

# **Government Innovation around the World**

**by**

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## **Introduction to Government Innovation**

Innovation is not easy. In the private sector and in the public sector innovation disrupts established relationships and behaviors. Innovation, therefore, requires imagination and courage. But in the private sector innovation can often result in large financial rewards and greater market share. Thus people in the private sector have tended to value, promote, and invest in innovation. This is largely not so in the public sector. There financial rewards from successful innovation are likely to accrue to the State, not to the individuals involved in the innovation. And since the public sector has traditionally been a monopoly provider of many goods and services, people in the public sector have had little incentive to engage in, much less invest in, innovation.

Nevertheless, at the beginning of the twenty first century many of the world's nation states are engaged in serious efforts to reform their governments and inject a culture of innovation into their government's bureaucracies. In the words of President Fox, "One of the fundamental ingredients of the new governance is good government. A government close to society, always ready to listen to it; a government fully respectful of legality, honest, transparent and efficient; but above all, a government conscious of its mission of promoting human and social development as the basis for attaining a more just and prosperous society."<sup>1</sup>

Ever since Al Gore, Vice President of the United States and the John F. Kennedy School of Government at Harvard University convened the first global summit on government reinvention in 1999 in Washington D.C., there have been international gatherings in Brazil, in Italy, in Morocco and in Mexico City, all dedicated to sharing experiences on reform of the state. In recent years international organizations such as the World Bank, the International Monetary Fund, the Inter-American Development Bank and the United Nations have assumed leadership roles in reform of the state. Guido Bertucci, Director of the Division for Public Economics and Public Administration at the UN, reminds us that "...redesigning the State for the tasks of the 21st century does not imply "big government" but rather stress on competence and quality of performance in the discharge of functions, which represent the core of the responsibilities of modern States."<sup>2</sup>

For some countries government reform and innovation involves the reform of an old bureaucracy in the context of a newly democratic state. For other countries this entails an all out fight against corruption. For still other countries the challenge is to modernize large, outmoded bureaucracies and bring them into the information age. While countries have come to government reform for very different reasons, government reform and innovation is a global phenomenon. In some countries this movement has been called reinventing government; in other countries it is referred to as building state capacity or modernization of the state and in still other countries this is named the New Public Management.

In all these countries, frustration with the status quo, financial or political crisis, an emphasis on results or the possibilities of new technology have led public sector employees to engage in innovative behavior. The countries involved in reform efforts have different histories and different electoral systems; they are at different stages of development and yet, to a surprising degree, they are employing a set of reform concepts and strategies that are remarkably similar. For instance, in creating his own reform agenda for Mexico, President Vicente Fox has distilled the lessons learned throughout the world to define good governance. His reform efforts are based upon the following principles: Government that costs less, quality government, professional government, digital government, government with regulatory reform and honest and transparent government. These goals are universal to government reform even though their implementation may vary from country to country and thus, as will become apparent, they provide a good organizing framework for a look at global government government reform.

## **I. Historical Perspective**

Many of the concepts in public sector innovation come from a reform movement known as “new public management” or “reinventing government” that began in Great Britain and New Zealand in the 1980s and expanded to other countries, including the United States in 1993.<sup>3</sup> Most students of governmental reform give credit for beginning this movement to Margaret Thatcher, who came to office in Great Britain in 1979 after running a campaign in which the heretofore sacrosanct civil service became fodder for the political debate. Her election was followed by the election of Ronald Reagan in 1980 in the United States and of Brian Mulroney in 1984 in Canada-both of whom, like Thatcher, ran campaigns highly critical of the bureaucracy.<sup>4</sup> That the

civil service became a political issue in each of these countries came as an enormous shock to many civil servants who had seen themselves as neutral administrators of the law. Furthermore, the emergence of the issue of government administration on the political scene meant that in some countries at least, the resulting reforms would be non-incremental.

Reform movements in Britain and the United States had ideological roots that began with the Thatcher-Reagan revolutions. These movements were then adopted and modified by the left of center party in the form of New Democrats in the United States and New Labour in Great Britain. Compared to public management reform movements in these countries, public management reform movements in other countries such as the Netherlands and Sweden have been remarkably less ideological and more practical. And in developing countries government reform movements have often resulted from severe economic crisis or as the result of conditions imposed by international lending organizations.

The global government reform movement has had two distinct but overlapping phases. Stage one took place primarily during the 1980s. In that decade governments concentrated on economic liberalization and on privatizing industries that had previously been state owned. In Latin America this first stage was primarily concerned with privatization of state-owned enterprises and removing the “heavy hand” of the state from the economy. Many of the newly emerging democracies in the former Soviet bloc are still involved, to a greater or lesser extent, in the privatization of state owned industries and China has begun a gradual privatization of its huge state owned industries.

The United States, however, was an exception to this first stage. According to Graham Scott, former Treasury Secretary of New Zealand, for most of the world the first stage of governmental reform revolved primarily around getting government out of businesses such as airlines, telephones etc. that the United States was never in to begin with. “The United States was never really trying to solve the problem that most of the rest of us began with,” said Scott at the Global Forum on Reinventing Government held in Washington in January of 1999. While Ronald Reagan shared in Thatcher’s anti-bureaucratic rhetoric he never had the targets that Thatcher and others had for privatization and hence privatized very little. In sum, the first stage of government reform should be seen in the context of the transition to free market economies that began all over the world in the 1980s and accelerated in 1989 with the fall of the Berlin Wall.

The second decade of this movement - beginning in the 1990s - focused less on privatization per se and more on the administrative reform of core state functions and the building of state capacity. In this decade states have sought to cut the size of their governmental bureaucracies while simultaneously making government more efficient, more modern, more responsive to the citizen and less corrupt. In the decade of the 1990s, the United States, under President Clinton and his Vice President, Al Gore, undertook to “reinvent” government and thus added its own unique approach to the governmental reform movements that were already underway in many other countries. While first world countries concentrated on efficiency and the extensive introduction of information technology into government, developing countries concentrated on building state capacity, decentralization and fighting corruption. However, these differences between reform movements are not absolute. Developing countries are also interested in efficiency and technology and first world countries are concerned about state capacity and corruption.

The more important point is that the convergence of reform strategies has meant that concepts have spread from one country to another, often without even changing the terminology.<sup>5</sup> In the introduction to a volume on public sector management in Europe, the editors state: “In some reports we found that the language had not even been translated from the American to the local language.”<sup>6</sup> And in other instances, the terms were mixed. For instance, the Westminster countries adopted Citizen’s Charters in order to improve service delivery; the Americans adopted Customer Service. In several countries the term Customer Charters is used.

Nearly two decades of government reform efforts around the world offers us some lessons and some best practices in each of these areas. But before turning to the topics of the conference it makes sense to look at the different causal routes that have led countries to try and innovate in their public sectors.

## **II. Root Causes of National Reform Movements**

Ironically, while government reform movements around the world share many concepts and even language, the paths that different countries have taken to reform and the root causes of reform are remarkably different from one country to another. For instance, American governmental reform was largely the result of public dissatisfaction with government, while in Europe, a

similar reform movement was borne as the result of the mandates of the new European Union. In the newly democratic countries of the former Soviet bloc, administrative reform went hand in hand with democratization and political reform. And, in Latin America, repeated economic crises, in particular the failure of the “primera generacion” of reforms to achieve economic stability, moved those governments and the lending institutions on which they relied, such as the World Bank and the Inter-American Development Bank, to take serious steps towards building state capacity.

Following is a brief summary of the major causes of government reform movements.<sup>7</sup>

### ***American Distrust of Government***

The opening story in a 1995 book called *The Death of Common Sense* is a story about the saintly Mother Teresa’s confrontation with the New York Housing Authority.<sup>8</sup> It goes like this. Mother Teresa comes to New York and tries to turn two abandoned buildings into a shelter for homeless men. She gets the buildings for nothing, sets aside money to reconstruct them and then encounters the New York City building authorities. After a year and a half in which she encounters truly Kafkaesque bureaucratic obstacles she gives up. The Missionaries of Charity leave New York and the homeless shelter is not built. Lesson: late twentieth century bureaucracy American bureaucracy requires even more than the patience of a saint.

*The Death of Common Sense* was a good way of describing how most American’s felt about their government at the end of the twentieth century. The most recent American assault on government began with the presidency of Ronald Reagan. Reagan, the master storyteller, had an anecdote for everything - welfare mothers driving Cadillac’s; out of control regulators terrorizing innocent businessmen and women - you name it. He declared that he had come to Washington to “drain the swamp.”<sup>9</sup> What apparently started with Reagan didn’t stop with him. The culture picked up the anti-bureaucratic, anti-government wave. In these years NBC Nightly News began a segment called “The Fleecing of America” which contained, more often than not, stories of government malfeasance or just plain ineptness. Late night comedians could barely get through a routine without some reference to governmental idiocy. And even the election of Bill Clinton, a Democrat, in 1992 was accompanied by the assertion that government was broken and needed to be fixed or “reinvented.” It is no accident that the first Democrat to be elected for a second

term since Franklin Roosevelt declared, in his 1996 State of the Union speech, that "The era of big government is over."<sup>10</sup>

The assault on the American state was part of a solid four decade long decline in Americans' trust in government. In the wake of the September 11 terrorist attacks on New York and Washington D.C., Americans' trust in government rebounded to levels not seen in decades. However, the September 11 effect wore off after several months. American's today are somewhat more satisfied with their government than they were at the beginning of the 1990s but they still express deep dissatisfaction and cynicism.

A careful examination of the data shows that the decline in trust persisted in the face of changing economic fortunes, it persisted in the face of real governmental accomplishments and it persisted in the face of changes in political parties and policies.<sup>11</sup> And by overwhelming margins Americans attributed the lack of trust in government to the belief that the government itself was full of "waste, fraud and abuse."<sup>12</sup> By the time Bill Clinton became president the political class, left and right alike, assumed that government itself was to be avoided. Something about government, its form, its behavior - regardless of its purposes – infuriated American citizens.

Thus the American governmental reform effort was borne first and foremost out of the anger that many Americans felt about a government that was perceived to be too big, too bureaucratic and too wasteful. While the American experience may be the most dramatic it is clear that a similar phenomenon is at work in other developed countries where citizens have come to expect more from their governments. Pippa Norris' book *Critical Citizens* makes the point that while democratic values have triumphed over the globe, there has been an erosion of confidence in the institutions of representative democracy. Arthur Miller and Ola Listhaug, writing in that volume conclude that "...government performance is not simply gauged by material standards or economic conditions....citizens expect government to operate in an honest, competent and efficient manner."<sup>13</sup>

### ***The Thatcher Revolution***

The depth and breadth of anti government sentiment in the United States at the end of the twentieth century was, in part, unique to the United States. In Europe where countries were home to much larger welfare states, even right of center parties were traditionally more friendly to the large state structures that had developed in the twentieth century than were most

Americans to their bureaucracy. However, Maggie Thatcher changed that for Great Britain and the effects were felt first, throughout the Commonwealth countries, and eventually around the world.

