

The New Role of the State

- 92 The state apparatus needs to alter radically its organisational structure. It also needs to overhaul and modernise its organisational processes. The reform experience shows how decades of neglect, improvisation, politicisation and lack of resources have adversely affected policy planning, budgeting, personnel practices, information systems, co-ordination, control and oversight etc. Clearly these issues which determine the quality of the Civil Service and the capacity of the government to carry out its functions efficiently and effectively must receive as much attention as threats to macroeconomic stability. A distorted and unrealistic set of terms and conditions of public service – including the salary structure – is as damaging and unsustainable in the long run as an overvalued exchange rate. The creation of the enabling environment for organisational efficiency in the public sector should rank as top priority in the follow-up.
- 93 Beyond the inner workings of the state machinery, there is also the provision of indispensable public goods and services that will not or cannot be provided by the private sector – water, infrastructure, education, law and order and justice, among others. Given the prime importance of macroeconomic stability, however, it is important that care be exercised so that institution building and increasing state capacity do not become excuses for lax macroeconomic policies, or the inefficient expansion of the bureaucracy or for permissive labour practices in the public sector.
- 94 Sustaining macroeconomic stability will require that governments will have to confront ‘the politics of budget redeployment’ – taking 10 per cent from one ministry and giving it to another - which differs markedly from the politics of austerity: reducing all budgets by 10 per cent. Public funds to alleviate poverty and deliver social services will have to come from the budgets of other sectors that have traditionally enjoyed easy access to the Treasury. A view that is quite popular with the World Bank is to increase funding for primary and vocational education from the “lopsided budgets that rioting tertiary students once extorted from permissive administrations.” In addition, greater recognition must be given to private agents’ ability to produce and deliver efficiently many public goods.
- 95 But just as macroeconomic instability is a hindrance to institution-building, so also does political instability inhibit positive organisational change. Unstable political environments make for volatile policies and short-lived management teams. Governments and political leaders will increasingly have to recognise the need to agree to protect crucial public agencies from the ravages of partisan politics and political clientelism. An important example of this is the granting of legal autonomy to central banks. This serves to shield these institutions from both partisan politics as well as the influence of the administration. A balance will, however, have to be struck between the necessity of shielding key institutions

- from undue political interference and the need for proper accountability and public control under which all state organisations must operate.
- 96 Issues about the role of the state bring to the fore the need for deeper insights about the institutional and political economy aspects of reform management. A minimalist role for the state – historically seen as bureaucratic, over-extended, rent-seeking and predatory – has been described as ‘a reaction too far.’ The fundamental challenge is that of designing institutions and political frameworks that would enable a ‘developmental and altruistic’ state to emerge or evolve from the predatory patrimonial state.
- 97 Sustaining and deepening the reform process will require states to increase their technical and managerial capacities far beyond present levels. The process of privatisation and divestiture must accelerate to get the state out of functions better suited for the private sector in order to focus more keenly on the discharge of ‘core public functions’ – reforming the judicial system, introducing efficient government, alleviating poverty and providing efficient social security systems.
- 98 Without doubt political instability is attributable to a variety of causes, but the inability of the state to deliver basic public services exacerbates the situation. The acute deterioration of state capacity is a powerful destabilising force. The biggest threats to economic stability – a relapse into fiscal disarray and insufficient international competitiveness – also flow from the failure to improve the performance of existing public institutions and policies.
- 99 Moreover, unless the administrative machinery is improved, social conditions are bound to deteriorate, regardless of how much money is poured into social programmes. The new role of the state must be to support and reinforce the reform process without restoring the tendency to inflict the economic, social and moral havoc of the past.
- 100 In some instances, the dismantling of state organisations has been accompanied by the unintended and profound operational deterioration of indispensable public agencies. Fiscal collapse provoked by the drastic budget cuts needed to shrink the fiscal deficit, accelerated what admittedly has been an ongoing process of deterioration. Agencies were sometimes left without any realistic possibility of recruiting and retaining essential technical personnel or of procuring other needed resources.
- 101 The creation and development of the institutions needed to support the new policies – regulatory agencies, antitrust and antidumping commissions, export promotion agencies, consumer protection bodies, social safety-net organisations etc. – and the even more challenging task of upgrading existing public agencies devastated by decades of neglect, under-investment and ‘capture’ by special interests, will constitute the most pressing agenda issues of the ongoing reform process and constitute the new role of the state.
- 102 Governments will have to move beyond the maintenance of macroeconomic stability and an attractive environment for competitive private investment. The still precarious stability will have to be combined with building the organisational infrastructure of the state

and dealing with a potentially explosive social situation. Governments will have to move swiftly to overhaul the financing, production, and distribution of public services in many areas: education, health care, transport, justice, personal safety, etc. Tax collection, banking supervision, regulation of privatised and other monopolies, social security, labour practices, export promotion, the Civil Service, the judiciary and a plethora of other areas are in dire need of more and better governmental attention.

103 The pending reform agenda for governments has as its common denominator, the need for sophisticated public management in a context of growing, and sometimes extreme, politicisation and reform fatigue at home and internationally. The tasks depend on

cohesive state action, whether in the building of reliable social security systems or in the development of regulatory frameworks that increase confidence in the financial market, whether on the restructuring of hospitals or in the overhaul of the judiciary.

104 The objective is the evolution of the 'developmental state' from the 'predatory state.' A developmental state engenders a more meritocratic civil service and long term career rewards that heighten commitment and create a sense of corporate coherence within the state that, in turn, become a major source of autonomy. By contrast, in predatory states, the Civil Service becomes either a second-best option for the risk averse or a temporary exercise in diversification for what are really private sector careers.