Introductory Papers

- ## PARADOXES OF HUMAN NATURE AND PUBLIC MANAGEMENT REFORM
  COLIN TALBOT

- ## POVERTY AND GOVERNANCE
  The Role of the State, Good Governance and an Enabling Policy Framework in Poverty Alleviation in Malaysia
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Paradoxes of Human Nature and Public Management Reform[1]

Colin Talbot[2]

The history of public management reform programs in the last decade of the 20th century was dominated by a single phrase: “new public management” (NPM). Whether writers considered NPM a universal phenomenon or merely a localized trend within Anglo-Saxon states, whether it was seen as a positive or negative development, NPM was the benchmark against which all public management reforms seemed to be compared and judged. Whether or not reforms were judged to be part of NPM, the reform activity was certainly plentiful (Pollitt and Bouckaert 2000).

This article offers a critical evaluation of NPM in the context of developments in the United Kingdom (UK) over the last 2 decades or so. It approaches this evaluation from a very specific perspective: that of what might be called “paradoxical systems theory.” NPM has been analyzed by many as containing fundamentally contradictory aspects (Aucoin 1990, Pollitt 1990, Hood 1991, Ferlie et al. 1996). The paradox-based theoretical framework, it is suggested, helps to explain some of these contradictions and problematics associated with public management reform. While this analysis is based on the UK, it may well apply more widely.

I. Paradoxical Systems Theory and Human Nature

The notion of paradox has emerged in the study of organizations and management in general in the recent past. Academics, practitioners, consultants, and management gurus have all picked up the idea and used it in some more and some less serious ways. Probably the most famous management guru book of the late 20th century, *In Search of Excellence* (Peters and Waterman 1982), contains a brief discussion of paradoxical human nature in which the authors suggest that humans are inherently paradoxical. They suggest, for example,

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that humans crave both autonomy and belonging and as a result have ambivalent attitudes to organizations. Another popular organizational study that also, like *In Search of Excellence*, attempts to identify the important traits of high-performing companies concluded that it was a set of paradoxical behaviors that best characterized such organizations (Collins and Porras 1997). Many other examples can be taken of a developing school of writing on paradox in organizations (Miller 1990, Horton 1992, Felstead 1993, Handy 1995, Harvey 1996, McKenzie 1996, Price Waterhouse Change Integration Team 1996, Cannon 1997, Fletcher and Olwyler 1997, Talbot 1997a).

The most sustained and successful attempt at theorizing the role of paradoxical systems in organizations comes in the work of Robert Quinn, Kim Cameron, and colleagues (Quinn 1988; Quinn and Cameron 1988; Quinn et al. 1996; Cameron and Quinn 1999). In a synthesis of much of organizational theory, they produce a paradoxical theory of both managerial behavior and organizational dynamics. They describe four fundamental, and contradictory, models of human organization: the rational goal model, the internal process model, the human relations model, and the open systems model.

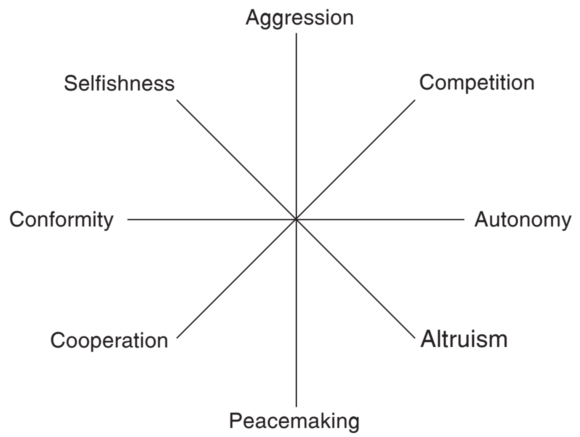
Insofar as this is a simple taxonomy, in a classic two-by-two configuration, it seems fairly comprehensive but little different from other, similar attempts at synthesis. Where their work parts company with most organizational theory is that they see these models not as mutually exclusive "either/or" categories, but as paradoxical "both/and" types. They are mutually contradictory, but nevertheless each may, and usually does, coexist in the same organization with a permanent dynamic tension toward each quadrant of this model.