In 1979 Thatcher campaigned for election as Prime Minister of the Tory party in Britain by arguing that top down, centralized systems in non-authoritarian regimes shared many of the problems that those systems encountered in authoritarian countries. One year before the election of Ronald Reagan and ten years before the formal fall of communism, Thatcher launched a broadside against the bureaucratic state, referring to it as the "greedy and parasitic public sector." As conservatives, Reagan and Thatcher had disagreements with the purposes of government. But they also had disagreements with the means by which the state accomplished those purposes.<sup>14</sup>

Taken together, these campaigns, and the governments that followed, ushered in an era of intense dissatisfaction with government bureaucracy. Among other things, the supposedly neutral civil service became a political issue in both countries. This came as an enormous shock to many British civil servants who viewed themselves as neutral administrators of the law and who were unaccustomed to the anti-government rhetoric that was so typical of American politics. The bureaucracy itself had become the enemy - above and beyond the public purposes to which it was dedicated. Donald Savoie describes the politics of the 1980s as follows:

"The rhetoric of politicians, particularly at election time, is often adversarial, but it also speaks to some of their fundamental values and basic beliefs. Thatcher, Reagan and Mulroney often took full flight when speaking about the public service. They all regarded it as part of the problem and no one tried to attenuate their obvious dislike for the institution, even in public speeches."<sup>15</sup>

### ***The Maastricht Treaty and European Union***

In the United States and in Great Britain, the revolt against bureaucracy began with ideological rhetoric and was led, in both instances, by strong, charismatic right wing leaders. In many other parts of the world a similar, but less dramatic change in attitudes was taking place. In many other first world countries public opinion polls indicated a decreased respect for institutional authority, a phenomenon that is often associated with a rise in "postmodern" values.<sup>16</sup>

And yet no gradual changes in public opinion are as important in explaining the government reform movement in Europe than are the various requirements imposed upon states in order to become part of the European Union. Written in 1991 and ratified in 1993, the Maastricht Treaty set out the framework for the European Union and set it on the path towards the creation of a single currency. For the purpose of this paper, the most important provision of that treaty was found in Article 104c which begins with the simple sentence "Member states shall avoid excessive governmental deficits." That one sentence and the fact that real economic sanctions were to be associated with a country's failure to achieve deficit reduction, contributed as much or more to bureaucratic reform in Europe with its proud tradition of democratic socialism, as did the campaigns of Ronald Reagan and Margaret Thatcher in America and Britain. The prohibition against excessive governmental deficits started countries with legendary huge and inefficient bureaucracies such as Italy, down the road towards a smaller, more efficient state.<sup>17</sup>

### ***The Lending Institutions***

In the developing world, the impetus for reform of the state came, more often than not, from the development institutions on which those countries relied when they got into economic trouble. Thus, in the developing world, the second stage in the global government reform movement involved the re-creation of the state along lines that would help, not hinder, the newly created market economies. Starting in the 1990s, the development banks turned their attention and their funding to "governance issues." The World Bank, the International Monetary Fund, the Inter-American Development Bank and the Organization for Economic Cooperation and Development, all developed extensive programs offering aid and financial resources to countries interested in developing "state capacity."<sup>18</sup> The United Nations established a program in Public Administration and Civil Service Management Reform under the auspices of its Development Programme's section. In the past year they have coordinated external assistance in promoting a professional civil service, transparency, the use of Information and Communication Technology and other areas of government reform in more than 90 UNDP countries.

The development advice of these large institutions (often linked to funding) did not seek to recreate the bureaucracies of the twentieth century. Instead, their advice was often couched in the language of the new public management and reinventing government movements that were

popular in first world countries. For instance, the World Bank offered the following advice in its 1997 World Development Report:

"It [state capacity] means subjecting state institutions to greater competition, to increase their efficiency. It means increasing the performance of state institutions, improving pay and incentives. And it means making the state more responsive to people's needs, bringing government closer to the people through broader participation and decentralization."<sup>19</sup>

***The Fall of Communism, the Triumph of the Market Model and the Emergence of the New Information Economy.***

Conservative partisan politics, the fiscal demands on the states of the European Union, the demands of the large international lending institutions -- all of these are important in explaining the near term factors in the revolt against bureaucracy. But in the larger scheme of things nothing is perhaps as important as the fall of communism. With it fell the one large alternative paradigm to free markets. The result was a global celebration of the virtues of the free market. And the result of that was that - fairly or unfairly - when the efficiencies of free markets in the private sector were applied to bureaucracies in the public sector, the public sector inevitably came up short.

Thus the reform movement in the public sector was enhanced by the ideological triumph of market models in the private sector. But other changes in the private sector were also taking their toll on traditional bureaucracy. Most importantly, new information technology was changing the private sector so quickly that the experience of citizens in the private sector and in the public sector was increasingly divergent. Take for instance, the American banking experience in the 1950s. You had to go during the day (banker's hours). You had to stand in line. If your bank was a monopoly (as many were) the bank teller may or may not be polite. Customization of products was rare. In other words, your experience at a private sector institution was not likely to be different in time, convenience or quality than your experience getting a driver's license or getting a passport from the public sector.

But beginning in the 1980s the private sector rushed to use new information technology tools. These created a new and more profound ability to be "customer friendly." Convenience --

banking at ATM machines, shopping on the telephone, shopping on the internet -- and customization in the private sector stood in sharp contrast to the one size fits all, rigid and inconvenient public sector. To citizens accustomed to the new customer service efforts of the 1980s, the public sector looked hopelessly obsolete and unresponsive. The same was true in Europe. "In the early 1980s, service industries in Europe became more competitive. Relaxation of restrictive practices in industries such as banking and airlines forced companies to compete for customers, not just through price but also through customer service. This had two impacts on the public sector. First it started to raise the expectation of citizens about how well services could be provided . . . secondly, it showed that there were better ways of providing services than simply having bureaucracies working for their own convenience."<sup>20</sup>

At the same time that information technology was remaking the customer side of business it was remaking the organizational side of business. Businesses began to cut product cycle times at dizzying rates. They also began to cut middle management, back office operations, and hierarchical forms of organization. As the information age economy began to replace the industrial age economy the failures of traditional bureaucracy seemed more and more apparent and interest in reform and innovation grew accordingly.

### ***Global Economic Competition***

The new economy is a global economy. Recognizing this, many countries have embarked on serious and often painful government reform movements out of a desire to attract international business and investment. Some years ago, the World Bank conducted a survey which asked 3600 international businesses to rate countries around the world in terms of their credibility and reliability. They then constructed an index consisting of measures such as predictability of rule making, political stability and freedom from corruption and regressed this measure against economic performance. Not surprisingly there was a high correlation between economic performance and reliable governmental functioning.<sup>21</sup> In a comment heard increasingly in the global economy Jeff Garten says "The world needs to walk away from countries unwilling to make serious changes."<sup>22</sup> And in the popular best seller *The Lexus and the Olive Tree*. Thomas Friedman puts the need for government reform in the global economy even more starkly: "And the Supremarkets and the Electronic Herd really don't care what color your country is outside any more. All the care about is how your country is wired

inside, what level of operating system and software it's able to run, and whether your government can protect private property.”<sup>23</sup>

Global economic competition has also placed a high premium on tackling the twin problems of deficits and corruption. Among those countries seeking to join the EU government reform is a major priority – especially where it is connected to tackling the problems of large state deficits.

Corruption too is a persistent and difficult problem – especially in a global economy where it becomes part of the cost of doing business in a country and therefore affects levels of foreign direct investment as well as the ability of the country to grow. In recent years, however, analysts have come to see the corruption problem less in moral and legal terms and more in structural terms. Understanding corruption in this way reinforces the need for government reform movements that are on-going and powerful.

### *Economic Crisis*

While the long term structural trends behind government reform – public distrust of government, the Thatcher Revolution, the imperatives of European Union Membership, the demands of international lending agencies and the emergence of a new, global economy – are powerful indeed, in the short term, almost all nations have been driven to government reform as the result of economic crisis. In some countries, such as Argentina, significant downsizing and reform efforts between 1989 and 1995 failed to achieve long lasting stability. Between 1999 when President Fernando de la Rúa came into office and 2001 there were no less than seven austerity plans.<sup>24</sup>

Serial economic crises followed by serial reform announcements can, in the long run, undermine the consensus for reform. This is a problem not only for Argentina but for many of the countries of the world that are engaged in a reform and crisis cycle that never seems to end.

But in some countries, reform efforts have been sustained and resulted in economic stabilization. Perhaps one of the most dramatic stories of economic crisis and government innovation, comes from New Zealand. In the early 1980s New Zealand was, in the words of the current Prime Minister Jenny Shipley, “the sick dwarf of the OECD.” “We had frozen, fixed or frightened all the main indicators of the New Zealand economy. Wages, rents, exchange rates and interest rates were all controlled. Through subsidies we were picking winners but losing

innovation. We were binding our human and physical resources into a straight-jacket of economic inefficiency. We were fooling ourselves, but no one else.”<sup>25</sup>

A Labor government in New Zealand started them along a dramatic road to recovery. They cut subsidies, reduced taxes, opened their economy to trade. The New Zealand reforms paved the way for New Zealand to be competitive in the international economy. Political elites from different parties and different governments have been committed to them for more than a decade. They privatized previously state owned industries but they did not stop there. They have gone further than any other country in the world in actually privatizing their government. “Ministers represent the taxpayers’ ownership interests, and they purchase a specified set of services, annually, from the Chief Executive of a government department or agency who is personally accountable for meeting the owners’ goals.”<sup>26</sup>

The New Zealand record in innovation and reform over the past two decades is nothing less than remarkable. It has done more to inject competition and continuous innovation into government than perhaps any other country in the world. For this reason alone it has been studied by nations all over the world who are seeking to improve their own government performance. But a word of caution is in order from one of the world’s more astute students of government. Writing for the World Bank, Allen Schick points out that because New Zealand’s reforms rely so much on the notion of contracts, the New Zealand model may not be feasible in countries which have large informal sectors. “In New Zealand, formal contracts and internal markets were feasible because the country had a robust market sector and established mechanisms for enforcing contracts – conditions that are often absent in developing countries, which tend to have an informal economy with relatively weak specification of property rights and other formal processes to regulate economic activity.”<sup>27</sup>

### *Democratization*

While some countries were engaged in governmental reform movements in order to compete in the new global marketplace, other countries were forced to engage in extensive governmental reform movements as part and parcel of their emergence as democracies. In South Africa an important part of the transition from apartheid has been the transformation of the bureaucracy. In the words of the Honorable Zola Skweyiya: “Because of its previous rule, which was oriented to control rather than service delivery, the public bureaucracy was faced with

a crisis of legitimacy. Across the board, rewards and benefits were distributed on the basis of racial and gender discrimination.”<sup>28</sup>

Democratization inevitably includes some measure of decentralization – one of the most common themes in government reform. In Poland, the government reform movement has its roots in the Solidarity movement that began the democratization program in 1989. Since the hallmark of communist governments was their excessive centralization—one of the main efforts of innovators in Poland has been—decentralization and the creation of local government. In January 1999, Poland created a large number of new local governments as part of a systematic effort to shrink centralized bureaucracies and create a government founded on the subsidiarity principle shared by other western European countries.

Global government reform efforts are a response in part to the paradox of democratization we face at the end of the twentieth century. In the last three decades the number of electoral democracies in the world has more than doubled. According to Freedom House the number of free countries in the world has increased from 43 in 1973 to 89 in 2003. In addition, there has been a dramatic increase in the number of electoral democracies in the past decade – increasing from 75 in 1990 to 121 in 2002.<sup>29</sup> And yet, the increase in electoral democracies has not been accompanied by as dramatic an increase in wealth or quality of life. Freely elected executives and legislatures provide an incomplete democracy if the apparatus of the state remains in the hands of a self serving elite that is un-responsive to the public, oblivious to the rule of law and secretive in their dealings. Thus, it is useful to view government reform and innovation as necessary steps in the completion of the democratization process.

