openness and other variables

| Independent variable | Regression Coefficients | | | | Regression Coefficients | |
|----------------------|--------------------------------------|---------------------|---------------------|---------------------|-------------------------|---------------------|
| | Total Central Government Expenditure | | | | Modern State Functions | |
| | 1990 | 1990 | 1997 | 1997 | 1997 | 1997 |
| Constant | 2.962 ** [0.99] | 2.157 ** [0.36] | 3.430 ** [0.75] | 2.603 ** [0.38] | 3.572 ** [0.87] | 2.149 ** [0.60] |
| Income | 0.129 [0.10] | 0.150 ** [0.04] | 0.081 [0.06] | 0.104 * [0.04] | 0.107 [0.07] | 0.117 [0.06] |
| Open | 0.133 [0.10] | 0.207 ** [0.08] | 0.119 [0.08] | 0.179 ** [0.06] | 0.175 * [0.07] | 0.291 ** [0.06] |
| Population | -0.025 [0.04] | | -0.030 [0.04] | | -0.087 [0.05] | |
| Area | -0.016 [0.03] | | -0.010 [0.03] | | 0.002 [0.04] | |
| Transition | 0.391 ** [0.14] | 0.456 ** [0.08] | 0.049 [0.12] | | 0.064 [0.15] | |
| Africa | -0.029 [0.24] | | -0.097 [0.16] | | -0.363 [0.20] | -0.360 * [0.16] |
| Asia | -0.545 ** [0.16] | -0.452 ** [0.11] | -0.475 ** [0.12] | -0.438 ** [0.11] | -0.438 ** [0.15] | -0.432 ** [0.14] |
| LatinAmerica | -0.182 [0.22] | | -0.302 * [0.14] | -0.276 ** [0.10] | -0.420 ** [0.15] | -0.472 ** [0.13] |
| R-squared | 0.504 | 0.474 | 0.437 | 0.416 | 0.573 | 0.529 |
| No. of observations | 81 | 81 | 81 | 81 | 67 | 67 |

** Significant at the 1 percent level.

* Significant at the 5 percent level.

Note: Numbers in brackets are heteroscedasticity-consistent standard errors. Estimation is by OLS.
Except for the dummies, all variables enter regressions in logs, so the estimated coefficients are elasticities.

Table A6. Regression of central government tax revenue/GDP ratios on openness and other variables

| <u>Independent variable</u> | <u>Regression Coefficients</u> | | | | | |
|-----------------------------|--------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 1990 | 1990 | 1990 | 1997 | 1997 | 1997 |
| Constant | 2.410 [1.92] | 3.489 ** [0.06] | 3.000 ** [0.10] | 2.862 ** [0.92] | 3.464 ** [0.05] | 2.961 ** [[0.13] |
| Income | 0.104 [0.19] | | | 0.067 [0.09] | | |
| Open | 0.143 [0.10] | 0.262 ** [0.08] | | 0.162 [0.09] | 0.227 ** [0.09] | |
| FDI | | | 0.158 ** [0.03] | | | 0.142 ** [0.04] |
| Transition | 0.394 [0.24] | 0.297 ** [0.08] | 0.901 ** [0.18] | 0.025 [0.13] | | |
| Africa | -0.264 [0.47] | -0.512 ** [0.12] | -0.440 ** [0.10] | -0.447 [0.24] | -0.523 ** [0.12] | -0.419 ** [0.13] |
| Asia | -0.637 * [0.28] | -0.732 ** [0.12] | -0.777 ** [0.11] | -0.521 ** [0.14] | -0.533 ** [0.08] | -0.602 ** [0.09] |
| LatinAmerica | -0.817 [0.45] | -0.984 ** [0.20] | -0.836 ** [0.17] | -0.951 ** [0.34] | -1.019 ** [0.21] | -0.858 ** [0.17] |
| R-squared | 0.394 | 0.365 | 0.445 | 0.372 | 0.363 | 0.343 |
| No. of observations | 84 | 94 | 100 | 87 | 96 | 108 |

** Significant at the 1 percent level.

* Significant at the 5 percent level.

Note: Numbers in brackets are heteroscedasticity-consistent standard errors. Estimation is by OLS.
Except for the dummies, all variables enter regressions in logs, so the estimated coefficients are elasticities.

Table A7. Regression of components of central government taxes/GDP ratios on openness and other variables, 1990

| Independent variable | Regression Coefficients | | | | | |
|----------------------|-------------------------|--------------------|--------------------|----------------------|----------------------|------------------|
| | Trade Taxes | | Sales Tax | Payroll Taxes | | Direct Taxes |
| Constant | 3.311 [4.64] | 3.114 [3.79] | 2.833 [2.12] | -15.103 ** [5.39] | -14.548 ** [2.59] | 2.425 [4.39] |
| Income | -0.594 [[0.45] | -0.597 [0.40] | -0.078 [0.21] | 1.695 ** [0.55] | 1.161 ** [0.28] | 0.0003 [0.45] |
| Open | 0.087 [0.42] | | 0.030 | 0.463 [0.62] | | 0.136 [0.14] |
| FDI | | 0.082 [0.13] | | | | |
| Transition | 1.954 [1.14] | 2.662 ** [0.69] | 0.411 [0.29] | 3.330 ** [0.73] | 3.124 ** [0.43] | -0.121 [0.55] |
| Africa | 2.534 [1.31] | 2.547 * [1.15] | -0.734 [0.53] | 0.350 [1.51] | -2.981 ** [0.71] | -0.660 [1.10] |
| Asia | 2.323 ** [0.89] | 2.286 ** [0.86] | -0.777 * [0.36] | 0.141 [1.03] | | -1.202 [0.68] |
| LatinAmerica | 2.178 [1.18] | 2.223 * [0.99] | -1.168 * [0.51] | -2.376 * [1.02] | | -1.359 [1.08] |
| R-squared | 0.462 | 0.469 | 0.186 | 0.434 | 0.478 | 0.206 |
| No. of observations | 84 | 89 | 84 | 84 | 93 | 84 |

** Significant at the 1 percent level.

* Significant at the 5 percent level.

Note: Numbers in brackets are heteroscedasticity-consistent standard errors. Estimation is by OLS. Except for the dummies, all variables enter regressions in logs, so the estimated coefficients are elasticities.

Table A8. Regression of components of central government taxes/GDP ratios on openness and other variables, 1997

| Independent variable | Regression Coefficients | | | | | |
|----------------------|-------------------------|--------------------|--------------------|---------------------|----------------------|---------------------|
| | Trade Taxes | | Sales Tax | Payroll Taxes | | Direct Taxes |
| Constant | 0.136 [2.43] | 0.571 [2.24] | 2.352 [1.15] | -11.467 * [4.46] | -17.321 ** [3.00] | 2.534 [1.92] |
| Income | -0.374 [0.23] | -0.405 [0.24] | -0.014 [0.12] | 1.348 ** [0.45] | 1.873 ** [0.32] | -0.018 [0.20] |
| Open | -0.079 [0.34] | | 0.148 [0.14] | 0.312 [0.38] | | 0.028 [0.18] |
| FDI | | -0.035 [0.18] | | | | |
| Transition | 2.606 * [1.09] | 2.790 ** [0.86] | 0.153 [0.19] | 2.202 ** [0.67] | 2.957 ** [0.75] | -0.580 * [0.28] |
| Africa | 3.792 ** [0.91] | 3.711 ** [0.89] | -0.659 * [0.32] | -2.454 [1.43] | | -0.707 [0.53] |
| Asia | 3.528 ** [0.64] | 3.515 ** [0.67] | -0.210 [0.20] | -1.141 [0.92] | | -1.002 ** [0.30] |
| LatinAmerica | 3.186 ** [0.86] | 3.172 ** [0.79] | -1.190 * [0.58] | -2.900 ** [0.96] | -2.261 ** [0.75] | -1.397 [0.72] |
| R-squared | 0.516 | 0.513 | 0.168 | 0.521 | 0.484 | 0.185 |
| No. of observations | 87 | 96 | 87 | 87 | 96 | 87 |

** Significant at the 1 percent level.

* Significant at the 5 percent level.