The term paradox here needs to be clearly understood. It does not mean, as is often the case in colloquial usage, something which produces an unexpected or perverse result—for example, efforts at decentralization that result in greater centralization. Paradox in paradoxical systems theory is a sustained, or permanent, contradiction of apparently mutually exclusive elements that nevertheless coexist. It differs from the notion of a dilemma—a choice between contradictory elements—because it suggests such choices are either false or merely temporary. The chosen element (e.g., decentralization) may be achievable in the short term but its opposite (centralization) will continue to exert pressure and may even happen simultaneously (e.g., where operational decentralization and strategic centralization occur [Talbot 1997b]). Similarly, paradox is different from contradiction and synthesis in the Hegelian and Marxist traditions, where contradictory elements (thesis and antithesis) can be resolved through synthesis. Paradox is permanent, irresolvable contradiction.

Where do these paradoxes in human systems come from? We would suggest that they are fundamental to human nature, and their existence in human institutions is merely a reflection of this underlying contradictoriness in the character of humans (Talbot 2005). Humans evolved as social beings, but of a very particular sort. We, along with a very few other mammals, evolved what have become known as "fission-fusion" societies (Dunbar 2004). That is, while we always live in social groups, these groups vary in size and composition over time. Our human ancestors even had to function completely autonomously for periods of time (e.g., when hunting or gathering). The necessary skills for such flexible, but still mainly social, living arrangements are thus contradictory: humans need to be able to, and indeed want to, function autonomously and simultaneously want to, and must be able to, be part of a group. They may act aggressively toward other humans but they also have to act peaceably. They may be cooperative and competitive at the same time. And finally, they may be both selfish and altruistic. This last point stands in direct opposition to economic theories that humans are always, and everywhere, rational utility maximizers. These ideas are set out in much greater detail in *The Paradoxical Primate* (Talbot 2005). They are represented graphically below.

Human paradoxical instincts are of course not expressed in some simple, deterministic fashion. They are heavily mediated by two other factors: the cultural and institutional context within which individual humans are socialized, and individual humans' "bounded rationality" (Simon 1957). Bounded rationality denotes human rational decision making constrained by i) imperfect information and ii) limits in processing capacity, and especially of calculating the costs/benefits of different choices. Flowing from Simon's early work, a whole literature about this notion has now developed, especially the ways in which we actually make decisions, especially via heuristic decision logics.

Figure 1. Paradoxical Human Instincts



Source: Talbot 2005.

It is notable, however, that most, if not all, human institutional arrangements seem to include paradoxical aspects in their structures while, of course, in certain times and places putting more emphasis on one or other aspect. For example, the United States (US) is noted for its supposed "individualistic" culture, but has one of the highest levels of voluntary charitable contributions in the world, while a notably "collectivist" culture like Japan simultaneously has an amazingly individualistic religious culture.

The implication of this "paradoxical primate" hypothesis is that human organizations will always be beset by contradictory pressures and dynamic tensions that are ultimately irresolvable. While there may be prolonged periods of apparent stability (e.g., centralized organizations), these will i) be maintained only by specific efforts (e.g., maintenance of socialization and cultural norms) and ii) will nevertheless always potentially be subject to change. Moreover, because of the often hidden underlying pressures, such change may appear to be of the "tipping point" type—sudden and discontinuous.

Of course, other factors may act as immediate causal agents of change. Technological changes are often cited as such—for example, small batch production techniques displacing mass production lines—triggering the so-called "post-Fordist" trend to decentralization. However, such technological changes are only proximate causes, catalysts, that free more fundamental forces into action. Sufficient examples exist of such technological innovations being absorbed by radically different organizational cultures without producing radical change to see that they are not by themselves determining factors. Certain technologies, like small batch production, distributed low-cost computing power, or the Internet, may favor specific types of organizational solutions—disaggregation, networking, etc.—but they do not determine them. If an existing organizational or institutional culture is strong enough, it will simply absorb these changes within its existing configuration; if not, it may change suddenly and dramatically.

We turn now to apply this approach to changes in public management and specifically use the example of the UK. We develop a simple paradox-based model to try to explicate the often confusing nature of the actual changes which have occurred in the past 20 years or so.

II. Paradoxes of New Public Management

The notion of paradoxical systems has begun, albeit in a small way, to enter into public policy and management analyses (Aucoin 1990; Stone 1997; Newman 2001). Perhaps the most ambitious application has been Janet Newman's use of the Quinn-Cameron model to analyze changes to governance, public policy, and public management in the UK under the New Labour Government (Newman 2001).

The approach adopted in this paper is based on the same fundamental premises as the Quinn-Cameron approach but suggests a different set of paradoxes, and hence analytical categories, which seem more appropriate for analyzing public management reforms.