### ***Public Management Reform Movements in the 1980s and 1990s***

A survey conducted in 1999 found that during the last two decades forty percent of the world’s 123 largest countries had at least one major reform movement and fifteen percent of the world’s largest countries had some public management reforms but no national level reform initiatives.<sup>30</sup> Twenty five percent of the world’s largest countries had two or more major reform movements during this period of time – often coming and going with a change in the government. Most of the major Latin American countries have had more than one major reform movement during this period and most of them involved the “modernisation of the state” in addition to pension reform, education reform and other sectoral reforms.

In some instances, the absence of a national reform movement disguises the fact that reform is taking place at other levels of government. Unlike its European neighbors in the past two decades, Germany underwent a “reform moratorium.” As it moved to re-integrate the East, “the old well-proven administrative structures from the West were directly imported to the East.”<sup>31</sup> But public sector management reform at the local level was quite robust, perhaps due to the existence of the Speyer Quality Competition Award which awards local governments for innovations. Although the national government is not known for having participated in the “new public management” sweeping much of Europe, at the local level governmental reform was characterized by a concept known as the “new steering model.” In Brazil, passage of a 1996 law requiring state and municipal governments to keep their payrolls below 60% of their budgets and a subsequent law which prohibited national bailouts of local level governments, prompted a renaissance in reform efforts at the local levels which were, in many ways, as interesting as President Cardoso’s efforts at the national level.

### **III. Some Lessons from Two Decades of Government Reform**

What have we learned from all these years and all these countries? That, of course, is the purpose of this paper which is organized around six universal components of government reform.

#### *Government that Costs Less*

Since so many government reform efforts have come as the result of fiscal crisis, the first focus of many reform movements is on cutting the cost of government. Strong financial controls and an effective budget process are essential for governments seeking to keep spending under control. As nations around the world have sought to reduce government spending in order to stimulate a stronger private sector and higher direct foreign investment, they have turned to a variety of budget innovations.

Perhaps the most profound change in government budgeting has been the introduction of productivity as a concept relevant to government expenditures. Productivity is not a term commonly associated with government and yet, in the past two decades, many of the budget and financial reforms have, at their root, the goal of measuring productivity and establishing it as a

concept around which to budget. Several interrelated strategies have emerged to enhance productivity thus helping government cost less. They are:

- Cost Accounting
- Performance based budgeting
- Flexibility among budget accounts
- Capturing savings for the organization
- Promoting productivity.

The private sector has long been familiar with cost accounting. In fact, it is hard to imagine a company producing automobiles, refrigerators or anything else, for that matter, without an accurate picture of unit costs. Cost accounting, however, has not often been used in connection with the production of government goods and services. But with more and more governments interested in cutting costs and more and more private sector actors asserting that they can do the same things cheaper and better, cost accounting has become critical.

Cost accounting allows governments to implement performance based budgets. Many people find the prospect of accurately identifying the goals of government to be difficult if not impossible - but that is usually because they identify goals at too high a level of abstraction. For instance, improving automobile safety is an important goal in many countries and one that might be very difficult to define. But increasing the number of bridges that are repaired each year is a more concrete and measurable goal and one that can be contracted to the state or to the private sector – depending on cost and effectiveness. In New Zealand, where nearly all government services are competed out, the articulation of public sector performance goals has to be quite precise since contracts are written around the implementation of each one.

The assumption implicit in performance based budgeting is that organizational productivity will increase as goals are clearly articulated and traditional line item budgeting is dropped, allowing for more creativity and innovation. Increasingly governments have stopped micro-managing agency budgets and have started to allow agencies to move money between accounts as needed to achieve the organization's goals.

Behind many of the budget reforms is an attempt to create a more rational set of incentives – ones that will reward, not punish, public servants for saving money. Under traditional budget practices, government agencies that save money have to return it to the public treasury by the end of the fiscal year – creating a disincentive to save and resulting in spending

sprees at the end of each budget cycle. To combat this, some countries are now allowing a portion of the savings to be returned to the agency thus increasing the incentives to save.

Finally, many countries realize that in order to promote productivity they must create a system that will allow for constant innovation. And, as many studies of organizations – both public and private – have shown, innovation tends to come, not from the top people in the organization but from those in the middle and on the front lines.<sup>32</sup> Thus the best public sector organizations tend to create an atmosphere in which all employees – from top to bottom – feel free to participate and to communicate about saving money and improving performance.

Singapore is an excellent example of innovations that are helping to promote productivity and make government cost less. They have built their attempts to manage costs around four concepts – Limit Damage, Maximize Discretion, Measure Costs and Pursue Excellence. For instance, they have stopped micro managing the internal budgets of government agencies and they allow their managers to move funds between accounts; a system they call the “operating block, budget system” because there is no line by line control. They allow agencies to “roll over” 5% of their budgets, thus reducing end of the year spending binges. And perhaps, most importantly, they have designed a system called “PS21” which stands for “Public Service for the 21<sup>st</sup> Century.” This program encourages officers on the ground to offer up their ideas for how the government can save money. According to the Honorable LIM Siong Guan, head of the Civil Service and Permanent Secretary of the Ministry of Finance, “PS21 is based on the idea that efficiency and economy is a lot about attitude and perspective, that the officer on the ground knows where a lot of the waste and possibilities for improvement are, and that by allowing officers at every level to offer and be recognised for their ideas, they also become much more open to strategic and radical change directed from the top.”<sup>33</sup>

Other countries are also replacing traditional budgeting with performance based budgeting. France passed the Constitutional Bylaw and Budget Acts in August of 2001. These laws lay the foundation for fundamental modernization of public management and are the first fundamental change in France’s financial constitution since 1959. As in Singapore, managers trade traditional line by line budgeting for more flexibility to deploy appropriations within programs. In turn, they are to be held accountable for results.<sup>34</sup> The law is similar to GPRA, the Government Performance and Results Act, which was passed in the United States in 1993 but which has been implemented across the government only in the past three years.

The Canadian government has been very successful in creating a government that costs less. As Jocelyne Bourgon points out, in 1985 the Canadian federal government's deficit accounted for 8.5% of GDP. The government set out on a program review process designed to regain Canada's fiscal sovereignty and to reinvest the fiscal dividend. They eliminated the deficit in three years and have enjoyed six consecutive years of balanced budgets. Using a highly transparent and participatory model the government was able to achieve an average expenditure reduction of 20% across the government. "The main lesson," says Bourgon, "of the Canadian experience is that making choices is a fundamental pre-requisite for 'governments that cost less.'"<sup>35</sup>

In addition to comprehensive budget reforms at the national level, the world is filled with innovations designed to make government cost less at the local level. In the Limpopo Province of South Africa, the Department of Public Works was considerably overstaffed. In fact, it had nearly twenty times the number of employees needed to fulfill its core businesses of road construction and repair. Dr. Sean Phillips, head of the department, knew that something had to be done and so he initiated the "Re-a-Shoma" (people at work) project – an initiative to streamline and privatize road maintenance in Limpopo. By working with the community, increasing training and collecting output data they were able to achieve dramatic improvements in productivity in road maintenance – enough so that they won the coveted Impumelelo award in 2002.

In Chile, the Inter-municipal Environmental Program joins smaller municipalities in an effort to strengthen environmental management, train officials in planning issues and carry out common project implementation. The project works because it allows municipalities to take advantage of economies of scale and create a more integrated approach to the environment.

For most governments, most of the time, the primary cost of government, after payments to citizens, is the wage bill. But cutting the wage bill is very difficult and very controversial. In many countries, government employment has been used as a means of reducing social tension and substituting for a weak private sector economy. For instance, for many years some African nations promised government employment to their university graduates in order to keep their most educated people in country. Yet pressure from the major lending institutions to bring budget deficits down has led to significant downsizing in governments around the world in the

last twenty years – ending a period of growth in government employment that had begun to slow in the early 1970s.

So how big should government be? There is no right or wrong answer to this question. Rather, the question every country needs to ask itself is - How productive is the government that we have and should we limit or eliminate government activities that are less productive? Insights on the question of the proper size of government come out of the work of Donald Rowat.<sup>36</sup> Contrary to conventional wisdom, Rowat found that OECD countries typically have higher levels of employment in general government than do developing countries. He then looked at the distribution of the government work force and found that the OECD countries typically have larger numbers of people working for state and local government than do the developing countries. Developing countries typically have larger numbers of people working for central government.

The implications of these general tendencies are very important. Local government workers tend to include people like teachers, public health nurses and police – people who are actually involved in creating a stronger and safer community. Central government employment tends to be more involved with bureaucratic processing. Thus the wage bill itself can be large or small, the real issue is – are the people who work for the government involved in activities that contribute to productivity in the general population? Governments need to be involved in “right-sizing” public employment.

Nonetheless, countries in financial crisis often have to downsize without the benefit of first figuring out what their “right size” is. In doing so they have adopted many strategies for reducing their government’s wage bill. They have:

- frozen or reduced wages;
- frozen recruitment;
- engaged in programs to get rid of “ghost workers” (workers who get paid but don’t work);
- eliminated automated entry into the civil service upon completion of university;
- eliminated automatic promotions;
- introduced voluntary redundancies by offering people money to leave government employment;
- introduced compulsory redundancies – let workers go with little or no money;

- offered early retirement packages in order to induce older workers to leave government employment;
- and they have privatized.

When it comes to reducing the cost of government by downsizing we have learned as many lessons in what not to do as in what to do. In many instances, the capacity of the private sector to absorb new workers is low and these strategies then go on to create other problems for the economy. In some developing countries one government worker in a central city may be supporting many other family members in the countryside. Voluntary redundancy programs in which workers are paid to leave government employment often result in the youngest and most qualified workers leaving because they can most easily find employment in the private sector. Thus if government's are not careful about how they structure these programs they can result in a severe "brain drain." "Ghost workers" have been known to return to the government payroll if inadequate control mechanisms are not put in place following the initial audit.

But the picture is not all bad. Successful downsizing usually involves two key principles. First, if at all possible, government downsizing should be done as a routine, gradual affair during periods of relatively low unemployment in the private sector. And second, government downsizing should seek to re-distribute government jobs from central cities to the states and localities and from bureaucratic work to front line work that builds capacity in the population.

Under President Bill Clinton and Vice President Al Gore, the United States government cut its workforce by over 17% -- exceeding everyone's expectations. However, since the U.S. reform movement was motivated more by a confidence crisis than an economic crisis, much of this downsizing took place under generally favorable economic conditions. Using a combination of buy outs (voluntary redundancies) and attrition (deciding not to fill vacant positions) some government agencies shrunk by as much as 20%. By the mid 1990s, people who were leaving government employment, particularly the highly trained men and women from the Department of Defense, were absorbed into a growing, private sector workforce.

Second, President Clinton promised that he would add 100,000 policemen to the streets of America's city and use the wage savings from cuts in the bureaucracy to pay for them. Given that America at the time was experiencing rising levels of crime, this was a very popular measure. Subsequently during the Clinton years crime dropped in most of America's cities. Although the extra police on the streets were only part of the cause (there was also significant

reinvention in policing and a significant increase in the prison population) the exchange of bureaucrats for police is an example of the general point made earlier. It is not so much the size of the public workforce that matters but what that workforce is doing. Spending money to make cities safer had beneficial consequences for economic development, jobs and public satisfaction with government.