Note: Numbers in brackets are heteroscedasticity-consistent standard errors. Estimation is by OLS.
Except for the dummies, all variables enter regressions in logs, so the estimated coefficients are elasticities.

Table A9. Regression of changes in central government expenditure/GDP and taxes/GDP ratios on changes in openness, income and other variables, 1990-1997

| Independent variable | Regression Coefficients | | | | | |
|----------------------|-------------------------|---------------------|---------------------|---------------------|-------------------|--------------------|
| | Expenditure/GDP | | Tax Revenue/GDP | | Direct Taxes/GDP | |
| Constant | -0.026 [0.03] | -0.014 [0.03] | -0.007 [0.02] | -0.027 [0.04] | -0.135 [0.03] | -0.039 [0.04] |
| Income97/Income90 | 0.051 [0.04] | 0.068 * [0.03] | 0.083 * [0.04] | 0.127 ** [0.03] | 0.054 [0.03] | 0.113 ** [0.03] |
| Open97/Open90 | 0.301 * [0.12] | 0.314 * [0.13] | 0.316 ** [0.12] | 0.340 ** [0.13] | 0.307 * [0.15] | 0.326 * [0.15] |
| Transition | -0.171 ** [0.04] | -0.187 ** [0.05] | -0.265 ** [0.09] | -0.252 ** [0.09] | -0.158 [0.10] | |
| Africa | 0.014 [0.07] | | -0.147 [0.08] | | -0.160 [0.11] | |
| Asia | 0.112 [0.11] | | 0.157 [0.13] | | 0.213 [0.13] | |
| LatinAmerica | -0.051 [0.06] | | -0.064 [0.06] | | -0.008 [0.07] | |
| R-squared | 0.145 | 0.104 | 0.217 | 0.122 | 0.187 | 0.073 |
| No. of observations | 72 | 72 | 81 | 81 | 81 | 81 |

** Significant at the 1 percent level.

* Significant at the 5 percent level.

Note: Numbers in brackets are heteroscedasticity-consistent standard errors. Estimation is by OLS.
Except for the dummies, all variables enter regressions as logs of the ratio of 1997 values to 1990 values.

Statistical Appendix

Table B1. Government Consumption as a Percentage of GDP, 1990 and 1997

| | Purchasing Power Parity Prices | Domestic Prices | |
|-------------------------------|-----------------------------------|-----------------------|-----------------------|
| | 1990 | 1990 | 1997 |
| Developed Countries | | | |
| Australia | 12.4 | 17.2 ¹⁾ | 16.8 ¹⁾ |
| Austria | 13.0 | 18.6 | 19.0 |
| Belgium | 10.1 | 14.0 | 14.4 |
| Canada | 12.0 | 20.2 ¹⁾ | 19.6 ¹⁾ |
| Denmark | 19.8 | 25.6 | 25.3 |
| Finland | 15.2 | 21.1 | 20.9 |
| France | 15.4 | 19.3 ¹⁾ | 19.6 ¹⁾ |
| Germany | 13.2 | 18.3 ¹⁾ | 19.3 ¹⁾ |
| Greece | 10.0 | 15.3 | 14.8 |
| Iceland | 17.5 | 19.2 | 20.5 ²⁾ |
| Ireland | 11.0 | 15.0 | 13.8 |
| Italy | 11.4 | 17.6 ¹⁾ | 16.6 ¹⁾ |
| Japan | 7.4 | 9.1 ¹⁾ | 9.6 ¹⁾ |
| Luxembourg | 9.0 | 16.4 | 14.5 ⁷⁾ |
| Malta | | 17.6 | 21.0 |
| Netherlands | 11.1 | 14.5 ¹⁾ | 13.8 ¹⁾ |
| New Zealand | 14.0 | 17.1 ¹⁾ | 15.2 ¹⁾ |
| Norway | 18.0 | 20.8 | 20.2 |
| Portugal | 21.0 | 16.3 | 19.4 |
| Spain | 12.3 | 15.2 | 16.4 |
| Sweden | 21.9 | 27.4 | 25.8 |
| Switzerland | 9.2 | 13.7 ¹⁾ | 15.0 ¹⁾ |
| United Kingdom | 16.6 | 20.5 ¹⁾ | 20.1 ¹⁾ |
| United States | 12.8 | 17.7 ¹⁾ | 15.3 ^{1) 6)} |
| Transitional Economies | | | |
| Armenia | | 17.7 ^{1) 5)} | 11.8 |
| Belarus | | 15.4 ^{1) 4)} | 20.3 |
| Bulgaria | 14.5 | 19.0 ^{1) 3)} | 12.4 |
| Czech Republic | 31.0 | 22.1 ^{1) 5)} | 20.2 |
| Estonia | | 13.1 ^{1) 3)} | 24.1 |
| Hungary | 12.6 | 10.6 | 10.1 |
| Kyrgyzstan | | 9.2 ^{1) 4)} | 15.2 |
| Moldova | | 17.8 ^{1) 3)} | 27.1 |
| Poland | 10.0 | 18.7 | 17.3 |
| Romania | | 13.3 | 10.1 |
| Russia | | 13.9 ^{1) 4)} | 20.8 |
| Slovakia | | 25.0 ^{1) 5)} | 22.4 |
| Slovenia | | 21.1 ^{1) 5)} | 20.4 |
| Ukraine | | 7.4 ^{1) 4)} | 9.1 |

Table B1. (continued)

| | Purchasing Power Parity Prices | Domestic Prices | |
|----------------------------------|-----------------------------------|--------------------|-----------------------|
| | 1990 | 1990 | 1997 |
| Developing Countries | | | |
| Africa | | | |
| Algeria | 22.5 | 14.9 | 15.8 ^{1) 6)} |
| Benin | 23.2 | 13.2 | 9.1 ²⁾ |
| Botswana | | 22.0 | 26.8 |
| Burkina+Faso | 19.7 | 15.4 | 11.0 |
| Burundi | 33.8 | 19.5 | 16.5 |
| Cameroon | 27.9 | 12.8 | 6.6 |
| Cote d'Ivoire | 21.2 | 18.5 | 10.6 |
| Democratic Republic of the Congo | | 11.5 | 4.9 ⁶⁾ |
| Egypt | 30.5 | 11.3 | 10.2 |
| Ethiopia | | 19.2 | 11.1 |
| Ghana | 18.0 | 10.9 | 12.4 |
| Guinea-Bissau | | 14.9 | 11.4 |
| Kenya | 22.4 | 18.7 | 16.9 |
| Lesotho | 19.6 | 14.6 | 16.6 ⁷⁾ |
| Madagascar | 18.7 | 8.0 | 7.6 ²⁾ |
| Malawi | 30.0 | 15.2 | 12.6 |
| Mali | 27.2 | 14.2 | 15.1 |
| Mauritania | 25.0 | 17.2 ³⁾ | 21.9 ⁶⁾ |
| Mauritius | 14.8 | 11.8 | 11.9 |
| Morocco | 23.1 | 15.4 | 17.9 |
| Mozambique | 31.1 | 20.2 | 12.5 ⁶⁾ |
| Namibia | 31.1 | 29.1 | 29.9 ⁷⁾ |
| Niger | | 17.0 | 16.0 |
| Nigeria | 9.5 | 4.4 | 5.8 ²⁾ |
| Rwanda | 28.3 | 13.6 | 8.9 |
| Senegal | 24.7 | 14.7 | 10.2 |
| Seychelles | 34.0 | 27.7 | 28.7 |
| Sierra Leone | 32.9 | 7.8 | 8.8 ⁶⁾ |
| South Africa | 23.1 | 19.1 ¹⁾ | 21.3 ¹⁾ |
| Swaziland | | 18.5 | 27.1 |
| Togo | 18.3 | 12.6 | 11.2 |
| Tunisia | 18.6 | 16.4 | 15.7 |
| Uganda | 19.1 | 8.0 | 10.0 ⁷⁾ |
| United Republic of Tanzania | | 18.9 | 8.8 |
| Zambia | 56.0 | 19.0 | 15.4 |
| Zimbabwe | 30.3 | 19.5 | 17.1 |