We suggest two fundamental polarities in public management. The first is the paradox between centralization and accountability, on the one side, and decentralization and involvement on the other. Much traditional thinking about bureaucracy and administration assumes models of hierarchy and control through which both choices and accountability are exercised (Fayol 1969). On the other hand, more recent thinking about democratic renewal emphasizes decentralization, participation, and involvement as antidotes to remote and unresponsive public bureaucracy (Behn 2001).

The second polarity is between rational choice in decision making versus judgment and compromise. A recurrent theme in public administration and management has been the need for rational decision making, even if it is only "bounded rationality" (Simon 1957; Carley 1980; Leach 1982). On the other hand, a longstanding tradition has also, in various forms, recommended the role of judgment and compromise in decision making (Lindblom 1959, 1980; Vickers 1983).

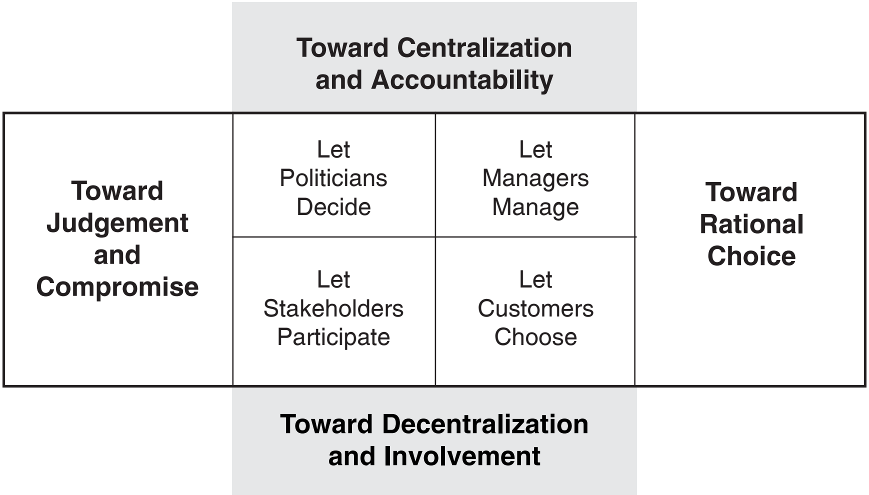
These two paradoxical pairs can be combined in traditional two-by-two fashion. The resulting four "types" can represent the four paradoxical models that underpin the NPM: let the politicians decide, let managers manage, let customers choose, let stakeholders participate (Figure 2).

It must be emphasized that these are *both* contradictory and mutually antipathetic models *and* they often coexist in NPM reforms. We will proceed by giving examples of each type of associated reforms in turn for each model.

A. Let Politicians Decide

Our first model is "let the politicians decide." The critique of traditional public bureaucracy models developed by public choice theorists was that they had suffered from "producer capture" and politicians had lost their ability to make effective decisions about public services (Lane 1987, Dunleavy 1991, Self 1993). This critique was popularized in the highly successful UK television comedy series "Yes Minister" and "Yes Prime Minister" in the late 1970s (Jay and Lynn 1986). In this series a fictional minister (and later prime minister), Jim Hacker, was frequently outmaneuvered by a caricature senior civil servant, Sir Humphrey Appleby. So influential was this series that the term "Sir

Figure 2. Paradoxes of New Public Management



Source: Talbot 2003.

Humphrey" has entered the English language as a synonym for a senior Whitehall civil servant. Interestingly, this view of the way Whitehall and Westminster work in practice was shared by both the Labour left and the new Conservative right.

The response to this perception of political impotence was to devise mechanisms for putting the political leadership back in charge. In the UK, this was epitomized by the election in 1979 of Margaret Thatcher, who seemed determined to get a grip on the "machinery of government" in a way not seen before (Hennessy 1990). Thatcher was notoriously hostile to the culture and ethos of the civil service, which she saw as both complacent and as often stepping beyond its remit and usurping the power of elected politicians.

A flavor of the battles to come was given by an exchange between a Thatcher political appointee as head of her Policy Unit (Sir John Hoskyns) and a former senior civil servant (Sir Douglas Wass). Hoskyns published an article arguing for the political appointment of around 20 senior managers in each Whitehall department (somewhat along US lines) as a way of achieving political control over the civil service (Hoskyns 1983). Wass hit back with a traditional defense of the need for an objective and dispassionate civil service (Wass 1983). This exchange reflected the difficulties faced by Thatcher and her supporters in pushing through radical reforms against a Whitehall bureaucracy enmeshed in the "post-War consensus" and wedded to interventionist and corporatist policies that Thatcher was determined to reverse.