Uruguay offers another example of successful and gradual downsizing. It, like many other countries, had a public sector workforce, which, over the years had become disproportionately large – accounting for nearly one quarter of every four working adults. When they decided to embark on a modernization campaign in the mid 1990s they created an approach, financed by Inter-American Development bank loans, that “... emphasized incentives and voluntary participation instead of job cuts.”<sup>37</sup> Agencies were asked to draw up re-structuring plans and were given funds to cover the severance costs of their employees. But an important part of getting agency heads to buy into the process was that agencies were allowed to keep the savings generated by the re-structuring and they were allowed to use the savings to raise salaries of the remaining staff, invest in training and offer performance based bonuses.

Under the Fox government, Mexico has reduced the payroll of the desk bureaucracy by over 50,000 posts. Fox has also attempted a better distribution of government resources. While decreasing central government bureaucrats, Fox has increased the number of “...public servants who directly benefit Mexican society, such as teachers, nurses, doctors or police officers,” by 16%.<sup>38</sup>

Creating government that costs less is perhaps the most difficult but most essential of all government innovations. But throughout the world, government’s have shown that they can put productivity at the heart of the budget process, they can create the right incentives to downsize and they can move public sector employment from bureaucratic work to work that is useful and helpful to the people.

### *Quality Government*

In some senses all innovations in government deal with “quality” government. But for many reformers “quality” refers more specifically to reforms that attempt to improve service delivery. Improvement in service may or may not have immediate financial implications but it is critical to the building of citizen support and to the restoration of citizen trust in government.

One of the milestones in the public sector quality movement took place in the late 1980s when Great Britain established “Citizen Charters.” These charters articulated explicit performance standards for everything from waiting times at the National Health Service to expectations for the punctuality of the railway system. The notion caught on rapidly around the world. In the 1990s the United States adopted Customer Service standards for its federal agencies and since then a major element of government innovation everywhere has been the improvement of services to citizens. Portugal established Quality Charters for public services that contain explicit service commitments to customers. And in Ireland, citizen service has been at the core of its government reform movement. In a document titled “Delivering Better Government” they state that the goal of the movement is to view “...the public as customers, clients and citizens of the state,” a sentiment that has been echoed in many quality manifestos.

Because citizen service is about restoring trust in government, these movements are as important in developing countries as they are in more developed countries. Batho Pele is a Sesotho adage meaning “People First.” It was also the title of a South African government “White Paper on Transforming Public Service Delivery.” Published in September of 1997, under the leadership of Zola Skweyiya, the paper is testament to the importance of administrative reform and citizen service in the creation of a post apartheid South Africa.

The elements of quality service delivery have their roots in the private sector. As Alain De Donmartin, CEO of the Renault Institute of Quality and Management points out, “It is probably fair to say that the total quality movement was adopted primarily by the private sector. It was a while before the public sector caught on to the benefits that could be gained from developing and implementing these concepts and programmes...”<sup>39</sup> And in the words of Trevor Smith, Worldwide Quality Director for the Eastman Kodak Company, “Quality management standards speak in terms of three major components: the customer, the product and the organization.”<sup>40</sup>

As the quality movement has been adapted to the public sector several themes have emerged. Most quality movements around the world:

- set up “one-stop shops” or places where a person, usually a business owner, can conduct all their transactions with the government at once;
- attempt to find out from citizens what they want and expect from government services;

- allow citizen inputs to shape bureaucratic organization and behavior;
- disseminate to the public standards for the organization to reach;
- measure performance and publish whether or not the standards were met;
- involve employees in the re-design of the organization;
- train government employees in customer service and organize internal incentives around the accomplishment of quality standards.

The “one-stop shop” is one of the most popular and simple innovations in the creation of quality government. They can be found all over the world. In 1999, the Republic of Mali created one stop investment windows for new businesses and in Heifei, an industrial city in China, the government has established one-stop shops for companies seeking to do business in the new industrial zones. This is part of a program known as the “Three Systems” program which began in Hainan Province in 1992 and emphasized that projects should be handled in one window externally and by one continuous line of service internally.<sup>41</sup> In Italy, one stop shops exist where citizens can do everything they need to start a new business or expand an old one in one place.<sup>42</sup> In the Dominican Republic the President set up the Technical Secretariat to implement modernization of the State. As part of those efforts he committed the state to single counter service, call centers and electronic kiosks to better serve citizens.<sup>43</sup>

More comprehensive quality government however, cannot be realistically implemented without some degree of democracy since it depends so heavily on participation and input from the citizens. One example of real grass roots participation comes from the city of Porto Alegre, in Brazil. This city won an innovations award from the Getulio Vargas Foundation for its “Participatory Budgeting” program. Over the past decade thousands of citizens have participated in public meetings designed around allocation of one half the municipal budget. As Gowhar Rizvi of Harvard University points out, this program “... is having a profound influence in governance throughout the developing world and is showcased as a tool for combating corruption while improving citizen engagement.”<sup>44</sup> In a study of World Bank projects, Daniel Kaufmann and Lant H. Pritchett found that projects in countries where there was a degree of democracy and transparency were more likely to be successful than projects in countries with lower levels of democracy.<sup>45</sup>

In the Bulacan province of the Phillipines, government officials initiated the Constituent Responsive Governance Project. This project consisted of surveys of citizens in the following

policy areas: health insurance, solid waste, property taxes and community radio. Provincial government staff and students were trained to collect the data, thus the project cost the government only a small amount of money. The surveys were designed to test citizens' awareness of service availability and to test their reactions to specific services and specific legislation. The program demonstrates one of the most important aspects of quality government, service can only improve if the citizens are consulted and listened to. This program won the Galing Pook Award in 2002.

One of the most comprehensive efforts to improve service to the citizen comes from Australia where, in 1998 the government embarked upon a major reorganization of 78 different social service programs affecting 7 million customers.<sup>46</sup> The two largest departments had changed little over the years. Their relationship with citizens was negative and hostile, employees conducted interviews as if they were interrogations, processes were complex and entailed many layers and citizens had little choice in terms of services. The entire system put the citizen last, not first. For instance, offices used to be closed on Wednesday afternoons and they were not open during hours convenient to most working people.

Under the leadership of Sue Vardon, the Australian innovators set out to create a customer culture. In order to do that they had to survey the public, flatten hierarchies in the organizations, put the most experienced people out front, establish customer friendly hours, institute performance pay, implement an enormous new computer system and measure, measure and measure. In implementing an innovation on this scale Vardon adopted what they called "value creation workshops" as a means of involving large portions of the workforce in the innovation and getting their input. A reorganization of this magnitude was not without its problems – especially since it coincided with some changes in social service eligibility that were also controversial. But Centrelink survived its initial years and the inevitable problems to become one of the most studied instances of quality and customer driven government in the world.

Many countries have improved the quality of their government services by looking to the ISO standards. The Mexican government now has 679 federal government work centers with the ISO9000 certificate of international quality and the number is rising. One success story comes from the redesign and certification of the processes for medical complaints around ISO 9000 standards. Prior to the work of the National Commission on Medical Arbitration (Comission

Nacional de Arbitraje de Medico) average citizens had a difficult time understanding how to make a complaint about medical treatment, communication between different government departments was poor and it took too long to resolve complaints.

So the Commission designed a system for use in both the public and the private health care system. Standards of attention to the clients were established and work groups convened to improve both the process and the services. An electronic system was instituted to monitor complaints from the public from the time they are made till the time they are resolved. Employees were retrained and lawyers and medical personnel empowered to make decisions. Today, 92% of the medical complaints submitted are arbitrated in the standard amount of time set by the commission – a big contrast to the situation two years earlier when only 30% of complaints were arbitrated in the standard time. In addition, the redesign efforts have improved productivity and the Commission is now dealing with 10% more cases than it did two years ago – without an increase in budget.

Quality government is important to businesses as well as to citizens. As China embarked on a decade of economic growth and government modernization, its leaders realized that improvements in trade – especially at the large and important port of Shanghai – would be critical to its growth. And so, in 1999, in cooperation with the private sector, the United States Customs agency and the Chinese Customs agency, the Shanghai Model Port Project was begun. By making extensive use of information technology the project will give Shanghai Customs the ability to process clearances 24 hours a day, seven days a week, while reducing paperwork. It serves as a model for Customs modernization to which all 21 APEC members have agreed.<sup>47</sup>

Like other government innovations, creating quality government is not without its problems. Implementing a quality program often requires resources that poor governments do not have and seeks to solve problems that they do not have the liberty to solve. Hafiz A. Pasha, UN Assistant Secretary-General, and Assistant Administrator and Regional Director of the Regional Bureau for Asia and the Pacific, United Nations Development Programme, warns us that, “The TQM in Government theory in many ways parallels the governance-poverty debate. We make fairly broad assumptions regarding such links, while the empirical evidence does not wholly support such assertions. In most of the developed nations, dissatisfaction with

government is clearly linked to perceptions of waste of resources; in many countries around the world, the ability to squander resources is a luxury as yet not encountered.”<sup>48</sup>

A second problem which affects developed and developing nations alike is the propensity to adopt performance measurement systems without actually using them to drive organizational performance. One study surveyed over 900 state and local government employees in the United States and found that the adoption of performance measures was heavily influenced by rational/technocratic factors while the actual implementation of performance systems was more heavily influenced by political/cultural factors.<sup>49</sup> Lack of resources, the absence of political support and the presence of labor unions in the public sector workforce were all identified as factors which inhibited the implementation of performance measurement systems.

Nevertheless, in spite of these problems most governments know that the creation of quality government is at the core of their mission. That is why many governments have decided to institutionalize innovation by creating places where innovations can be shared and examined. In Italy the Department of Public Administration launched “Cantieri” a program which promotes projects known as “innovation docks” in the hope of speeding up internal innovation. (See, <http://www.cantieri.it>) In France, the government has established a similar database to showcase innovation. (See <http://www.innovations-services-publics.gouv.fr>) In New Zealand, the Pathfinder Project refers to a network of 8 government departments which are building outcome based management systems and sharing the lessons they have learned. (See, <http://io.ssc.govt.nz/pathfinder>) And in the United States, the Bush Administration has been using a management scorecard to rate government departments. Green indicates success, yellow means the record is mixed, red means the department is unsatisfactory. (See, <http://www.whitehouse.gov/omb/memoranda/m02-02.html>.)

