

THE STATE IN A CHANGING WORLD

The role assigned to government in the planning and management of national economic and social activities has undergone fundamental reassessment in both developed and developing economies within the Commonwealth.¹¹

Public sector reform is not new. It has rolled over governments in successive waves for over a century. One only has to think of Britain in the mid-19th century, when efforts to professionalise the public service culminated in the Northcote-Trevelyan reforms of 1856. A second wave of reformation swept the Commonwealth in the early-1900s when many governments created independent public service commissions to ensure the development of a “merit-based” public service. In more recent times, the Keynesian revolution, which laid the economic and social foundations for the welfare state, again transformed the state apparatus in all developed countries.

But the wave of public service reform now sweeping the globe is unprecedented in its scope. Since the mid-1970s, almost all Commonwealth governments have struggled to reshape their public service establishments to achieve greater efficiency and produce more responsive and flexible services. It encompasses not only the developed world, but the developing world and the former socialist bloc as well. There appear to be four main drivers to this reform movement:

- financial pressures on governments (in some cases, near-bankruptcy);
- the erosion of public confidence in governments and state institutions;
- technological change, in particular the development of means to process and share data electronically;
- global economics.

The latter inevitably places every country on the globe in a kind of uncomfortable competition for resources, investment, and jobs. In this new environment, the ability of the state to provide education, health, transportation, and other services in an efficient and reliable manner becomes crucial to development.

In the space of less than a generation, governments of fundamentally different persuasions around the world have been forced to similar conclusions: they have no

¹¹ Mohan Kaul. “From Problem to Solution.” *Commonwealth Strategies for Reform: Managing the Public Service*. Strategies for Improvement Series, No. 1 (Commonwealth Secretariat, 1996).

choice but to attempt to restrain the growth of public spending and improve the level of services.¹² For example, many newly independent countries facing a debt crisis of major proportions were forced to dramatically reduce their expenditures and improve their efficiency. Under pressure from the IMF and donor countries, they were pushed into downsizing and privatisations that were very difficult to execute. At the same time, even the developed countries began to face the fact that growth in expenditures for health, education, and debt could not be sustained indefinitely. At first, deficit reduction was the preoccupation of a few “conservative” governments. But within a few years, the notion that governments needed to live within their means had become accepted by a broad spectrum of political parties. And finally, the centrally planned governments of the Soviet Bloc collapsed, unable to produce the economic goods necessary to sustain the standard of living of the population.

According to a World Bank report produced in 1997, public expenditure as a percentage of gross domestic product has levelled off in the developed world since 1980, and has actually declined among developing countries.¹³ The severity of the cuts to operating budgets is actually much greater than the World Bank figures indicate because the latter include all state expenditures, including debt repayment. In Canada, for example, the total budget of the Federal government has continued to rise since 1990. At the same time, operating budgets have been slashed savagely. The difference has gone toward the retirement of Canada’s very significant national debt.

The response to these pressures has not been simply smaller government, but different government. Based on our surveys of permanent secretaries around the Commonwealth, the cumulative effect has been to change government in six main ways:

- *There is an increased focus on results.* For the last 50 years, the public sector has been seen as an alternative to the market economy and a way of compensating for its weaknesses. However, over the last decade and a half, a growing body of knowledge has demonstrated that the market quickly adapts to such compensatory mechanisms, often nullifying the effect of the intervention. As a result, the state can spend large amounts of money without having any results to show for it.

¹² In many countries the debate over the future direction has been conducted over several years. However, the combined pressures of international competition and pressures from the international financial community have moved the agenda forward. Another stimulus has been the rapidity with which information and ideas now circulate around the globe, thanks to the Internet and cheap air transportation. Some of New Zealand’s leading architects of public service reform now travel the globe offering advice and counsel to countries as varied as Mongolia and Chile.

¹³ “The State in a Changing World”, *World Development Report 1997*. (New York: Oxford University Press, 1997).

Today, the principal objective of almost all states (whatever their political persuasion) is to find ways to “encourage” the market to attain socially desirable outcomes.¹⁴ This does not mean that the state has shed its regulatory or control function. It still sets standards for such matters as education and food quality. But there is little doubt that the pressure is on to make better use of markets to achieve specific outcomes.

- *Power is dispersed.* A broad trend has developed toward the separation of delivery from policy through the increased use of arms-length agencies, public/private partnerships, and contracting out. Many more things – from delivering mail to operating marketing co-operatives – are now being done by agencies not controlled by national governments.

As a result, power is dispersed in every direction: to private enterprises, other levels of government and to international agencies. According to the 1997 World Development Report, developing countries tend to have more centralised state structures than their industrialised counterparts. However, over the past 30 years there has been a shift in public spending in developing countries from the national level to lower levels. In Commonwealth developing countries, many governments are decentralising responsibilities to regional levels. South Africa’s new constitution is highly decentralised. Zimbabwe is devolving responsibility in areas of health, education, and social service welfare to local governments.