Table B1. (continued)

| | Purchasing Power Parity Prices | Domestic Prices | |
|------------------------------------|-----------------------------------|-----------------|------------|
| | 1990 | 1990 | 1997 |
| Latin America and Caribbean | | | |
| Antigua and Barbuda | | 18.0 | 20.6 |
| Bahamas | | 13.6 | 15.8 6) |
| Barbados | | 20.2 | 21.4 |
| Belize | 18.7 | 14.4 | 16.9 |
| Bolivia | 16.2 | 11.8 | 13.7 |
| Brazil | 16.9 | 19.1 | 18.1 |
| Chile | 16.4 | 9.8 | 10.0 |
| Colombia | 13.5 | 10.3 | 16.1 7) |
| Costa Rica | 19.4 | 18.2 | 16.7 |
| Dominican Republic | 3.0 | 2.9 | 7.7 |
| Ecuador | 16.1 | 8.6 | 11.6 |
| El Salvador | 24.1 | 9.9 | 9.1 |
| Grenada | 11.4 | 21.6 | 16.0 2) |
| Guatemala | 11.1 | 6.8 | 5.1 |
| Guyana | 24.7 | 13.6 | 20.5 |
| Honduras | 16.2 | 12.9 | 8.3 |
| Jamaica | 14.5 | 14.0 | 14.4 7) |
| Mexico | 9.8 | 9.1 1) 3) | 8.4 |
| Nicaragua | 33.9 | 32.5 | 14.6 |
| Panama [exc. Canal Zone] | 25.5 | 18.1 | 16.1 |
| Paraguay | 12.3 | 6.2 | 8.1 2) |
| Peru | 17.4 | 6.1 | 8.4 |
| St. Kitts-Nevis-Anguilla | 21.6 | 18.4 | 18.2 7) |
| Saint Vincent and the Grenadines | | 17.5 | 26.3 7) |
| Suriname | | 25.2 | 16.9 1) 5) |
| Trinidad and Tobago | 14.9 | 16.2 | 14.6 |
| Uruguay | 17.4 | 13.9 | 13.7 |
| Venezuela | 16.2 | 8.4 | 6.4 2) |

Table B1. (concluded)

| | Purchasing Power Parity Prices | Domestic Prices | |
|--------------------------------|-----------------------------------|-----------------|------------|
| | 1990 | 1990 | 1997 |
| Asia and Oceania | | | |
| Bahrain | | 24.2 | 20.3 |
| Bangladesh | 40.7 | 14.0 | 14.1 |
| Bhutan | | 15.7 | 29.4 7) |
| China | 25.8 | 12.3 | 11.4 |
| China, Hong Kong SpecialAdmin. | 5.6 | 7.4 | 8.5 |
| Cyprus | 17.7 | 17.4 | 18.0 7) |
| Fiji | 19.8 | 16.9 | 15.0 |
| India | 30.0 | 11.5 | 10.4 7) |
| Indonesia | 14.6 | 9.0 | 6.9 |
| Iran (Islamic Republic of) | 10.6 | 11.1 | 14.1 2) |
| Israel | 29.2 | 30.0 | 29.4 |
| Jordan | 28.2 | 24.9 | 25.0 |
| Kuwait | | 38.6 | 27.6 |
| Malaysia | 14.8 | 14.0 | 11.1 |
| Nepal | | 8.7 | 9.1 |
| Oman | | 38.1 | 21.5 |
| Pakistan | 20.8 | 15.1 | 12.4 |
| Papua New Guinea | 32.1 | 24.8 | 24.4 1) 5) |
| Philippines | 15.8 | 10.1 | 13.0 |
| Qatar | | 32.9 | 32.9 6) |
| Republic of Korea | 7.8 | 10.1 | 11.1 |
| Saudi Arabia | | 30.6 | 27.4 2) |
| Singapore | 7.6 | 10.0 | 9.4 |
| Sri Lanka | 18.8 | 9.8 | 10.4 |
| Syrian Arab Republic | 13.1 | 14.3 | 11.7 2) |
| Thailand | 13.8 | 9.4 | 10.3 |
| Turkey | 8.7 | 11.0 | 12.1 |
| United Arab Emirates | | 16.3 | 16.0 7) |
| Vanuatu | 32.0 | 28.2 | 26.0 6) |
| Yemen | | 17.9 | 16.2 |

Source: Statistics in domestic prices estimated from UNESIS data base of United Nations DESA unless otherwise noted. Statistics in PPP prices estimated by adjusted domestic price data by the relative price of government consumption, as reported in Penn World Table, version 5.6a.

Notes: 1) From IMF, International Financial Statistics, February 1999.

2) Provisional or preliminary estimate.

3) 1991.

4) 1992.

5) 1993.

6) 1995.

7) 1997.

Table B2. Central government expenditure as a percentage of GDP (domestic prices, 1990 and 1997)

| | | <u>Year</u> | <u>Ratio (%)</u> | | <u>Year</u> | <u>Ratio (%)</u> |
|-------------------------------|----------|-------------|------------------|--|-------------|------------------|
| Developed Countries | | | | | | |
| Australia | 2) 5) | 1990 | 24.3 | | 1997 | 25.3 |
| Austria | | 1990 | 38.1 | | 1996 | 41.8 |
| Belgium | | 1988 | 49.2 | | | |
| Canada | 4) | 1990 | 23.8 | | 1994 | 24.0 |
| Denmark | | 1990 | 39.0 | | 1995 | 41.4 |
| Finland | | 1990 | 30.8 | | 1996 | 40.3 |
| France | | 1990 | 45.0 | | 1993 | 53.5 |
| Germany | | 1990 | 29.5 | | | |
| Greece | | 1991 | 35.9 | | 1996 | 32.7 |
| Iceland | | 1990 | 32.3 | | 1996 | 32.2 |
| Ireland | | 1990 | 40.1 | | 1995 | 39.0 |
| Italy | | 1988 | 46.2 | | | |
| Japan | 4) | 1991 | 14.9 | | | |
| Luxembourg | | 1990 | 46.3 | | 1995 | 41.4 |
| Malta | | 1990 | 44.5 | | 1996 | 41.4 |
| Netherlands | | 1990 | 51.6 | | 1997 | 48.0 |
| New Zealand | 2) 3) 5) | 1991 | 40.4 | | 1997 | 32.1 |
| Norway | | 1990 | 41.3 | | 1996 | 36.8 |
| Portugal | | 1988 | 54.1 | | | |
| Spain | | 1990 | 33.8 | | 1995 | 36.8 |
| Sweden | 8) | 1990 | 39.5 | | 1997 | 44.3 |
| Switzerland | | 1991 | 23.5 | | 1996 | 26.3 |
| United Kingdom | | 1990 | 37.6 | | 1995 | 41.6 |
| United States | 6) | 1990 | 23.9 | | 1997 | 21.2 |
| Transitional Economies | | | | | | |
| Albania | 1) | | | | 1995 | 31.0 |
| Belarus | | 1992 | 37.6 | | 1996 | 33.9 |
| Bulgaria | | 1990 | 55.1 | | 1997 | 33.5 |
| Czech Republic | | 1993 | 38.2 | | 1997 | 35.9 |
| Estonia | | 1991 | 22.1 | | 1997 | 31.6 |
| Georgia | 1) 3) | | | | 1997 | 10.4 |
| Hungary | | 1990 | 52.1 | | 1997 | 42.7 |
| Latvia | | | | | 1997 | 32.0 |
| Lithuania | | 1993 | 21.4 | | 1997 | 27.4 |
| Poland | | 1994 | 44.2 | | 1997 | 41.2 |
| Romania | | 1990 | 33.8 | | 1996 | 31.4 |
| Russia | | | | | 1995 | 24.7 |

