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Comment on Agenda Item 3 "Revitalizing Public Administration: Strategic Directions for the Future" (E/C.16/2005.2)

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The draft document on emerging issues in revitalizing public administration provides a general overview of issues that States should address in implementing the Millennium Declaration, but provides little detail about what strategic directions States should take or the tactical options through which they can achieve strategic goals.

At the heart of the Millennium Development Goals (MDGs) are the reduction of human poverty and the promotion of human welfare. Neither goal can be easily achieved without a reasonable degree of economic growth. Without economic growth States will simply not be able to generate the financial resources and the private sector will not be able to create the jobs required to increase incomes and enhance human development. Over the past 25 years, the most impressive reductions in human poverty have occurred in those countries and regions where governments have created the conditions conducive to market-based economic transactions. And in an era of globalization and international economic interaction, economic growth simply will not occur in countries where governments do not give serious attention to creating an economic climate conducive to trade, investment, and entrepreneurial activity. Before States can effectively perform their social welfare functions they must create the conditions for economic growth that yield the resources with which to do so.

A crucial component of revitalizing public administration in the future must be finding ways of engaging public officials and public servants in the task of creating effective political, economic, and social conditions for economic growth, and in tapping the returns from economic growth in a fair and transparent manner to reduce human poverty and promote human welfare.

As the Agenda Item 3 draft document points out, promoting economic and social decisionmaking requires strong institutions and processes. But little is said about what types of institutions are needed to create the appropriate conditions.

I have written elsewhere that seven institutions and processes are fundamental to creating conditions conducive to sustainable economic growth.[1] The seven fundamental sets of institutions and processes that governments must help to create are: 1) institutions of economic adjustment, 2) institutions for strengthening economic motivation, 3) institutions of private property protection, 4) institutions facilitating freedom of enterprise, 5) institutions of rule setting and societal guidance, 6) institutions promoting economic competition, and 7) institutions promoting social equity and access to opportunity.

1. Institutions of Economic Adjustment. Economic growth depends on the ability of markets to operate efficiently, which in turn depends on the ability of the State to create institutions that can make adjustments when the economy is adversely affected by internal or external shocks, while at the same time promoting sufficient stability to facilitate orderly and effective exchange.

Economies in any society do not always operate in reality as they should in theory. As countries participate more heavily in international trade and investment their economies can become more financially vulnerable to potential downturns in foreign net investment, increasing external debt servicing burdens, the possibilities of capital flight, and deterioration in the terms of trade, all of which constrain the ability of firms to adjust to changing conditions. Changes in the composition of trade and in patterns of imports and exports can also have serious adverse effects. National industries can suffer shocks when decline in external demand or supply reverberate throughout the system and begin to squeeze domestic input suppliers and customers, as they did in Latin America during the 1980s and in Asia during the late 1990s.

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[1] See Dennis A. Rondinelli, "Promoting National Competitiveness in a Global Economy: The State's Changing Roles," in Dennis A. Rondinelli and G. Shabbir Cheema (eds) *Reinventing Government for the Twenty-First Century: State Capacity in a Globalizing Society* (Bloomfield, CT: Kumarian Press, 2003): 33-60; and Dennis A. Rondinelli, "Assessing Government Policies for Business Competitiveness in Emerging Market Economies: An Institutional Approach," in Robert Grosse (ed) *International Business-Government Relations in the 21st Century,* Cambridge, England: Cambridge University Press, 2005) in press.

The most important roles of government in creating or strengthening macroeconomic institutions are adopting and enforcing: a) economic adjustment policies, b) price reforms, c) policies for privatizing state-owned enterprises and reforming public corporations, d) tax reforms, and e) economic stabilization policies.

2. Institutions for Strengthening Economic Motivation. A second set of institutions that are crucial for economic growth are those that strengthen economic motivation. Economic motivation is essential because economic growth depends on society's acceptance of monetary gain as a legitimate return on entrepreneurial investment and on business' ability to make reasonable profits. The World Bank points out that governments face difficult challenges in both imposing market discipline on existing enterprises and encouraging the creation of new enterprises willing to compete without state subsidies. To help economies operate effectively governments must have strong policies promoting: a) entrepreneurship; b) free and fair marketing of goods and services; c) effective distribution systems; e) efficient labor allocation, and f) foreign direct investment.

3. Institutions of Private Property Protection. A third set of institutions needed to create a strong economic climate are those for protecting private property ownership and intellectual property rights. Protection of private property ownership is necessary so that those who produce goods and services are adequately rewarded.