Finally, some countries with rich and well developed civil societies are experimenting with new forms of governance that involve the private and non-profit sectors. The OECD has called this “distributed public governance” to refer to “...organizations that operate with some degree of separateness from government ministries.”<sup>50</sup> These hybrid organizations specialize in “co-produced” government – government that results from a joint effort of public and private. For instance, the welfare to work provisions of the new welfare reform law passed in the United States in 1996 expand the range of organizations eligible to offer services to poor people to non-profit, for profit and religious institutions. The Bush Administration’s “Faith Based” initiative,

which allow government money to be used by religious groups in the furtherance of social goals, is one further example of government which is willing to allow its money to be used to co-produce services with other, non government organizations. While these new forms of governance arrangements pose certain problems for democratic accountability that are just beginning to be understood and explored, for those seeking to improve the quality of government the potential for innovation is enormous.<sup>51</sup>

### *Professional Government*

In an important article on African civil service reforms, Bamidele Olowu writes that, "...central to the notion of an effective state is an effective civil service."<sup>52</sup> And yet, while this statement is universally true for governments around the world, improvements to the public sector workforce are often given a lower priority than other government innovations and often, in the rush to cut the public sector wage bill, the civil service is ignored altogether. But the construction of an effective workforce is central to the creation of quality in the public sector. At the beginning of the twenty-first century most governments around the world find themselves with some or all of the following problems:

- the public sector has difficulty competing with the private sector (in developed countries) or with NGOs (in developing countries) for the talent needed to run the government;
- the public sector faces a severe skills shortage and no money to train its workforce;
- public sector employees face severe wage compression (those at the top are not paid much more than those at the bottom) and this causes talented executives to leave the public service;
- the civil service is so bound up in rules and regulations that people are not rewarded for performance;
- excessive political patronage undercuts merit principles and results in high turnover of government employees;
- public servants don't always operate under the rule of law.

All around the world, governments are having trouble finding enough money to compete for talent. In Russia, civil service salaries for mid level specialists with 5 to 10 years of service range from \$140 to \$250 per month, while salaries for the same job in the private sector average

\$700 - \$1500 per month.<sup>53</sup> Olowu points out that, in Africa, civil service salaries have fallen sharply as a result of inflation and currency devaluation – especially the salaries of those in the most highly skilled positions. In addition, African governments have to compete with a private sector where salaries are much larger than in government and they also have to compete with NGOs. As Olowu points out “Given the substantial support that NGOs currently receive from their northern counterparts, pay in that sector is much higher than in the civil services of many countries.”<sup>54</sup>

In the United States, as in some other developed countries, governments face a similar problem but there, unlike in some developing countries, the competition for talent comes almost exclusively from the private sector. The emergence of the information economy in the 1990s meant that the private sector paid a premium for talent – especially highly trained technical and managerial talent - making it difficult for the government to compete. One study found that in 1999 executives in medium sized private firms made an average of \$221,000 while their counterparts in government made on average \$126,000.<sup>55</sup> The growing gap between private and public sector compensation is further exacerbated by the fact that in most developed countries the number of skilled public sector workers needed versus unskilled public sector workers needed has been growing. The U.S. government today finds itself in competition with the private sector for physicists, biologists, epidemiologists, engineers, computer programmers, lawyers and accountants.

In addition to lagging behind the private sector in pay, governments also tend to lag behind the private sector in the extent to which they invest in training their employees. The lack of training opportunities, combined with the political attractiveness of limiting the salaries of those at the top has been a recipe for a massive, worldwide government “brain drain” – just when governments need talent more than ever.

These situations are exacerbated in governments (mostly in developed countries) which have long civil service traditions. In these countries the rules and regulations initially designed to prevent favoritism have ossified and grown obsolete and the civil service rules themselves are seen as impediments to modernization and as contributing to a culture of complacency and mediocrity in government service. As Kay Coles James, head of the civil service for the United States, says, “Built for a 1950’s workforce comprised primarily of clerks, our system has struggled to adapt to today’s highly mobile (and highly marketable) knowledge workers. The

system's unitary rules, once its strength, have become a potential weakness; intended to insure fairness through uniformity, they have begun to have the opposite effect, fostering rigidity and sameness and mediocrity...to the point that few distinctions are made between top performers and those that are merely doing their time."<sup>56</sup>

In developing countries the opposite problem often exists. Instead of having a permanent workforce that is so secure in their jobs as to be complacent and un-motivated, many developing countries experience such frequent turnover in personnel that they cannot offer effective government. This is usually the result of a political patronage system that exists unchecked by a merit system. In Russia, for example, in 1996 "... only one-fifth of the heads of Federal government ministries and agencies and their deputies had a basic education relevant to the public office they held and only one-quarter had an education in public management."<sup>57</sup> And in Mexico, citizens became accustomed to the "sexenio" crisis whereby large portions of the government would change every 6 years when the presidency changed.

Finally, a weak civil service is likely to be a breeding ground for corruption. In countries where public sector salaries are especially low many government officials come to see taking bribes as a legitimate way to bring their incomes up to livable standards. In addition to bribe taking, government officials often take other jobs in addition to their government jobs in order to make a living. A major study by the International Monetary Fund "...found a strong correlation between public sector wages relative to manufacturing wages and the level of corruption in a country. It estimated that government wages needed to be 2.8 – 7.4 times higher to make corruption negligible."<sup>58</sup>

But money is not the sole contributing factor in the creation of a corrupt workforce. In countries where the rule of law is not well established, the civil service is not likely to do its job according to the law. One study of Russian officials found the following attitudes to be prevalent. "... the groups frequently mentioned that there is very little respect for the rule of law. 'Laws here don't work well,' one commented. 'Laws aren't kept here,' another volunteered. 'Our laws contradict each other.' 'Laws reflect the ruler at the time, and 'laws change and reflect the boss' views' or 'here, laws neither protect nor defend,' were representative comments."<sup>59</sup>

So what are countries doing to improve the quality of their work force and to deal with the myriad of problems faced by the public sector? With the exception of Singapore, which has some of the highest (if not the highest) public sector salaries in the world, few nations have had

the ability to confront the growing disparity between public and private sector wages and the related problem of wage compression. Singapore undertook to raise public sector salaries as part of a very successful and comprehensive attack on government corruption.

But Singapore is unique. For most other countries raising government salaries poses especially difficult political problems. Since the public-private disparities tend to be widest at the top of the income scale, it is difficult to muster and retain political support for more money for people who look rich to the majority of people. However, Great Britain under Margaret Thatcher, began to appoint people to run major segments of the government under contracts that specified a salary and the possibilities for large bonuses depending on performance. Not only did this raise the pay at the top of the civil service, it also allowed for new entrants into the civil service and attracted some leadership talent from the private sector into the public sector. Other countries have found that they can use performance bonuses in the public sector without political problems.

Korea is one of many countries that decided that their civil service system, which had worked for them for many years, needed to be modernized. They were particularly concerned with opening up the closed civil service to new talent. Thus in 1999 they instituted the “Open Competitive Position System” - designed to recruit outstanding talent from both the public and private sectors. Under this system a ministry should designate around 20% of its positions as open positions. This way the long established civil servants are joined by people with new ideas from other sectors of Korean society. In addition, Korea has tackled the public sector pay problem by introducing the performance-related pay system, the annual merit incremental program and the performance bonus program, in order to encourage competition among civil servants. According to Professor Chang-hyun Cho, Chair of the Civil Service Commission in Korea, “The main goals of this plan for the civil servants' pay is to narrow the gap between the public and private sectors and to re-organize the pay structure rationally.”<sup>60</sup>

Mexico has also taken on the task of improving its public service by passing, in 2003, a civil service law. For many years, most of the appointments in the Mexican government were based on political patronage, creating the above mentioned “sexenio” crisis whereby most of the leadership of the government would change every six years when the presidency changed. The new law affects only the professional and managerial classes and requires everyone to take an exam to determine their competency. They have only two chances to pass the exam – if they fail

twice they will be separated. According to Jose Luis Mendez, Director of the Civil Service, “This law is important for many reasons... It will help to decrease corruption. Through performance evaluation we will be able to solidify ‘democratic governance.’ It will better allow politicians to direct government in the direction they want it to go in.”<sup>61</sup>

Most countries struggle with achieving the proper balance between political influence in the government and professional or meritocratic influence. In countries like Mexico and Russia, the political influence has been so pervasive that it has robbed the government of expertise. But in countries with a powerful and secure permanent civil service the government has been accused of complacency. Great Britain is a country with a long history of a strong and powerful civil service and yet, under Prime Minister Tony Blair, the influence of political aides over the bureaucracy has been a constant source of controversy. Leaders in that country are debating the proper relationship between a permanent government consisting of civil servants and political leaders who come to government from free elections.

In the United States much of the emphasis in the civil service has been on getting rid of some of the most stifling rules in the old civil service system. When the Bush Administration passed legislation creating a new Department of Homeland Security, the legislation contained many exemptions from the old civil service law. And some states have gone further than the Federal Government. In 1996 the State of Georgia abolished its civil service system and instituted a personnel system much more in keeping with modern personnel practices in the private sector.

In many countries around the world, efforts to upgrade the skills of the civil service have gone hand in hand with efforts to upgrade the diversity of the civil service. No nation has faced as great a challenge as South Africa which has had to replace a white civil service with a multi-racial civil service. But other countries are also trying to achieve greater representation of women in their civil services along with multi-ethnic representation.

To sum up, as governments around the world attempt to create a quality professional government they are:

- attempting to reduce wage disparities between the public and private (or NGO) sectors;
- attempting to reduce pay compression in the civil service;
- reforming obsolete civil service rules and regulations;

- instituting performance based pay systems;
- targeting scarce skills and opening up the system to new talent and to diverse people;
- balancing the need for a stable, merit based system with the need for political direction in the government.

Innovation in the area of professional government has, as we have seen, many difficulties and many opportunities. But before going on to the next topic it makes sense to add a word of caution. The modern civil service comes out of an Anglo-American tradition that is heavily dependent on a well established rule of law. The formal rule of law is simply not well established in many parts of the world and thus the simplistic application of traditional civil service procedures may end up not achieving the goal of better government. And yet, many societies have traditions which, if understood and utilized, can contribute to effective government. Peter Fuseini Haruna makes this point when reviewing the experience of Ghana with civil service reform. He argues that "... community is the organic unit of cultural, social, economic and political organization in Ghana," and that better government in Ghana could be achieved by building on the village council model rather than trying to import the "managerialization" of public services.

### *Digital Government*

In the coming decade information technology – IT – will transform the public sector as it has transformed the private sector. Many of the world's public sector innovations have, at their core, important IT components and most governments now have some degree of web presence. A recent United Nations study found that fully 89% of the world's governments were using the internet in some capacity to deliver information and/or services. In 2001 there were over 50,000 government websites globally and over 22,000 in the United States Federal government alone, while in 1996 there were fewer than 50 official government homepages on the entire world wide web.<sup>62</sup>

So what are government's doing on line? Some countries' web pages are designed to give information about the country and its leadership to people outside the country. The UN designated these sites as "emerging" e-government countries. The low rates of internet usage in their populations make it difficult for them to offer much to their citizens online so their sites are

mainly concerned with offering political information about the leadership of the country. Many other developing countries have websites that the UN classified as “enhanced” in that they provided useful information but information geared towards non-citizens in the developed world - with few if any links to ministries or services for the citizen. For instance, Oman’s website offers useful information on how to do business and how to get a visa to go to Oman.

A third category of government websites was called “interactive” and contained a mix of developed and developing countries. On these sites, citizens can download forms and request information from ministries but they cannot complete transactions with the government online. That takes place in the countries classified into the next level, the transactional level. All 17 countries in this category are developed countries and OECD members – which makes sense since the transactional level presupposes a level of development where credit cards and the banking system are widely used. (Most of the countries in the world still have cash economies – which limit the transactions that can be done on line.) In these countries citizens can actually pay for services and complete transactions online. For instance, in Spain citizens can pay all their taxes, including property taxes, business taxes, income taxes and sales taxes online.