The first, and most famous, initiative aimed at weakening the civil service was the Prime Minister's drive for "efficiency" in Whitehall led by Sir Derek Rayner, a businessman brought in to the center of government and working directly for Thatcher (and appointed within only a couple of days of her election victory). Rayner initiated the famous "efficiency scrutinies" with the full backing of the Prime Minister to drive through changes (Metcalfe and Richards 1987). This was the first of a series of initiatives that were not simply aimed at "efficiency" but at fundamentally weakening the civil service by reducing its numbers and promoting mechanisms to reinforce the role of ministers. An immediate target of reducing civil service numbers from 732,000 to 630,000 by 1984 was set, a target that was exceeded (Theakston 1995).

More specific systemic changes also began to emerge over the duration of the Thatcher and Major governments (1979–1997). The first were various attempts at creating ministerial information systems that would give them greater control over their departments and civil servants. The early champion of this idea was Michael Heseltine, who introduced just such a system (called MINIS, for Ministerial Information System), first at the Department of Environment and later at Defense. While many other ministers were less enthusiastic than Heseltine and Thatcher about this "minister as manager" model, gradually the idea was spread throughout Whitehall (Theakston 1995).

A second piece of new technology for ministerial control was the "Next Steps" initiative to create semiautonomous executive agencies within the civil service. Eventually more than 140 of these bodies, including around 80% of civil servants, were created (Goldsworthy 1991, Chancellor of the Duchy of Lancaster 1997). An essential feature of the new agencies was that the agency chief executive would report directly to ministers. The latter would also approve agency "framework documents" (a sort of mission statement and constitution), business plans, budgets and key performance indicators. Ministers received at least quarterly reports and conducted annual appraisals of agency performance. This was, in theory at least, a decisive shift of power from senior civil servants to ministers. Whether or not it worked as suggested is another matter (Talbot 2003).

This push toward greater control by ministers has continued under the Blair governments (1997 to date). The number of "special advisers" (ministerial appointees who are not civil servants and work directly for ministers) has roughly doubled. This has been widely seen as an attempt to strengthen the position of ministers as against civil servants. Unlike under Thatcher and Major, the majority of New Labour government members have been seen as very "hands-on," activist ministers very similar in approach to Michael Heseltine.

This approach is most clearly symbolized in the new system 2-yearly "Spending Reviews" and "Public Service Agreements" introduced by New

Labour in 1998. This new system can be seen as an attempt by the new Government to introduce a much more strategic and politically driven reform process, as set out in a number of government documents (Chancellor of the Exchequer 1998a, 1998b; Prime Minister and the Minister for the Cabinet Office 1999).

Another recent example of attempts to put politicians more forcefully in charge has taken place at the local government level. Here the reform has been the introduction of either "cabinet"-style government or of directly elected mayors, or both, as a way of strengthening the role of local political leadership.

All of the above changes, which are just examples, show an ongoing attempt to "let the politicians decide" as against permanent officials.

B. Let Managers Manage

Our second model is "let the managers manage." Whereas the previous model emphasized the contest for power between politicians and bureaucrats, this model emphasizes the contest between managers on the one hand and staff, professionals, and especially their representative bodies (trade unions and professional associations), inside public services.

This argument is also, to some degree, driven by "public choice" ideas about "producer capture," but its focus is obviously different. This argument suggests that one of the key problems for public services is that they become enmeshed in "red tape": bureaucratic rules that stifle management and staff initiative and place obstacles in the way of efficiency and flexible service delivery, responsive to customer needs. A subtheme of this argument is that public sector trade unions and professional bodies have become far too powerful and steps need to be taken to reduce this power.

The most common devices employed to enable managers to manage have been decentralization and the creation of more autonomous units. Thus, for example, the National Health Service (NHS) was broken up into hundreds of NHS Trusts, schools were offered "local management," the civil service was reorganized into dozens of "executive agencies," further and higher education colleges were separated from local government and made autonomous, and so on. Alongside these structural changes came attempts to decentralize management functions such as finance and personnel and make "line management" more accountable. At the central government level, this included the financial management Initiative (early 1980s), decentralization of pay and grading arrangements (late 1980s–early 1990s), introduction of various business planning initiatives and resource accounting (1990s), etc. (For general accounts of these changes see, for example, Rose and Lawton [1999], Flynn [2002]).

On the industrial relations front, the whole period of the Thatcher and Major governments saw a series of attempts to curb public sector pay (largely successful) and change working practices (with much more mixed results). In education, a prolonged fight was waged to bring in a national curriculum, national standardized testing of pupils, and a more rigorous form of inspection of schools and teaching practices, as well as the creation of schools as more autonomous units. At one time or another most groups of public sector workers were subjected to specific reform attempts, aimed (in part) at strengthening management authority, as well as general controls over pay (Farnham and Horton 1996, Thain and Wright 1996).