Table B2. (continued)

| Developing Countries | | <u>Year</u> | <u>Ratio (%)</u> | <u>Year</u> | <u>Ratio (%)</u> |
|------------------------------------|----------|-------------|------------------|-------------|------------------|
| Africa | | | | | |
| Algeria | | | | 1995 | 30.6 |
| Botswana | 3) 4) | 1990 | 35.0 | 1996 | 37.2 |
| Burundi | | 1991 | 29.7 | 1996 | 27.3 |
| Cameroon | 5) | 1989 | 20.7 | | |
| Democratic Republic of the Congo | | 1990 | 18.8 | 1995 | 8.2 |
| Egypt | | 1990 | 27.8 | 1995 | 33.5 |
| Ethiopia | 5) | 1990 | 26.8 | 1995 | 22.5 |
| Gambia | 5) | 1990 | 22.0 | 1993 | 25.1 |
| Ghana | | 1990 | 12.5 | 1993 | 22.1 |
| Kenya | 3) 5) | 1990 | 25.8 | 1996 | 27.1 |
| Lesotho | 4) | 1990 | 50.9 | | |
| Madagascar | | 1990 | 16.1 | 1996 | 17.3 |
| Mauritius | 2) 5) | 1990 | 21.2 | 1997 | 22.2 |
| Morocco | | 1990 | 28.7 | 1995 | 33.3 |
| Namibia | 4) | 1990 | 30.8 | 1993 | 36.3 |
| Rwanda | | 1990 | 18.9 | 1993 | 24.2 |
| Seychelles | | | | 1995 | 52.8 |
| Sierra Leone | 5) | 1990 | 5.7 | 1994 | 16.7 |
| South Africa | 2) 4) | 1990 | 30.7 | 1997 | 33.1 |
| Tunisia | | 1990 | 34.6 | 1996 | 32.6 |
| Zambia | | 1993 | 26.4 | 1996 | 21.4 |
| Zimbabwe | | 1990 | 27.4 | 1993 | 29.0 |
| Latin America and Caribbean | | | | | |
| Argentina | | 1990 | 10.6 | 1996 | 14.1 |
| Bahamas | | 1990 | 18.3 | 1993 | 20.5 |
| Barbados | | 1989 | 33.2 | | |
| Bolivia | | 1990 | 16.4 | 1997 | 23.1 |
| Brazil | | 1990 | 35.0 | 1994 | 33.8 |
| Belize | 2) 3) 4) | 1991 | 31.4 | 1997 | 29.2 |
| Chile | | 1990 | 20.4 | 1997 | 20.7 |
| Colombia | | 1990 | 11.6 | 1993 | 8.8 |
| Costa Rica | | 1990 | 25.6 | 1996 | 30.1 |
| Dominican Republic | | 1990 | 11.7 | 1996 | 15.6 |
| Ecuador | | 1990 | 14.5 | 1994 | 15.7 |
| El Salvador | 3) | 1990 | 10.9 | 1997 | 12.3 |
| Grenada | 3) | 1991 | 30.7 | 1995 | 28.1 |
| Guatemala | | 1990 | 10.0 | 1997 | 9.7 |
| Mexico | | 1990 | 19.2 | 1996 | 15.5 |
| Netherlands Antilles | 1) | 1990 | 16.7 | 1995 | 15.4 |
| Nicaragua | | 1990 | 7.2 | 1994 | 32.3 |
| Panama [exc. Canal Zone] | | 1990 | 23.7 | 1996 | 27.7 |
| Paraguay | | 1990 | 9.4 | | |
| St. Kitts-Nevis-Anguilla | | | | | |

Table B2. (concluded)

| | <u>Year</u> | <u>Ratio (%)</u> | <u>Year</u> | <u>Ratio (%)</u> |
|--|-------------|------------------|-------------|------------------|
| Saint Vincent and the Grenadin ⁸⁾ | 1990 | 32.9 | 1997 | 42.7 |
| Trinidad and Tobago | 1993 | 29.4 | 1995 | 28.2 |
| Uruguay | 1990 | 26.0 | 1997 | 31.7 |
| Venezuela | 1990 | 20.7 | 1997 | 20.6 |
| Asia and Oceania | | | | |
| Bahrain | | | 1997 | 27.0 |
| Bhutan ⁵⁾ | 1990 | 33.9 | 1996 | 32.4 |
| China | 1990 | 10.2 | 1996 | 7.8 |
| Cyprus | 1990 | 32.8 | 1995 | 32.9 |
| Fiji | 1990 | 26.7 | 1996 | 29.5 |
| India ⁴⁾ | 1990 | 16.6 | 1996 | 15.0 |
| Indonesia ⁴⁾ | | | 1996 | 14.0 |
| Iran (Islamic Republic of) ^{2) 4)} | 1991 | 17.6 | 1997 | 25.6 |
| Israel ⁷⁾ | 1993 | 44.0 | 1997 | 48.3 |
| Jordan ³⁾ | 1990 | 35.8 | 1996 | 35.0 |
| Kuwait ^{2) 5)} | 1990 | 69.3 | 1997 | 42.0 |
| Lebanon ¹⁾ | 1993 | 23.4 | 1996 | 37.9 |
| Malaysia | 1990 | 30.1 | 1997 | 20.1 |
| Mongolia | 1993 | 26.9 | | |
| Myanmar ⁴⁾ | 1990 | 15.2 | 1996 | 9.3 |
| Nepal ^{2) 5)} | 1990 | 15.9 | 1997 | 16.6 |
| Oman ³⁾ | 1990 | 39.5 | 1997 | 29.8 |
| Pakistan ⁵⁾ | 1990 | 17.5 | 1995 | 17.9 |
| Papua New Guinea | 1990 | 34.7 | | |
| Philippines ³⁾ | 1990 | 19.6 | 1997 | 19.3 |
| Republic of Korea | 1990 | 16.2 | 1997 | 18.8 |
| Singapore ⁵⁾ | 1990 | 19.8 | 1996 | 20.0 |
| Sri Lanka | 1990 | 28.4 | 1997 | 25.7 |
| Syrian Arab Republic | 1990 | 21.8 | 1996 | 23.0 |
| Thailand ⁶⁾ | 1990 | 14.6 | 1997 | 18.8 |
| Turkey | 1990 | 17.4 | 1996 | 27.6 |
| United Arab Emirates | 1990 | 11.7 | 1994 | 11.7 |
| Yemen | 1990 | 28.5 | 1997 | 39.2 |

Consolidated Central Government expenditures

Source: IMF, Government Finance Statistics unless otherwise noted.

Notes:

- 1) GDP source: UNDESA, based on national statistical information
- 2) 1997 value based on estimated GDP figures
- 3) Budgetary Central Government expenditures
- 4) Fiscal year ending March, GDP accordingly adjusted
- 5) Fiscal year ending June, GDP accordingly adjusted
- 6) Fiscal year ending September, GDP accordingly adjusted
- 7) Fiscal year ending March for 1990 figure, and December for 1997 figure, GDP adj.
- 8) Fiscal year ending June for 1990 figure, and December for 1997 figure, GDP adj.