For countries at the transactional level there are huge opportunities for innovation and cost savings. For instance, online transactions typically cost much less money than do transactions conducted in offices, through the mail or on the phone. The U.S. Commerce department estimates that the cost to the government of processing a payment would be reduced from between \$1.65 and \$2.70 for traditional handling to \$.60 to \$1.00 for web based processing. The U.S. Department of Education handles 20 million student loan accounts. It pays a contract fee of \$12 per toll free telephone call for access to student account information. But web-based inquiries to the same database cost only a few cents.

When countries combine digital government with a focus on the citizen as customer – the innovations can be quite substantial both in savings and in service. That’s what happened in Mexico with the National Development Bank – the Nacional Financiera. Nacional Financiera focuses on small and medium sized businesses and helps them in the marketplace with loans and other assistance. Prior to the year 2000 they lost money. But when President Fox came into office they decided to reinvent their entire operation using information technology. Today 85% of the loans they approve are handled electronically. Because of IT they now serve 300,000 businesses – up from 15,000 businesses a few years ago. The number of bad loans has dropped

from 3.2% to 1.8% and they have done this without asking for new money. At 2.8 million transactions per day the Nacional Financiera is testament to what IT can do for a government agency.

As governments have adopted IT to decrease costs and increase service to the citizen they have followed in the pioneering footsteps of Singapore. In 1997 the government of Singapore established the eCitizen Portal as a single gateway to government services and information. As WuChoy Peng, Assistant Chief Executive for Infocomm of Singapore writes, eCitizen "... pioneered the concept of citizen-centredness through the integration of services and information according to intuitive categories such as "education," "housing" etc."<sup>63</sup> Other countries such as Canada, Great Britain and the United States quickly followed, organizing their web presence around terms and concepts which are familiar to the citizen rather than organizing around departments which are familiar to the bureaucrat.

Mexico recently launched a portal [www.gob.mex](http://www.gob.mex) that uses these principals to organize information and services. For instance under the theme "work" users will find services to match employers and job-seekers and they will also find information about labor rights, tax matters and public housing. Several dozen agencies got together under sixteen leaders – one for each theme – to produce horizontal linkages as well.<sup>64</sup> Mexico is also using e-government to coordinate the budget process, to establish networks of senior officials on topics such as innovation and human resource management.

IT can help governments give better service to the citizens while cutting the cost of transactions. It can also increase the transparency of government, an important component in the fight against corruption. In the United States all federal government regulations have to be put out for public comment. But prior to the internet, citizens wanting to read the public comments on a regulation had to travel to Washington D.C. in order to sit in a reading room in a government office and read the correspondence. Unless the citizen was rich enough to go herself or to hire a Washington based lawyer to go for her– the right to see the public comments was more theoretical than real.

But a few years ago the United States Agriculture Department decided to put the proposed regulations for organic farming on the web. Farmers, environmentalists and others from around the country found that they could participate in the public comment period from their own computers. Thousands took advantage of the opportunity and the result was approval

of regulations on organic farming – after nearly ten years of trying. As a result the Agriculture Department won the prestigious Innovations in American Government Award. To further e-rulemaking the Bush administration proposed, among its e-government agenda items, a plan to increase the use of the internet in rule making in federal agencies. A first step was the recent launch of a government-wide portal Regulations.gov which will help citizens look up regulations and comment on them.<sup>65</sup> A similar online comment opportunity is being provided to Mexican citizens at a government site called “Normetecca” where all regulations are being placed for comments. Mexico has also implemented a program called “Compranet” which places government proposals and contracts on the web for all to see. This has been an important component in the fight against corruption and cronyism and an innovation that other countries are looking to replicate.

The Canadian Government is clearly one of the world’s leaders in both transactive e-government and in using e-government to increase citizen input and improve official decision making. Michelle D’Auray, Chief Information Officer of Canada points out that - “Between April 1<sup>st</sup> and March 31<sup>st</sup>, 2003, more than 10,000 Canadians participated in surveys and focus groups conducted by the Government of Canada on e-government and service transformation. The findings help guide every aspect of our work.”<sup>66</sup>

In the municipality of Ipatinga, Brazil, an innovative project uses information technology to both increase citizen input into government and to simultaneously increase the transparency of government decision making. They took the famous participatory budgeting model, and, by integrating it online, supported by geo-processing, make it more interactive. Citizens can not only view, online, maps and city projects, they can vote on them and track the budgets and delivery of the projects. For those without computers, the city has provided terminal access and training. Thus the technology is integrating citizen input and transparency into one model.

Digital government has the power to:

- reduce the cost of government;
- increase citizen input into government;
- improve official decision making;
- and increase the transparency of government transactions.

And yet digital government has taken hold more slowly in the public sector than in the private sector. There are several reasons for this. Many government transactions require a degree of security and privacy that isn't yet available on the internet. Secure, authenticated digital signatures are still in the future for most countries and most systems. In addition, governments have experienced, to their chagrin, that their online systems can have flaws that allow for serious invasions of privacy. In the summer of 2002, the British government had to shut down its online tax return filing system when it was discovered that citizens could, with some ease, read and even overwrite other people's tax returns on the site.<sup>67</sup>

But more fundamentally, the public sector does not have the same incentives for the adoption of IT that the private sector has. In the private sector IT has brought about enormous increases in productivity, and allowed companies to replace thousands of workers. The public sector cannot use IT to replace people for two reasons. First of all, many citizens, even in wealthy countries, still do not have access to the Internet. Thus, while transaction costs on the internet are much cheaper than they are in person or by mail, governments must maintain both old and new means of processing government transactions lest they leave out a substantial portion of the population. Second, as we have seen in the discussion of downsizing, cutting public sector employment in many countries causes real political and economic hardship – especially in those countries with weak or under developed private sectors. Thus leaders of the public sector are reluctant to cut employment unless they absolutely have to.

Finally, the information revolution is not one way. It can be used by governments and those in power and it can be used by those who want to challenge the status quo. Pippa Norris writes that at least 20 nations have attempted some form of blocking on the Internet – usually in order to attempt to control information and to monitor citizens' ability to freely exchange ideas.<sup>68</sup> For the governments in these nations, the internet is a double edged sword. Widespread internet use is essential to modern government and to modern economic development and yet it has the potential to destabilize current regimes. Thus countries which are trying to hold on to authoritarian politics find that the internet has enormous potential to insert and reinforce democratic behaviors.

### *Better Regulated Government*

In addition to serving the citizen and defending the country, regulating the private sector is one of the most important functions of government. For some developing countries the challenge is to create a regulatory structure that is honest and reliable. Sound regulatory policy cannot happen without the rule of law and therefore, for many countries regulatory reform must go hand in hand with efforts to reform the judicial system. Other developing countries find themselves having to create regulatory systems to oversee newly privatized sectors of the economy. And all countries find that they need to have some process for calculating the cost of regulations, lest regulations become an undue burden on a developing economy.

Calculating the regulatory burden on an economy is perhaps the first step in creating effective regulation. As Giandomenico Majone points out, “The public budget is a soft constraint on regulators because the real costs of regulatory programs are borne not by the agencies producing the regulations but by the individuals and firms who have to comply with the regulations. These costs remain hidden because they do not appear in the budget. The most important regulatory reform consists in calculating (and making public) such costs.”<sup>69</sup>

Understanding the costs of regulation is not easy. In the United States, an office within the Office of Management and Budget has responsibility for calculating regulatory costs and it is often in the middle of controversy over its methodology and its conclusions. Nevertheless, the effort to calculate regulatory costs and then compare them to similarly situated countries can alert governments to the need for innovations. For instance, one study from a few years ago, showed that in Argentina it took 71 business days to go through the government mandated regulations needed to start a new company, in Chile it took 78 days and in Mexico it took 112 days. In contrast it took only 2 days in Canada.<sup>70</sup> Mexico has taken some major steps in the direction of regulatory reform. In order to boost competitiveness they have instituted a strategy of simplification and deregulation through the System for the Expedited Opening of Enterprises. This system has had an important impact in the municipalities that have implemented it.

Regulatory reform is a little understood but key piece of economic development. The greater the regulatory hurdle the larger the disincentive to entrepreneurship. In parts of the developing world dense and antiquated regulatory systems drive entrepreneurship underground to the “informal” sector of the economy. And as many have written, the existence of a large “informal” economy ultimately works against the talented poor entrepreneurs since they are not

able to establish property rights, they are not able to accumulate capital and they are not able to pass on their accumulated money to their children – thus creating new generations of poverty.<sup>71</sup>

The City of Makati in the Philippines won the prestigious Galing Pook Award in 1999 for a program designed to deal with the problem of poor and unregulated street vendors who operated outside the law and who often sold food that was unsanitary. In return for registering, undergoing immunizations and securing health certificates, the vendors were guaranteed a place on the street for their business. The program worked to increase the safety of food sold on the street and to increase the earnings and security of the vendors.

In addition, most developing countries struggle with the challenge of raising revenues. In South Africa, Pravin, Gordhan, Commissioner of Revenue, instituted a system of self-assessment in an effort to increase compliance rates. The reforms were so successful that the government was able to issue tax rebates thus showing citizens that compliance was preferable to the old system.

Not only does excessive regulation work as a disincentive to entrepreneurship, it breeds corruption as honest businessmen and women seek shortcuts around excessive and difficult systems. For many developing countries the regulatory sector is the locus of governmental corruption. For them, the challenge is the creation of an effective system in the first place.

In developed countries, regulatory reform efforts tend to be about simplification and to involve efforts to change the regulatory paradigm from an emphasis on enforcement to an emphasis on compliance. In a system that is more corrupt than honest this paradigm shift sounds like an invitation to more corruption. In countries with long traditions of rule of law, however, the move to encourage voluntary compliance meets a variety of goals having to do with making the regulatory process more efficient.

Thus once the costs of regulation are understood, most nations, whether developed or developing, strive to simplify regulations. In 1998 in the Ukraine, a presidential decree established the State Committee of Ukraine on Entrepreneurship Development which reduced the need for licensing, simplified registration procedures and limited inspection and control procedures. In the mid 1990s in the United States, Vice President Gore presided over a review of regulations which resulted in 16,000 fewer pages of Federal Regulations. And at the Barcelona Summit in March of 2002, European Union leaders called for a 40% reduction in the quantity of EU legislation by 2005 and they pledged to; “...consult more widely before drafting

legislation, ...to conduct regulatory impact assessments on 40 major pieces of legislation during 2003, and to cut the number of pages in the EU's law-book by at least a third by 2005.<sup>72</sup> A survey of 28 OECD countries found that 26 of them had begun programs to reduce the administrative burdens posed by regulation on their countries.

Strategies for de-regulating government:

- assessing cost;
- simplifying or reducing regulations;
- consulting with affected parties in the creation of legislation and regulation;

are likely to become more important parts of government innovation as globalization forces countries in certain regions to take part in supra-national organizations. Nations of the European Union have been facing some of the most complex regulatory situations ever. As they become one economic unit – EU regulations have been passed on top of already existing national regulations. It is no wonder that a major focus of EU policy making has been regulatory. In January, 2003 the EU succeeded in de-regulating the telephone sector. This has already helped to reduce the price of national calls by half and international phone calls by a third.<sup>73</sup>

Economic globalization has been a major force in de-regulating government in the past ten years and promises to continue to be in the next ten years. But in addition to the challenge of economic regulation countries of the world will have to contend with the challenge of environmental regulation. As the environmentalists, Daniel Esty and Robert Mendelsohn point out, "...coal burning in China measurably affects Japan...water pollution in the Danube harms up to seven countries before the river empties into the Black Sea... As the world economy grows, transboundary pollution spillovers are likely to increase – rendering country-by-country responses ever more inadequate."<sup>74</sup> The principles of de-regulated government on a global level, deciding what level of cost is acceptable, who should bear the costs, how the regulations should be written and enforced ... will require a level of innovation and cooperation that we are just beginning to understand.