Without effective property rights institutions a country's resources can be allocated inefficiently, private agents can bribe officials to grant them preferential use of property, bureaucrats may engage in rent-seeking behavior, intellectual property developed through innovation can be difficult to protect by those who invested in its creation, and common property may be depleted. Property rights institutions are an array of laws and rules that clearly define the rights of organizations and individuals to own, control, and use property for economic purposes and to transfer it freely by transparent administrative and legal means that are enforced in an efficient and neutral manner.

4. Institutions Facilitating Freedom of Enterprise. Freedom of enterprise is a hallmark of a viable economy. Research has found that economic freedom in host countries is positively correlated with FDI flows and with economic growth; countries with high degrees of economic freedom, adequate human capital, economic stability, and liberalized markets continue to attract capital flows over long periods of time. Two types of policies and institutions in emerging markets that directly affect the ability of enterprises to operate freely: 1) political liberalization and good governance; and 2) financial institutions. Political liberalization and good governance are foundations for freedom of enterprise. Financial institutions provide the resources for enterprises to enter and operate in the market.

For enterprises to operate freely and for economies to grow, States must have institutions promoting good governance. The World Bank has found that governance strongly affects the level and pace of economic growth. The World Bank defines governance as the ways in which governments are chosen, held accountable and replaced, their capacity to manage resources efficiently, their ability to enact and implement sound policies and regulations, and their legitimacy and acceptability among citizens.

For individuals and enterprises to operate freely they must also be able to obtain the financial resources they need to enter the market and carry out business transactions. Banks and non-bank financial intermediaries, stock exchanges, investment funds, insurance companies, and other financial service institutions are essential to create capital markets and to allow enterprises to operate freely and effectively.

5. Institutions of Rule Setting and Societal Guidance. Although many institutions in society – religious, educational, and media organizations, for example – have strong roles in setting and enforcing rules of social interaction, two institutions should be of particular concern to governments seeking to facilitate economic growth and poverty reduction: a) the legal system, and b) policies for combating corruption.

A strong institutionalized legal system for promoting economic growth includes laws and regulations for organizing and structuring industrial and commercial enterprises and their rights, responsibilities, and obligations. It should also define eligibility standards for national treatment of foreign-owned or multinational corporations, conditions of business entry and exit, business registration, liquidation and bankruptcy, and import and export requirements.

One of the most damaging threats to the viability of an economy is that of widespread corruption, which undermines economic reform and, ultimately, national economic stability. Corruption weakens public confidence in an economy because it has corrosive effects on political institutions, and destroys public trust; it raises the cost of doing business, distorts the allocation of resources and the price of goods and services for consumers, and discourages foreign direct investment. Where corruption restricts freedom of enterprise, it prevents businesses from entering and leaving the market, leads to operational inefficiencies, and inhibits the introduction of new products and services and of new technologies.

6. Institutions Promoting Competition. Competition is a basic attribute of dynamic economies and the primary motivator for individuals and producers to divide labor, specialize, develop comparative advantages, improve quality, cut costs, and innovate. Competition among producers requires them to gain comparative advantage through adjustment and innovation. Through innovation they find new methods of production, new products, new raw materials and inputs, or new ways of organizing to make better products at lower cost. Competition raises the quality of goods and services and lowers prices over time by rewarding participants who act on market signals and by punishing with bankruptcy those who do not. Competition generates jobs, providing workers with higher incomes and more resources to consume and save. Among the policies and institutions that are needed to promote international competition are: a) liberalization of trade and investment, b) exchange rate policies, and c) technology transfer and development policies.

7. Institutions Promoting Social Equity and Access to Opportunity. Equality of opportunity allows all individuals and groups to engage in economic activity through property ownership and enterprise formation or by fair sale of their labor for income. Adjustments in market economies can, of course, produce cycles of economic decline, financial crises, and recessions or depressions that cast some groups of people into poverty or temporary economic hardship. Growing inequalities in the distribution of income can put some groups of people at an economic disadvantage, preventing them from participating in or benefiting from market processes.

Some groups of people -- the unskilled, the physically or mentally disabled, the aged, and those suffering from serious health problems, for example -- may not be able to earn sufficient amounts of income to participate at all. Governments have a responsibility to create or strengthen three sets of policies and institutions affecting social equity and access to opportunity: a) civil society; b) human capital development; and c) social safety nets.

These seven sets of institutions and policies form the foundation for economic interaction that can lead to reasonable levels of sustainable growth, which is essential to generate the financial and other resources needed by governments, the private sector, and civil society to contribute to achieving the Millennium Development Goals.

Although the need for all of these institutions and policies is now well known, any realistic discussion of an agenda for revitalizing public administration to achieve the Millennium Development Goals must do two things. First, it should identify how governments can begin to create specific economic and social decision making institutions that facilitate economic growth and second it must discuss in some detail how public administration can implement policies and program for maintaining sustainable growth, reducing poverty, and assisting the most economically vulnerable groups in society.