Table B3. Central government tax revenue as a percentage of GDP, 1990 and 1997

| | | year1 | year2 | Total | | | | Sales | | | | Income | | | |
|------------------------|----------|-------|-------|-------------|-------|-------------|------|-------|-------|-----------------|-------|----------|-------|-------------|-------|
| | | | | Tax Revenue | | Trade Taxes | | & VAT | | Social Security | | & Wealth | | Other Taxes | |
| | | | | 1990 | 1997 | 1990 | 1997 | 1990 | 1997 | 1990 | 1997 | 1990 | 1997 | 1990 | 1997 |
| Developed Countries | | | | | | | | | | | | | | | |
| Australia | 2) 5) | 1990 | 1997 | 24.06 | 22.47 | 1.08 | 0.59 | 5.51 | 4.98 | 0.32 | 0.58 | 17.15 | 16.31 | 0.00 | 0.00 |
| Austria | | 1990 | 1996 | 31.43 | 34.47 | 0.51 | 0.08 | 8.73 | 9.32 | 14.55 | 16.17 | 7.20 | 8.43 | 0.45 | 0.47 |
| Belgium | | 1990 | 1995 | 41.46 | 42.92 | 0.01 | 0.00 | 10.21 | 11.04 | 15.10 | 15.13 | 16.14 | 16.74 | 0.00 | 0.00 |
| Canada | 4) | 1990 | 1994 | 18.24 | 18.01 | 0.60 | 0.47 | 3.61 | 3.85 | 3.05 | 3.84 | 10.98 | 9.84 | 0.00 | 0.00 |
| Denmark | | 1990 | 1995 | 32.26 | 33.69 | 0.02 | 0.02 | 15.52 | 15.70 | 1.75 | 1.76 | 14.96 | 16.01 | 0.00 | 0.21 |
| Finland | | 1990 | 1996 | 28.30 | 28.63 | 0.28 | 0.01 | 14.53 | 14.25 | 2.68 | 3.86 | 10.75 | 10.40 | 0.06 | 0.10 |
| France | | 1990 | 1997 | 39.72 | 39.19 | 0.00 | 0.00 | 12.13 | 11.93 | 19.20 | 17.99 | 8.35 | 9.00 | 0.04 | 0.26 |
| Germany | | 1990 | 1996 | 26.95 | 26.94 | 0.00 | 0.00 | 6.84 | 6.75 | 15.36 | 15.48 | 4.75 | 4.71 | 0.00 | 0.00 |
| Greece | | 1991 | 1997 | 20.66 | 23.00 | 0.03 | 0.02 | 12.60 | 13.08 | 0.10 | 0.52 | 7.18 | 8.56 | 0.75 | 0.82 |
| Iceland | | 1990 | 1996 | 25.23 | 26.53 | 2.67 | 0.37 | 13.22 | 14.78 | 2.02 | 2.70 | 7.20 | 8.57 | 0.11 | 0.11 |
| Ireland | | 1990 | 1995 | 33.79 | 33.21 | 0.00 | 0.00 | 14.22 | 13.49 | 5.68 | 5.40 | 13.89 | 14.32 | 0.00 | 0.00 |
| Italy | | 1990 | 1997 | 37.24 | 42.24 | 0.00 | 0.08 | 11.19 | 10.24 | 11.16 | 14.93 | 14.55 | 16.52 | 0.34 | 0.46 |
| Japan | 4) | 1990 | 1993 | 13.62 | 17.60 | 0.19 | 0.26 | 2.43 | 3.02 | 0.00 | 5.55 | 10.59 | 8.43 | 0.41 | 0.34 |
| Luxembourg | | 1990 | 1996 | 44.80 | 43.45 | 0.00 | 0.00 | 11.22 | 11.90 | 12.28 | 11.60 | 20.48 | 18.41 | 0.82 | 1.54 |
| Malta | | 1990 | 1996 | 25.60 | 26.95 | 8.94 | 1.38 | 2.02 | 10.82 | 5.52 | 5.88 | 9.03 | 8.77 | 0.08 | 0.10 |
| Netherlands | | 1990 | 1997 | 42.84 | 42.99 | 0.00 | 0.00 | 10.45 | 10.46 | 16.69 | 18.96 | 15.42 | 12.81 | 0.27 | 0.76 |
| New Zealand | 2) 3) 5) | 1990 | 1997 | 35.73 | 31.01 | 0.90 | 0.93 | 11.34 | 8.98 | 0.66 | 0.34 | 22.82 | 20.78 | 0.03 | -0.01 |
| Norway | | 1990 | 1996 | 32.27 | 32.55 | 0.23 | 0.24 | 14.41 | 15.20 | 10.16 | 8.83 | 7.47 | 8.28 | 0.00 | 0.00 |
| Portugal | | 1990 | 1996 | 28.37 | 29.13 | 0.73 | 0.00 | 10.88 | 11.74 | 8.25 | 8.00 | 7.45 | 8.57 | 1.05 | 0.81 |
| Spain | | 1990 | 1995 | 28.79 | 28.34 | 0.50 | 0.00 | 6.73 | 7.21 | 11.65 | 11.73 | 9.91 | 9.40 | 0.00 | 0.00 |
| Sweden | 8) | 1990 | 1997 | 37.19 | 36.93 | 0.23 | 0.21 | 12.22 | 11.73 | 15.42 | 18.31 | 9.30 | 6.64 | 0.03 | 0.06 |
| Switzerland | | 1991 | 1996 | 19.58 | 21.10 | 0.27 | 0.20 | 4.83 | 5.48 | 10.66 | 11.64 | 3.82 | 3.79 | 0.00 | 0.00 |
| United Kingdom | | 1990 | 1995 | 33.45 | 33.31 | 0.02 | 0.02 | 10.70 | 11.76 | 5.90 | 6.21 | 16.82 | 15.29 | 0.01 | 0.02 |
| United States | 6) | 1990 | 1997 | 18.33 | 19.37 | 0.31 | 0.23 | 0.64 | 0.70 | 6.88 | 6.69 | 10.49 | 11.75 | 0.00 | 0.00 |
| Transitional Economies | | | | | | | | | | | | | | | |
| Albania | 1) | | 1995 | | 16.64 | | 2.96 | | 8.39 | | 3.22 | | 2.00 | | 0.07 |
| Belarus | 1) | 1992 | 1996 | 30.64 | 29.45 | 1.42 | 1.72 | 12.54 | 11.91 | 12.76 | 12.51 | 3.93 | 2.94 | 0.00 | 0.37 |
| Bulgaria | | 1990 | 1997 | 34.51 | 25.16 | 0.86 | 2.13 | 8.54 | 8.33 | 10.82 | 7.53 | 14.00 | 7.14 | 0.30 | 0.03 |
| Croatia | | | 1997 | | 41.53 | | 3.93 | | 17.22 | | 15.02 | | 5.15 | | 0.21 |
| Czech Republic | | 1993 | 1997 | 35.70 | 32.74 | 1.51 | 0.91 | 12.12 | 11.79 | 13.42 | 15.15 | 7.30 | 4.88 | 1.35 | 0.01 |
| Estonia | | 1991 | 1997 | 23.88 | 30.10 | 0.20 | 0.00 | 9.95 | 14.11 | 6.84 | 10.55 | 6.56 | 5.45 | 0.32 | 0.00 |
| Georgia | 1) 3) | | 1997 | | 5.52 | | 0.92 | | 3.94 | | 0.00 | | 0.66 | | 0.00 |
| Hungary | | 1990 | 1997 | 44.71 | 32.55 | 3.07 | 1.89 | 16.58 | 12.11 | 15.55 | 10.83 | 9.51 | 7.27 | 0.00 | 0.44 |
| Latvia | | | 1997 | | 29.19 | | 0.69 | | 13.72 | | 10.70 | | 4.06 | | 0.02 |
| Lithuania | | 1993 | 1997 | 20.16 | 25.43 | 0.86 | 0.71 | 7.00 | 13.19 | 6.18 | 6.97 | 6.09 | 4.51 | 0.03 | 0.06 |
| Poland | | 1988 | 1997 | 35.13 | 35.18 | 2.30 | 1.58 | 11.26 | 12.48 | 8.40 | 11.31 | 12.01 | 9.75 | 1.15 | 0.05 |
| Romania | | 1990 | 1996 | 30.93 | 24.38 | 0.19 | 1.71 | 11.24 | 6.46 | 13.00 | 7.57 | 6.51 | 7.57 | 0.00 | 1.08 |