### *Honest and Transparent Government*

There is a profound moral imperative behind the need to fight corruption. As Peter Eigen, founder and leader of Transparency International reminds us: "Corruption directly affects the viability of our social contract by altering the nature of the relationship between governments

and citizens, a relationship where public officials are not providing what is expected and where citizens do not trust their authorities any longer.”<sup>75</sup>

But in addition to the powerful moral imperative to fighting corruption there has been added, in recent years, a powerful economic imperative. To put it simply, countries with high levels of corruption tend to be poor and to remain poor. Why is that? According to Brian Jenkins of Kroll Associates \$350 billion of foreign aid is estimated to be in Swiss Bank Accounts – a significant factor in “donor fatigue.”<sup>76</sup> Second, with the end of the Cold War, the ratio of public to private sector capital flows to emerging and developing countries changed dramatically. According to two IMF economists, at the beginning of the 1990s the amount of private capital flows to emerging and developing countries was about the same as the amount of public capital flows. But by the end of that decade and the beginning of the 21<sup>st</sup> century, private capital flows had substantially outstripped public capital flows by a factor of six.<sup>77</sup>

The emergence of large private sector capital flows meant that countries with low levels of corruption, rule of law, protection of property rights and effective and honest regulatory structures were favored in terms of Foreign Direct Investment. Another IMF economist, Paolo Mauro studied 106 countries and found that one standard deviation in the “corruption index” is associated with a more than 4% increase in the investment rate and more than half a percentage point increase in annual growth rate per GDP.<sup>78</sup> Moreover, the same economist showed that increases in corruption tended to lower the rate of public spending on education – a disaster for countries trying to grow into industrial and information age economies.<sup>79</sup>

For many years the developing world was complicit in perpetuating corruption in the developing world, looking upon it as a “cost of business” and allowing, in some countries, bribes to be deducted as business expenses. But in 1999 that changed. Recognizing that “...corruption exacts an inordinately high price on the poor by denying them access to vital basic services,” the OECD led the way by introducing the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.<sup>80</sup> The purpose of the Convention is to require that the more than 35 signatories to the convention make the bribing of a foreign public official a crime in their country and to implement systems to enforce the law. As Peter Eigen whose group Transparency International was crucial to the success of this convention, points out, these 35 countries account for more than 90% of foreign direct investment worldwide.<sup>81</sup>

Thus the world's governments find themselves, at the beginning of the new century, dedicated to the reduction of official corruption. What do we know about this? Several themes emerge. For instance:

- Countries must create a truly transparent public sector;
- Countries must, in addition, create an "information culture" among their citizens so that citizens know they have a right to public sector information;
- The annual corruption rankings of Transparency International create international pressure on nations to try and reduce corruption;
- Countries must enforce the law and prosecute corrupt officials;
- But, countries must also look to the roots of corruption and engage in de-regulation and simplification of government processes if they are to get at the roots of corruption;
- In first world countries where levels of public corruption tend to be low, government officials have to find the right balance between fraud control on the one hand and productivity and service on the other.

Sweden consistently ranks as one of the least corrupt countries in the world. A large part of that record stems from their very long and very powerful tradition of state transparency. Anna-Karin Lundin, Parliamentary Ombudsman for Sweden writes, "Transparency and accountability are two key principles in the Swedish system of government. This is undoubtedly one reason why corruption is a rare phenomenon in Sweden."<sup>82</sup> The Swedish Constitution has guaranteed the right of access to official documents since 1766. In addition to giving every citizen the right to read government documents, civil servants are entitled to inform citizens about what is in government documents and they have special rights to disclose government documents to the media and the media is forbidden to disclose their sources! This unique protection of civil servants creates an extraordinarily open system. In addition, in order for a government document to be labeled secret it must meet the strict criteria enumerated in the Freedom of the Press Act, which is also, in Sweden, constitutional.

Mexico took a critical step in the direction of greater transparency when it passed, in June of 2003, the Federal Law on Transparency and Access to Government Public Information.

It allows anyone to access public information from any branch of the government without having to prove a specific interest.

Transparency is critical to creating the culture of openness that is so essential to fighting corruption. But once transparency is established citizens have to participate in this culture and pay attention to what the government is doing. In Guizhou Province, China, the city of Guiyang won the Innovations And Excellence in Local Chinese Governance award in 2002 for opening up the standing committee of the People's Congress to citizen attendance and citizen participation. This was an important initial step towards creating a culture of openness. Citizens who participated became "...more experienced in participating in the political process."<sup>83</sup>

Transparency and a culture of openness are the critical first steps in fighting corruption. That is why the work of Transparency International has been so critical to these efforts worldwide since its founding in the mid 1990s. Ever since it published its first survey, the rankings of nations have become major news, closely followed by governments and the private sector alike. The economic consequences to a nation of corruption are well known and thus ranking, while often painful and controversial, is an essential element in promoting reform.

Countries also have to be willing to investigate and prosecute corrupt public officials. In India the government began putting the names of officials under investigation on the Internet. This was picked up quickly by the press and word spread throughout people's home communities. Dubbed "e-shame" by Newsweek magazine, this strategy helped to raise the stakes on those who would engage in official corruption.

But as many have found, investigating and prosecuting public officials is not an adequate method for fighting corruption if the underlying systems are so complex and difficult that they breed corruption. When Ronnie MacLean-Abaroa took over as Mayor of LaPaz, Bolivia, he discovered a comprehensive system of corruption. While he did prosecute corrupt officials he also set out to make the processes of government simpler and more transparent. When he began reforming the system there were over one hundred different taxes that citizens were required to pay, property taxes were meaningless, there was extensive over-regulation in permits and licensing, and extensive and systemic corruption in procurement. As part of this reforms he made government salaries comparable with the private sector, while cutting numbers and increasing the quality of employees. He reduced the procurement system from 26 steps to 6 steps and introduced competition and transparency into the system. He simplified taxes and cut the

number of taxes from 126 to 7. Finally he simplified everything he could from building permits to health permits. The result? Revenues increased (along with international credit worthiness,) corruption decreased and the Mayor was re-elected four times.<sup>84</sup>

Finally, governments in first world countries need to find the right balance between regulation and productivity. In some countries, the regulatory structure has gotten so complex that it has become an impediment to productivity without necessarily accomplishing its regulatory objectives. This was the case with the Occupational Health and Safety Administration of the U.S. government in the early 1990s. A government official in the state of Maine noticed that while he personally and his office were winning prizes for citing companies for workplace safety violations, the number of injuries and fatalities was increasing, not decreasing. Thus the regulatory system was not accomplishing its goals and it was increasing the costs to the businesses being regulated. So government officials began what became known as the Voluntary Compliance Program, where government officials agreed to waive some regulations and some fines in return for immediate action by the company on safety violations. This program has decreased workplace injuries and made compliance, on the part of factory owners, easier and less costly. It won the Innovations in American Government Award in 1998.

#### **IV. Conclusion**

As the world's governments embark on the second decade of government reform and modernization, it is clear that much has been accomplished and yet much remains to be done. The elements of government reform that are common to all countries cannot be pursued in isolation from each other for they are all interrelated. For instance, creating a government that costs less, requires introducing the notion of productivity into the government and deciding which government pursuits are most important in achieving the objectives of the country.

Reducing the cost of government cannot be done without simultaneously creating a competent and honest cadre of government employees. As the tasks of government get more and more complex, government employees will need better education and training in order to govern effectively and they will need to reflect the composition of the peoples they govern.

Productive government and a qualified workforce are integral parts of quality government as is the need to seek out and listen to the needs of the citizens. But to maintain

quality government, leaders must have the courage to measure performance and publish their results. They also must create a culture of innovation within their public sector and be willing to partner with other, non-governmental organizations in the pursuit of their goals.

Information technology is, of course, critical to all the other sectors of the government reform agenda. For instance, it is difficult to imagine government becoming more and more productive – doing more with less – without the introduction of information technology and without the re-thinking of process that goes along with it. Similarly civil servants of the next decade will have to be totally comfortable with the new technologies if they are to be used effectively. And, of course, new technology is a necessary tool in the establishment of sensible regulations and in the creation of the transparency that is so central in the fight against corruption.

All governments face the challenge of sensible regulation – regulation that meets its public objectives without being so complex that it acts as an extra financial burden on businesses or as an inducement to corruption. Striking this balance is a constant challenge for governments in both developed and developing countries.

And finally, honesty and transparency are linked to all these other reforms. Civil servants need to be paid a decent wage in order to reduce the temptation of official corruption. Similarly, citizens must come to expect government services to be delivered honestly and efficiently and they must trust in the regulatory structures of the government.

All these reforms are critical because all the world's governments are part of a global marketplace that is more powerful and pervasive than ever before. For those countries seeking to move ahead in the global marketplace innovation in the public sector has become and will remain as important as it is in the private sector. What we are working on is nothing less than a cultural transformation in how civil servants and citizens perceive their relationships and their mission in the context of new, 21<sup>st</sup> century government. The road and the challenge are still before us.



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<sup>1</sup> State of the Nation Report to Congress, Mexico City, 9/1/2003.

<sup>2</sup> Speech by Guido Bertucci, at the UN Thessaloniki Centre for Public Service Professionalism, Human Resource Division, 2003.

<sup>3</sup> Parts of this section first appeared in "Latin American Governmental reform in a Global Context," in *Hacia Un Nuevo Estado en America Latina*, CIPPEC, Buenos Aires, January 2002.

<sup>4</sup> For an excellent history of this movement see, *Thatcher, Reagan and Mulroney: : In Search of a New Bureaucracy*, (Pittsburg, University of Pittsburg Press) 1994.

<sup>5</sup> For instance, in Great Britain a program began to improve public service to the citizen is called The Citizen's Charter and in the United States the same program is called Customer Service. At a 1996 UN General Assembly Session on Public Administration Reform countries referred to their own programs using either the British or the American terms or sometimes by mixing those terms into Customer Charters or Citizens' Service.

<sup>6</sup> Norman Flynn and Franz Stehl, editors, *Public Sector Management in Europe* (Hempstead, Prentice Hall Europe, 1996), p. 1.

<sup>7</sup> "Latin American Governmental reform in a Global Context," in *Hacia Un Nuevo Estado en America Latina*, CIPPEC, Buenos Aires, January 2002.

<sup>8</sup> Philip K. Howard, *The Death of Common Sense: How Law is Suffocating America*, Random House, New York , 1995.

<sup>9</sup> See Donald J. Savoie, *Thatcher, Reagan and Mulroney: In Search of a New Bureaucracy*, op.cit., for an excellent account of these campaigns and the attack they launched on the bureaucracy. Quote on page 92.

<sup>10</sup> William Jefferson Clinton, State of the Union, January 1996.