Decentralisation often leads to improvements the quality of government and the representation of the interests of local businesses and citizens. Experience has shown that competition among provinces, cities, and localities can spur the development of more effective policies. But there are many examples of overlapping responsibilities that lead to useless frictions.

- *Issues are more interrelated.* Few political issues fit neatly within the mandated authority of a single government department or agency. There may be a department called “Environment” for example, but no single department can encompass the environment as its exclusive portfolio. In fact, in many countries, the actions and policies of other departments – Defence, Transport, Natural Resources, for example – will affect the environment more than the Environment Department itself.

¹⁴ Peter Larson. “Public and private values at odds: can private sector values be transplanted into public sector institutions?” *Public Administration and Development*, Vol. 17, 131–139 (1997).

In simpler times, most fields of governmental intervention could be considered as reasonably separate domains, or “silos.” Today, however, issues are increasingly interrelated, and solutions require co-ordinated intervention by two or more departments. Government departments must find new and more horizontal ways of studying problems and finding solutions.

In today’s dynamic world, it is also no longer possible for governments to understand immensely complex problems or devise sufficiently interdependent solutions without bringing together groups of people who spend much of their time understanding the evolving environment.

- *Decision-making has become globalised.* As the world economy becomes globalised, nation states find their national sovereignty increasingly circumscribed. This poses both political and practical problems for ministers and permanent secretaries in every country in the Commonwealth – from the developed U.K. to developing Mauritius. When the World Trade Organization decreed, for example, that the United Kingdom could not give preferential treatment to bananas from its former colonies in the Caribbean, the decision had an immediate and disastrous effect on many Caribbean nations. In creating a rules-based economy, multilateral organisations have limited the independence of every nation on the globe.

International rule-making organisations such as the WTO, the IMF, and the World Bank; regional trading blocs such as APEC or NAFTA; and transnational partnerships are slowly limiting the range of independent options for every country. Taxes, investment rules, and economic policies must be ever more responsive to a globalised economy. And their increasing reliance on international financial institutions has made it very difficult for the developing economies to resist economic and political pressures approved by their key donors. The geographical context within which governments operate has shifted from the national to the global level.

- *Government is under increased public scrutiny (and criticism).* The environment within which governments operate is becoming increasingly public, with no end in sight. Intense media scrutiny has played a role in increasing public cynicism and has led to more and more intense calls for transparency and public consultation.¹⁵

The escalating demand by the public for information, combined with the growth in information technology (in particular, the Internet), has subjected governments to

¹⁵ Howard Wilson. “The Role of the Ethics Councillor,” Presentation made to the Second Annual Commonwealth Seminar on The Changing Role of the Permanent Secretary, Ottawa ON, June 1998.

more intense examination than ever before. “Governments used to operate on the principle that everything was secret, save for that which it wanted to make public,” notes a former Prime Minister of New Zealand. “Today it is the opposite. Everything is public unless there is a specific reason for confidentiality.” Domestically, citizens have come to insist on transparency in the conduct of government, and on other changes to strengthen the ability of the state to meet its assigned objectives.

But it is not just confidentiality that is eroding – it is the very notion that governments have the right to make decisions unilaterally that is challenged. Citizens increasingly demand to participate in the development of policy, in the design of programmes, and even in the design of service delivery. As a result, government can no longer impose decisions without a fuller consent by the governed. Instead, governments are becoming “arbitrators,” “referees,” or even “catalysts” rather than independent agents.

- *There is an increased focus on economic development.* The era in which the state was seen as the principal lever of economic development has yielded to one in which the role of the state is to create the conditions for economic development. With fewer resources at its disposal, the state has had to focus more on “steering” the economy as opposed to “rowing.” As a result, large state-owned or state-operated economic initiatives have almost disappeared, and in most countries the state is attempting to shed any activity that can be operated commercially. While some of these activities had proved enormously successful, too many state enterprises around the Commonwealth were characterised by waste and inefficiency. A new consensus has emerged that the role of the state is to provide the “economic and political climate” for successful enterprise. Over 81% of respondents to our questionnaire identified a “greater focus on economic development” as the most important single change in the role of government over the last decade.

Overall, the pressures for reform have been so enormous that governments across the Commonwealth have been forced to question the fundamental roles and responsibilities of the nation-state. Many Commonwealth governments have adopted a variety of strategies, including redefining the relationship between policy-making and administration and introducing greater accountability, task definition, and performance measurement. Many have increasingly delegated the control of resources. Governments have become more aware of the need to work collaboratively with all stakeholders, and have accepted that they must improve levels and quality of service.