Table B3. (continued)

| | | | Total | | | | Sales | | | | Income | | | | |
|-----------------------------|-----------|-------|-------------|-------|-------------|-------|-------|-------|-----------------|------|----------|-------|-------------|------|------|
| | | | Tax Revenue | | Trade Taxes | | & VAT | | Social Security | | & Wealth | | Other Taxes | | |
| Developing Countries | | year1 | year2 | 1990 | 1997 | 1990 | 1997 | 1990 | 1997 | 1990 | 1997 | 1990 | 1997 | 1990 | 1997 |
| Africa | | | | | | | | | | | | | | | |
| Algeria | 3) | | 1995 | | 29.02 | | 5.66 | | 3.17 | | 0.00 | | 19.87 | | 0.33 |
| Botswana | 3) 4) | 1990 | 1996 | 28.64 | 15.55 | 7.07 | 5.79 | 1.00 | 1.75 | 0.00 | 0.00 | 20.58 | 8.01 | 0.00 | 0.00 |
| Burkina Faso | | 1987 | | 13.69 | | 4.02 | | 4.16 | | 1.51 | | 3.37 | | 0.63 | |
| Burundi | | 1991 | 1997 | 16.88 | 13.30 | 4.44 | 2.24 | 7.03 | 6.43 | 1.27 | 1.20 | 3.94 | 3.20 | 0.20 | 0.22 |
| Cameroon | 5) | 1989 | 1994 | 16.68 | 7.35 | 2.45 | 2.19 | 3.55 | 2.36 | 1.13 | 0.00 | 8.22 | 2.56 | 1.33 | 0.23 |
| Chad | 1) | 1990 | | 8.61 | | 2.28 | | 3.67 | | 0.20 | | 2.05 | | 0.41 | |
| Dem. Rep. of the Congo | | 1990 | 1995 | 9.41 | 4.88 | 4.62 | 1.73 | 1.85 | 0.99 | 0.24 | 0.07 | 2.69 | 1.75 | 0.01 | 0.35 |
| Egypt | | 1990 | 1995 | 16.74 | 21.03 | 3.16 | 3.59 | 3.13 | 4.65 | 3.55 | 3.49 | 4.67 | 6.13 | 2.24 | 3.17 |
| Ethiopia | 3) 5) | 1990 | 1995 | 12.09 | 11.25 | 2.51 | 4.90 | 4.25 | 2.39 | 0.00 | 0.00 | 5.14 | 3.65 | 0.18 | 0.31 |
| Gambia | 3) 5) | 1990 | 1993 | 18.21 | 26.19 | 8.33 | 12.32 | 7.27 | 9.49 | 0.07 | 0.07 | 2.50 | 4.24 | 0.05 | 0.06 |
| Ghana | 3) | 1990 | 1993 | 10.81 | 13.86 | 4.57 | 4.79 | 3.53 | 6.06 | 0.00 | 0.00 | 2.71 | 3.00 | 0.00 | 0.00 |
| Kenya | 3) 5) | 1990 | 1996 | 18.96 | 21.91 | 3.38 | 3.75 | 9.07 | 9.43 | 0.00 | 0.00 | 6.23 | 8.51 | 0.28 | 0.22 |
| Lesotho | 4) | 1990 | 1996 | 34.52 | 40.89 | 22.02 | 26.47 | 8.06 | 6.36 | 0.00 | 0.00 | 4.40 | 7.87 | 0.03 | 0.19 |
| Madagascar | | 1990 | 1996 | 9.43 | 8.47 | 5.53 | 4.62 | 2.23 | 2.11 | 0.00 | 0.00 | 1.63 | 1.70 | 0.04 | 0.04 |
| Mauritius | 2) 5) | 1990 | 1997 | 19.41 | 16.54 | 9.85 | 6.09 | 4.44 | 5.72 | 0.97 | 1.15 | 4.07 | 3.57 | 0.08 | 0.01 |
| Morocco | | 1990 | 1995 | 22.90 | 23.82 | 4.69 | 4.20 | 9.87 | 11.17 | 1.04 | 1.94 | 6.83 | 6.21 | 0.46 | 0.29 |
| Namibia | 4) | 1990 | 1993 | 25.26 | 28.05 | 7.72 | 9.60 | 7.29 | 9.03 | 0.00 | 0.00 | 10.15 | 9.22 | 0.10 | 0.19 |
| Rwanda | | 1990 | | 9.51 | | 2.78 | | 3.68 | | 0.73 | | 1.95 | | 0.37 | |
| Seychelles | | 1989 | 1995 | 44.79 | 34.91 | 25.39 | 20.15 | 2.72 | 1.92 | 8.00 | 7.27 | 8.50 | 5.28 | 0.18 | 0.29 |
| Sierra Leone | 5) | 1990 | 1994 | 3.63 | 10.35 | 1.53 | 4.24 | 0.89 | 3.70 | 0.00 | 0.03 | 1.20 | 2.38 | 0.00 | 0.00 |
| South Africa | 2) 4) | 1990 | 1997 | 24.75 | 26.94 | 0.98 | 0.08 | 9.06 | 9.98 | 0.48 | 0.46 | 14.00 | 16.18 | 0.24 | 0.24 |
| Tunisia | | 1990 | 1996 | 24.01 | 24.85 | 8.61 | 7.60 | 5.98 | 6.18 | 4.41 | 5.41 | 4.45 | 4.68 | 0.57 | 0.97 |
| Zambia | | 1990 | 1996 | 19.48 | 17.13 | 3.55 | 2.17 | 7.73 | 8.13 | 0.02 | 0.00 | 8.19 | 6.82 | 0.00 | 0.00 |
| Zimbabwe | | 1990 | 1993 | 21.79 | 20.60 | 4.23 | 4.36 | 6.34 | 4.55 | 0.12 | 0.00 | 10.89 | 11.47 | 0.21 | 0.22 |
| Latin America and Caribbean | | | | | | | | | | | | | | | |
| Argentina | | 1990 | 1996 | 9.37 | 11.05 | 1.48 | 0.78 | 2.06 | 4.69 | 4.53 | 3.57 | 0.77 | 1.98 | 0.53 | 0.03 |
| Bahamas | | 1990 | 1993 | 14.63 | 17.02 | 10.57 | 11.11 | 2.08 | 2.18 | 0.00 | 0.00 | 0.63 | 0.70 | 1.34 | 3.04 |
| Belize | 2) 3) 4) | 1991 | 1997 | 20.67 | 20.23 | 12.67 | 7.17 | 2.25 | 8.15 | 0.00 | 0.00 | 5.31 | 4.33 | 0.44 | 0.58 |
| Bolivia | | 1990 | 1997 | 8.60 | 15.98 | 0.94 | 1.15 | 4.30 | 8.95 | 1.20 | 3.18 | 1.68 | 2.65 | 0.49 | 0.05 |
| Brazil | | 1990 | 1994 | 19.11 | 20.12 | 0.48 | 0.52 | 5.54 | 6.57 | 8.41 | 9.38 | 4.69 | 3.65 | 0.00 | 0.00 |
| Chile | | 1990 | 1997 | 16.26 | 18.94 | 2.41 | 1.87 | 8.95 | 10.45 | 1.73 | 1.39 | 2.57 | 4.03 | 0.60 | 1.20 |
| Colombia | | 1990 | 1994 | 10.24 | 13.63 | 2.51 | 1.40 | 3.84 | 6.65 | 0.00 | 0.00 | 3.73 | 5.57 | 0.17 | 0.02 |
| Costa Rica | | 1990 | 1996 | 20.81 | 23.12 | 5.30 | 2.22 | 6.29 | 10.51 | 6.62 | 7.14 | 2.40 | 2.84 | 0.20 | 0.40 |
| Dominican Republic | | 1990 | 1996 | 10.84 | 13.88 | 4.86 | 5.55 | 2.71 | 5.09 | 0.54 | 0.62 | 2.67 | 2.58 | 0.06 | 0.03 |
| Ecuador | budgetary | 1990 | 1994 | 17.80 | 13.87 | 2.41 | 1.77 | 3.94 | 4.05 | 0.00 | 0.00 | 11.36 | 8.05 | 0.09 | 0.00 |
| El Salvador | 3) | 1990 | 1997 | 8.90 | 10.51 | 2.00 | 1.34 | 4.16 | 6.03 | 0.00 | 0.00 | 2.62 | 3.10 | 0.12 | 0.04 |
| Grenada | 3) | 1991 | 1995 | 23.05 | 23.08 | 6.22 | 4.61 | 11.67 | 11.43 | 0.00 | 0.00 | 4.69 | 6.38 | 0.46 | 0.66 |
| Guatemala | 3) | 1990 | 1997 | 6.87 | 8.69 | 1.54 | 1.42 | 3.31 | 4.97 | 0.00 | 0.00 | 1.61 | 2.14 | 0.40 | 0.16 |
| Mexico | | 1990 | 1996 | 17.72 | 15.64 | 1.03 | 0.59 | 9.25 | 8.73 | 2.19 | 1.93 | 5.05 | 4.08 | 0.20 | 0.32 |
| Netherlands Antilles | 1) | 1990 | 1995 | 10.78 | 7.62 | 3.44 | 4.26 | 3.20 | 2.84 | 3.64 | 0.00 | 0.19 | 0.39 | 0.31 | 0.14 |
| Nicaragua | | 1990 | 1995 | 2.93 | 23.88 | 0.62 | 5.31 | 1.16 | 10.89 | 0.30 | 3.30 | 0.70 | 2.81 | 0.14 | 1.56 |
| Panama [exc. Canal Zone] | | 1990 | 1994 | 17.72 | 17.96 | 3.07 | 2.71 | 4.38 | 4.37 | 5.11 | 5.53 | 4.85 | 4.88 | 0.31 | 0.47 |
| Paraguay | | 1990 | 1993 | 9.17 | 9.08 | 2.46 | 1.75 | 2.60 | 5.03 | 0.11 | 0.16 | 2.21 | 2.00 | 1.78 | 0.13 |
| Peru | | 1990 | 1997 | 10.49 | 14.83 | 1.77 | 1.35 | 5.34 | 7.79 | 0.78 | 1.94 | 1.35 | 3.29 | 1.24 | 0.46 |