<sup>11</sup> See, Joseph S. Nye, Jr., Philip D. Zelikow and david C. King, *Why Americans Don't Trust Government*, Harvard University Press, Cambridge, MA., 1997. For the absence of a clear relationship between economic performance and declining trust see Chapter 4, "Is it really the economy, stupid?" by Robert Z. Lawrence. For a discussion of government accomplishment in the face of declining trust see Chapter 2 "Measuring the Performance of Government" by Derek Bok.

<sup>12</sup> See, "Changing Attitudes in America," by Robert J. Blendon, John M. Benson, Richard Morin, Drew E. Altman, Mollyann Brodie, Mario Brossard and Matt James, in *Why People Don't Trust Government*, Ibid, p. 210.

<sup>13</sup> "Political Performance and Institutional Trust" in *Critical Citizens: Global Support for Democratic Governance*, edited by Pippa Norris, Oxford University Press, 1999, p. 216.

<sup>14</sup> See, *Thatcher, Reagan, Mulroney*, op cit, for a more complete discussion.

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<sup>15</sup> Savoie, *op. cit.* p. 90.

<sup>16</sup> See, for instance, "Postmaterialist Values and the Erosion of Institutional Authority" by Ronald Inglehart in *Why Americans Don't Trust Government*, *op. cit.* See also, Pippa Norris, Editor, *Critical Citizens: Global Support for Democratic Governance*, (Oxford, Oxford University Press, 1999.)

<sup>17</sup> It is no accident that, in 1993 Minister Bassinini started Italy upon an ambitious program to downsize and restructure its bureaucracy. One of the accomplishments of the government in which Bassini was a Minister was the smooth integration of Italy into the European Monetary Union.

<sup>18</sup> See, for example, Michael Pinto-Duschinsky, "The Rise of Political Aid," in Larry Diamond, Marc F. Plattner, Yun-han Chu, and Hung-amo Tien, *Consolidating Third Wave Democracies: Regional Challenges*, (Johns Hopkins University Press, Baltimore MD, 1997.)

<sup>19</sup> *The State in a Changing World; World Bank Development Report 1997*, (The World Bank, Washington, D.C., 1997, p. 3)

<sup>20</sup> Norman Flynn and Franz Strehl editors, *Public Sector Management in Europe* (Prentice Hall Europe, 1996), p.3.

<sup>21</sup> *World Development Report 1997: The State in a Changing World*, (Washington, D.C. The World Bank, 1997) p.42.

<sup>22</sup> "Lessons for the Next Financial Crisis," *Foreign Affairs* March/April, 1999.

<sup>23</sup> Thomas Friedman, *The Lexus and the Olive Tree*, p. 201.

<sup>24</sup> "Austerity, or bust," *The Economist*, July 21, 2001. P.29.

<sup>25</sup> Prime Minister Jenny Shipley speaking at the opening session of the First Global Forum on Reinventing Government, Washington, D.C., January 14, 1999.

<sup>26</sup> *Ibid.*

<sup>27</sup> "Why Most Developing Countries Should Not Try New Zealand's Reforms," in *Research Observer*, Vol 13, #1, February 1998, (Washington, D.C., The World Bank.)

<sup>28</sup> Global Forum on Reinventing Government, Washington, D.C., January 14, 1999.

<sup>29</sup> *Freedom in the World, 2003: Selected Data From Freedom House's Annual Global Survey of Political Rights and Civil Liberties*, [www.freedomhouse.org/research/survey2003.htm](http://www.freedomhouse.org/research/survey2003.htm)

<sup>30</sup> See, Elaine Ciulla Kamarck, "Globalization and Public Administration Reform," in *Governance in a Globalizing World*, Joseph S. Nye and John D. Donahue, editors, (Washington, D.C., Brookings, 2000.)

<sup>31</sup> See Franz and Stroehl, *op.cit.*, p. 140.

<sup>32</sup> Bill Bolton and John Thompson, *Entrepreneurs: Talent, Temperament, Technique*, Chapter 1 "Identifying the entrepreneur," pp. 11 – 47 and Sanford Borins, *Innovating with Integrity: How local heroes are transforming American government*, Chapter 3 "The Who, Why and How of Innovation," pp. 37 – 65.

<sup>33</sup> Statement of LIM Siong Guan, to the Fifth Global Forum on Reinventing Government, Mexico City, November 3-7, 2003.

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<sup>34</sup> I am grateful to Thierry Senechal, a French student at the John F. Kennedy School of Government, for describing this reform. Mr. Senechal now works in the French government on performance measures.

<sup>35</sup> Paper presented to the 5<sup>th</sup> Global Forum on Reinventing Government, Mexico City, November 3, 2003.

<sup>36</sup> Donald Rowat, "Comparing bureaucracies in developed and developing countries: a statistical analysis," *International Review of Public Sector Management*, (London, Sage Publications, Vol. 56 (1990), pp. 211-236.

<sup>37</sup> "Just Don't Call it downsizing: Uruguay chooses consensus and persuasion as the way to streamline bureaucracies and improve the quality of public services," in *IDBAmerica*, September-October 2000, p.10.

<sup>38</sup> President Vicente Fox, *State of the Nation Report*, Mexico City, September 1, 2003.

<sup>39</sup> "Panel Discussion about Strategies for Quality Government," by Alain de Dommartin, Prepared for the Fifth Global Forum on Reinventing Government, November 3-7, 2003, Mexico City, Mexico.

<sup>40</sup> Trevor Smith, Statement Prepared for the Fifth Global Forum on Reinventing Government, November 3-7, 2003, Mexico City, Mexico.

<sup>41</sup> *Innovations and Excellence in Local Chinese Governance*, edited by Yu Keping, Beijing, 2002.

<sup>42</sup> Kettl, op cit, p. 42

<sup>43</sup> Presentation by Osvaldo Mendieta, at the Third Global Forum, March 15-17, 2001, Naples, Italy.

<sup>44</sup> Paper presented at the Fifth Global Forum on Reinventing Government, Mexico City, November 3, 2003.

<sup>45</sup> "Civil Liberties, Democracy and the Performance of Government Projects," *The World Bank Economic Review*, Vol. 11, #2, May, 1997.

<sup>46</sup> See, Howard Husock and Esther Scott, "Centrelink: A Service Delivery Agency in Australia," (Cambridge, Mass, John F. Kennedy School of Government Case Study 1524.)

<sup>47</sup> Michale C. Mullen, "The Shanghai Model Port Project," in *The China Business Review*, September-October 2001.

<sup>48</sup> Paper presented at the Fifth Global Forum on Reinventing Government, Mexico City, November 3, 2003.

<sup>49</sup> Paria de Lancer Julnes and Marc Holzer, "Promoting the utilization of performance measures in public organizations: An empirical study of factors affecting adoption and implementation," *Public Administration Review*, (Washington, Nov/Dec 2001) pp. 693-708.

<sup>50</sup> See FOCUS, #25,(Paris, OECD) 9/02, p.6.

<sup>51</sup> See, Elaine Ciulla Kamarck, "Public Servants for Twenty-First Century Government," in *For the People: Can we Fix Public Service?* (Cambridge, Mass, Visions of Government for the 21<sup>st</sup> Century and Washington, D.C., Brookings, 2003.

<sup>52</sup> Bamidele Olowu, "Redesigning African Civil Service Reforms," *The Journal of Modern African Studies*, Vol. 37, #1, (Cambridge, Cambridge University Press, 1999)

<sup>53</sup> Alexander Kotchegura, "The Russian Civil Service: Legitimacy and Performance," in *Civil Service Systems in Central and Eastern Europe*, edited by Tony Verheijen, 1999, pp. 15-46.

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<sup>54</sup> Ibid, p. 12.

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<sup>56</sup> Paper presented at the Fifth Global Forum on Reinventing Government, Mexico City, November 3, 2003.

<sup>57</sup> Kotchegura, Ibid.p. 29.

<sup>58</sup> Olowu, Ibid, p. 13.

<sup>59</sup> Debra W. Stewart, Norman A. Sprinthall and Jackie D. Kern, "Moral reasoning in the Context of Reform: A Study of Russian Officials," *Public Administration Review*, Vol. 62, #3, May/June 2002, p. 291.

<sup>60</sup> Paper presented at the Fifth Global Forum on Reinventing Government, Mexico City, November 3, 2003.

<sup>61</sup> Interview with Jose Luis Mendez, August 26, 2003.

<sup>62</sup> See, *Benchmarking E-government: A Global Perspective, Assessing the Progress of the UN Member States*, New York, United Nations Division for Public Economics and Public Administration, May 2002.

<sup>63</sup> Paper presented at the Fifth Global Forum on Reinventing Government, Mexico City, November 3, 2003.

<sup>64</sup> *The e-Government Imperative*, OECD e-Government Studies, 2003.

<sup>65</sup> See, Cary Coglianese, "The Internet and Public Participation in Rulemaking," (Cambridge, Mass., Harvard University, John F. Kennedy School of Government, Regulatory Policy Program paper 2003-05.) April 2003.

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<sup>67</sup> Marianne Brun-Rovet, "Revenue hit by further computer problems," *Financial Times*, London, June 27, 2002.

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<sup>69</sup> Paper presented at the Fifth Global Forum on Reinventing Government, Mexico City, November 3, 2003.

<sup>70</sup> "The Americas: Latin Politicians' High-tech Dreams Neglect the Basics," by Sebastian Edwards, *The Wall Street Journal*, May 25, 2001.

<sup>71</sup> See the work of Hernando DeSoto.

<sup>72</sup> See, Giandomenico Majone, "Deregulation, Liberalization and Regulatory Reform in the European Union," paper prepared for the Fifth Global Forum on Reinventing Government, November 2003, Mexico City.

<sup>73</sup> Ibid.

<sup>74</sup> "Moving from National to International environmental Policy," in *Policy Sciences*, Vol. 31, #3, 1998, pp. 225 – 235.

<sup>75</sup> Paper prepared for the Fifth Global Forum on Reinventing Government, Mexico City, November 3-5, 2003.

<sup>76</sup> "Corruption in the Global Marketplace," a presentation by Brian Michael Jenkins of Kroll Associates, April 30, 1997.

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<sup>77</sup> George T. Abed and Sanjeev Gupta, editors, *Governance, Corruption and Economic Performance*, (Washington, D.C., International Monetary Fund, 9/23/02.)

<sup>78</sup> “Corruption and Growth,” *The Quarterly Journal of Economics*,” Vol. #10, Issue #3, August, 1995, pp. 681-712.

<sup>79</sup> See Paolo Mauro, Chapter ???, George T. Abed and Sanjeev Gupta, editors, *Governance, Corruption and Economic Performance*, (Washington, D.C., International Monetary Fund, 9/23/02.)

<sup>80</sup> OECD Policy Brief, September 2000.

<sup>81</sup> “The Need for sustained Efforts: recent anti-corruption reforms in Mexico,” by Peter Eigen, prepared for the Fifth Global Forum on Reinventing Government, Mexico City, November 3, 2003.

<sup>82</sup> Paper presented at the Fifth Global Forum on reinventing Government, Mexico City, November 3, 2003.

<sup>83</sup> “Public Meeting and Hearing of the Standing Committee of the People’s Congress of Guiyang Municipality, Guizhou Province, *Innovations and Excellence in Local Chinese Governance*, edited by Yu Keping, Beijing, China, 2002.

<sup>84</sup> Ronald Maclean-Abaroa, “Fighting Corruption in La Paz, Bolivia: A Case Study,” presented to Dr. Kamarck’s class, Spring, 1999.