Table B3. (concluded)

| | | | Total | | | | Sales | | | | Income | | | | |
|--------------------------------|-------|------|-------------|-------|-------------|-------|-------|-------|-----------------|------|----------|-------|-------------|------|------|
| | | | Tax Revenue | | Trade Taxes | | & VAT | | Social Security | | & Wealth | | Other Taxes | | |
| | | | year1 | year2 | 1990 | 1997 | 1990 | 1997 | 1990 | 1997 | 1990 | 1997 | 1990 | 1997 | |
| St. Kitts-Nevis-Anguilla | | 1990 | 1994 | 22.52 | 23.57 | 12.58 | 11.21 | 1.48 | 3.32 | 2.85 | 3.25 | 5.12 | 4.81 | 0.48 | 0.98 |
| St. Lucia | 1) 4) | 1990 | | 27.72 | | 8.74 | | 10.56 | | 0.00 | | 7.87 | | 0.55 | |
| St. Vincent and the Grenadines | | 1991 | 1997 | 25.03 | 28.16 | 11.99 | 13.32 | 3.05 | 3.78 | 1.52 | 1.83 | 7.77 | 7.81 | 0.70 | 1.42 |
| Trinidad and Tobago | | 1993 | 1995 | 24.00 | 23.34 | 2.57 | 1.56 | 8.63 | 7.13 | 0.74 | 0.57 | 11.93 | 13.91 | 0.14 | 0.18 |
| Uruguay | | 1990 | 1997 | 24.20 | 26.84 | 2.60 | 1.15 | 9.53 | 10.35 | 7.30 | 7.99 | 3.19 | 5.56 | 1.59 | 1.79 |
| Venezuela | | 1990 | 1997 | 18.41 | 18.34 | 1.61 | 1.61 | 0.75 | 7.16 | 0.89 | 0.37 | 15.16 | 9.20 | 0.00 | 0.00 |
| Asia and Oceania | | | | | | | | | | | | | | | |
| Bahrain | | 1990 | 1997 | 7.55 | 6.75 | 2.29 | 2.42 | 1.05 | 0.85 | 2.53 | 1.90 | 1.69 | 1.57 | 0.00 | 0.00 |
| Bhutan | | 1990 | 1996 | 4.42 | 6.59 | 0.06 | 0.24 | 2.90 | 2.98 | 0.00 | 0.00 | 1.44 | 3.37 | 0.02 | 0.00 |
| China | 3) | 1990 | 1996 | 4.01 | 4.83 | 0.88 | 0.44 | 1.13 | 3.65 | 0.00 | 0.00 | 2.00 | 0.65 | 0.00 | 0.09 |
| Cyprus | | 1990 | 1995 | 22.36 | 25.71 | 4.35 | 2.55 | 4.69 | 8.97 | 4.74 | 5.06 | 6.75 | 6.73 | 1.82 | 2.41 |
| Fiji | 3) | 1990 | 1996 | 23.08 | 21.23 | 8.74 | 5.27 | 3.97 | 7.99 | 0.00 | 0.00 | 10.11 | 7.92 | 0.27 | 0.06 |
| India | 4) | 1990 | 1996 | 10.36 | 9.81 | 3.71 | 3.27 | 4.65 | 3.56 | 0.00 | 0.00 | 1.98 | 2.97 | 0.01 | 0.01 |
| Indonesia | 4) | 1990 | 1996 | 18.42 | 14.08 | 1.25 | 0.52 | 4.62 | 4.80 | 0.00 | 0.44 | 12.44 | 8.31 | 0.12 | 0.00 |
| Iran (Islamic Rep. of) | 2) 4) | 1991 | 1997 | 7.55 | 9.25 | 2.62 | 1.71 | 0.82 | 2.40 | 1.87 | 1.82 | 2.17 | 3.26 | 0.09 | 0.07 |
| Israel | | 1993 | 1997 | 31.95 | 36.81 | 0.38 | 0.18 | 13.47 | 13.59 | 3.39 | 7.00 | 14.46 | 15.81 | 0.24 | 0.22 |
| Jordan | 3) | 1990 | 1996 | 18.63 | 22.38 | 7.01 | 7.46 | 5.45 | 8.66 | 0.17 | 0.11 | 5.08 | 4.97 | 0.93 | 1.19 |
| Kuwait | 2) 5) | 1990 | 1996 | 1.94 | 0.98 | 1.49 | 0.78 | 0.02 | 0.00 | 0.00 | 0.00 | 0.43 | 0.21 | 0.00 | 0.00 |
| Lebanon | 1) | 1993 | 1996 | 9.21 | 14.05 | 5.05 | 7.99 | 0.80 | 0.68 | 0.00 | 0.00 | 2.84 | 2.84 | 0.51 | 2.54 |
| Malaysia | | 1990 | 1997 | 19.63 | 19.38 | 4.85 | 2.99 | 5.50 | 6.24 | 0.21 | 0.29 | 8.42 | 8.75 | 0.65 | 1.11 |
| Mongolia | | 1992 | 1996 | 15.64 | 17.03 | 3.06 | 2.37 | 5.67 | 4.60 | 2.49 | 4.95 | 4.42 | 4.97 | 0.00 | 0.14 |
| Myanmar | 4) | 1990 | 1996 | 5.86 | 3.65 | 1.37 | 0.93 | 2.75 | 1.64 | 0.00 | 0.00 | 1.75 | 1.07 | 0.00 | 0.00 |
| Nepal | 2) 5) | 1990 | 1997 | 6.47 | 8.69 | 2.42 | 2.99 | 2.79 | 3.99 | 0.00 | 0.00 | 1.25 | 1.71 | 0.01 | 0.00 |
| Oman | 3) | 1990 | 1997 | 10.38 | 8.59 | 0.80 | 0.71 | 0.27 | 0.38 | 0.14 | 0.49 | 9.16 | 7.01 | 0.00 | 0.00 |
| Pakistan | 5) | 1990 | 1995 | 12.15 | 14.11 | 5.40 | 4.49 | 5.16 | 6.59 | 0.00 | 0.00 | 1.59 | 3.02 | 0.00 | 0.00 |
| Papua New Guinea | 3) | 1990 | 1994 | 20.07 | 19.52 | 6.35 | 5.39 | 3.53 | 2.37 | 0.00 | 0.00 | 9.44 | 11.38 | 0.76 | 0.37 |
| Philippines | 3) | 1990 | 1997 | 14.08 | 17.01 | 4.06 | 3.93 | 4.98 | 5.50 | 0.00 | 0.00 | 4.68 | 6.81 | 0.37 | 0.76 |
| Republic of Korea | | 1990 | 1997 | 15.79 | 18.63 | 2.05 | 1.38 | 6.06 | 7.28 | 0.81 | 2.02 | 6.30 | 6.15 | 0.57 | 1.80 |
| Singapore | 5) | 1990 | 1996 | 14.30 | 15.77 | 0.50 | 0.33 | 3.99 | 4.71 | 0.00 | 0.00 | 8.03 | 7.96 | 1.79 | 2.77 |
| Sri Lanka | | 1990 | 1997 | 19.02 | 16.17 | 6.01 | 2.99 | 9.75 | 9.97 | 0.00 | 0.00 | 3.26 | 3.21 | 0.00 | 0.00 |
| Syrian Arab Republic | | 1990 | 1996 | 16.71 | 15.98 | 1.62 | 2.78 | 6.88 | 6.50 | 0.67 | 0.72 | 7.06 | 5.37 | 0.49 | 0.59 |
| Thailand | 6) | 1990 | 1997 | 17.72 | 16.22 | 4.25 | 2.20 | 7.98 | 7.69 | 0.02 | 0.27 | 5.29 | 5.96 | 0.18 | 0.10 |
| Turkey | | 1990 | 1996 | 11.57 | 15.65 | 0.85 | 0.44 | 4.39 | 8.75 | 0.00 | 0.00 | 5.95 | 6.06 | 0.38 | 0.40 |
| United Arab Emirates | 3) | 1990 | 1994 | 0.61 | 0.61 | 0.00 | 0.00 | 0.57 | 0.57 | 0.04 | 0.04 | 0.00 | 0.00 | 0.00 | 0.00 |
| Yemen | | 1990 | 1997 | 11.13 | 13.31 | 3.25 | 3.92 | 1.98 | 2.04 | 0.00 | 0.00 | 5.04 | 6.85 | 0.86 | 0.51 |

Consolidated Central Government expenditures
Sources: IMF, UNDESA

- Note: 1) GDP source: UNDESA, based on national statistical information
2) 1997 value based on estimated GDP figures
3) Budgetary Central Government expenditures
4) Fiscal year ending March, GDP accordingly adjusted
5) Fiscal year ending June, GDP accordingly adjusted
6) Fiscal year ending September, GDP accordingly adjusted
7) Fiscal year ending March for 1990 figure, and December for 1997 figure, GDP adj.
8) Fiscal year ending June for 1990 figure, and December for 1997 figure, GDP adj.

Footnotes and References - Part Two

- ¹ System of National Accounts 1993 (United Nations Sales No. E.94.XVII.4).
- ² The OECD considers employment data for public corporations to be so poor that it reports on a regular basis only employment for general government in member countries. See OECD, *Trends in Public Sector Pay in OECD Countries* (Paris, 1997) and *Statistical Sources on Public Sector Employment* (Paris, 1994).
- ³ In the National Accounts, “gross investment” is referred to as gross capital formation.
- ⁴ System of National Accounts 1993 (United Nations Sales No. E.94.XVII.4), para. 9.91, p. 215.
- ⁵ “Whereas the recipients of current cash transfers may dispose of them as they wish, the recipients of social transfers in kind have little or no choice.”, System of National Accounts 1993 (United Nations Sales No. E.94.XVII.4), para. 8.100, p. 201. Note however that the authors of the SNA do not allow for the fact that social transfers are fungible. Recipients of free schooling, for example, would spend at least part of their income on schooling were it not provided by government, so government expenditures on schooling ultimately finance household savings and consumption of other goods and services.
- ⁶ See OECD, “Expenditure on health in national accounts,” available on the Internet at www.oecd.org/.
- ⁷ SNA treatment of indirect taxes differs markedly from that of subsidies. Sales taxes always increase the price of goods or services and are never recorded as a negative ‘transfer in kind’ to households.
- ⁸ This is also the approach of the World Bank in *The State in a Changing World* (World Development Report, Oxford University Press, New York, 1997), chap. 1.
- ⁹ See Messaoud Hammouya, “Statistics on Public Sector Employment: Methodology, Structures and Trends”, Working Paper of the Bureau of Statistics of the International Labour Office, Geneva, July 1999. The ILO circulated an earlier version of this paper in December 1998 with the title “Statistiques de l’emploi dans le secteur public: méthodologie, structure et tendance”.
- ¹⁰ Agricultural workers, for example, are excluded from “total employment” in India and four other countries. And statistics for Egypt exclude workers in private establishments with fewer than ten employees. It is somewhat misleading, then, to report that the public sector accounts for 70 per cent of “total employment” in Egypt and India, the highest figure of all countries surveyed. See Messaoud Hammouya, *op cit*, notes to table 1, p. 13.
- ¹¹ This has come to be known as “Baumol’s Disease” after the economist who first drew attention to it. See William J. Baumol, “Containing medical costs: Why price controls won’t work”, *Public Interest*, No. 93 (Fall 1988), pp. 37-53.
- ¹² See *World Comparisons of Real Gross Domestic Product and Purchasing Power, 1985: Phase V of the International Comparison Programme, Series F, No. 64* (United Nations publication, Sales No. E.94.XVII.7 and Corr.1).
- ¹³ See Robert Summers and Alan Heston, “The Penn World Table (Mark 5): An expanded set of international comparisons, 1950-1988”, *Quarterly Journal of Economics*, vol. 106, No. 2 (May 1991), pp. 327-368. The current version (Mark 5.6) was released in January 1995 and can be downloaded from The Center for International Comparisons at the University of Pennsylvania (<http://pwt.econ.upenn.edu>) or accessed online from the University of Toronto (<http://datacentre.chass.utoronto.ca/pwt/index.html>).

¹⁴ Government consumption shares of GDP in PPP prices reported in the Penn World Table necessarily ignore subsequent revisions to national accounts. For this reason, the figures of Statistical Appendix table B1 were calculated by applying PPP price indexes to the latest SNA estimates of shares. For countries that have not revised their national accounts, the resulting PPP share of government consumption in GDP is identical to that reported in the Penn World Table. A careful reader will note that in the numéraire country (the United States) 1990 government consumption is 12.8 per cent of GDP in PPP prices and 17.7 per cent in domestic prices. The two figures are surprisingly different. They differ because price levels in the Penn World Tables are expressed relative to the world rather than relative to the United States. Thus, price indexes for components of GDP for the United States are not equal to one, even though the price index for overall GDP is. More precisely, the price index for government consumption in the United States is equal to 1.38, the price index for GDP is equal to one, and 12.8 is equal to 17.7 divided by 1.38.

¹⁵ Suppose a government has to service a debt of 1 million pesos, prices are stable and the annual interest rate is 10 per cent. With interest payments of 100,000 pesos the value of the outstanding debt would remain unchanged. Now suppose that there is price inflation of 10 per cent a year, and that the interest rate is 20 per cent per year. Interest payments would now double, to 200,000 pesos. But the burden of the debt is unchanged, for if the government were to issue new nominal debt in the amount of 100,000 pesos, the real (constant peso) value of the debt would remain unchanged.

¹⁶ See Adolph Wagner, "Three extracts on public finance", originally published in German in 1883 and included in English translation in R.A. Musgrave and A.T. Peacock (eds.), *Classics in the Theory of Public Finance* (London, Macmillan, 1958).

¹⁷ Alberto Alesina and Romain Wacziarg, "Openness, country size and the government," *Journal of Public Economics*, vol. 69, No. 3 (September 1998), pp. 305-321. See also David R. Cameron, "The expansion of the public economy: A comparative analysis," *American Political Science Review*, vol. 72, No. 4 (December 1978), pp. 1243-1261; Peter Saunders, "Explaining international differences in public expenditure: An empirical study," *Public Finance*, vol. 43, No. 2 (1988), pp. 271-294; and Dani Rodrik, "Why do more open economies have bigger governments?" *Journal of Political Economy*, vol. 106, No. 5 (1998), pp. 997-1032.

¹⁸ Larry Willmore, "Transnationals and foreign trade: Evidence from Brazil," *Journal of Development Studies*, vol. 28, No. 2 (January 1992), pp. 314-335. See also United Nations, *World Investment Report 1999* (New York and Geneva, Sales No. E.99.II.D.3), pp. 229-255. Not all regressions using the foreign direct investment variable are reported in the appendix tables.