Perhaps the longest-running, and still unresolved, battle between management and professional and trade union power has been within the health service. Attempts at managerial reform in the 1980s clearly failed, and the introduction of NHS Trusts and the internal market in the early 1990s was about both competition and an attempt to strengthen management against professionals (especially doctors) and the trade unions (Pollitt et al. 1998). It was not until the New Labour Government that a direct attempt was made to substantially change the contract of hospital doctors and give hospital managers a much greater power to direct them—a contest that is still unresolved.

All of these attempts had common themes: strengthening the power of managers over staff and professionals; delegating greater powers to managers over budgets, organization and personnel issues; creating more clearly delineated organizational units, tasks, and budgets; and holding managers to account for their and their organizations' performance.

These reforms proved difficult to implement and sustain, and not merely because of the obvious resistance of staff and professional groups to encroachments on their autonomy and rights. The problems also proved to be systemic: reluctance of the center (especially the Treasury) to genuinely "let go" of centralized controls and the reluctance of managers themselves to take responsibility for things that in the past they could push off onto other functions (e.g., difficult individual personnel decisions could be "delegated" to the personnel function) (Bell et al. 1995, Talbot 1997b).

An example is the way Treasury controls over pay and grading systems and actual pay settlements were replaced by delegation of both, in many cases, to line departments and agencies. However, the Treasury, at the same time as this process began (mid-1980s), introduced very tight controls over "administrative" costs (later renamed "running costs")—that is, the amount of money each department could spend, in total, on staffing and other "overheads." The result was what could be best described, not as "decentralization," but as "strategic centralization" and "operational decentralization." These changes actually strengthened the Treasury's control over the total pay costs of the civil service because in the past operational decisions, such as how many and which staff to place in specific grades, caused what was called "grade creep" and thus pay cost expansion. Even controlling staff numbers did not prevent this problem—but putting a cap on total staffing expenditure did. The line managers in departments and agencies could decide how this money was distributed, but they effectively lost control over the strategic issue of what their total pay costs would be.

C. Let Customers Choose

The third model of NPM is the marketization variant: let the customers choose. This model essentially makes two assumptions: first, that competition mechanisms are preferable to bureaucratic means for decision making and resource allocation within publicly provided services; second, where possible this should be achieved through privatization of services, but where it is not, and despite these remaining publicly provided, a variety of ways are found in which "market-type mechanisms" (MTMs) can be introduced into them.

Privatization was the first option and this was applied by the Thatcher Governments, first of all to council (public) housing and then, from their second term in office onward, to a wide range of publicly owned businesses and utilities. In the case of businesses operating in competitive marketplaces but publicly owned, little change occurred from a customer's perspective—their products were already competitive and subject to consumer choice (e.g., British Airways, British Steel, British Leyland [cars]).

For public utilities (telecommunications, water, gas, electricity, railways), the position was somewhat more problematic. Privatization by itself would also make little difference to customers' choices, as these were mostly "natural monopolies" in which the barriers to entry for competitors were prohibitively high (although in some cases changing, e.g., telecommunications). Two solutions were adopted: the privatized industries were subjected to enforced competition, usually among themselves (e.g., gas, water, electricity and—most controversially—railways) and/or they were subjected to regulators charged with curbing their monopoly powers until competition could be created.

Straightforward privatization proved much more difficult in "social policy" areas (health care, welfare, education, etc.). Here the most common reform tried has been to introduce "internal markets" or MTMs (Le Grand and Bartlett 1993, Taylor-Gooby and Taylor-Gooby 1993; Wistow et al. 1994, Walsh 1995). These mechanisms were intended to increase customer choice, but it rarely turned out to be quite so simple. The health care reforms of the early 1990s, symbolically entitled *Working for Patients*, turned out to be more "bureaucrats and doctors working as proxies for patients.” Patients actually were given no direct choice in the new NHS internal market that was created. Instead, either District Health Authorities or, in a minority of cases, general practitioner “fund holders” acting as purchasers on behalf of patients, contracted with the new NHS Trusts, the providers. Patients had no direct say or choice in what care they received.

In some other areas, such as schooling and universities, considerably more choice was available for users of these services, but this was hardly new and the changes were fairly minor.

The really radical proposal for customer choices in public provision had been promoted by the New Right: the use of “vouchers” as equivalent to money by consumers. These were widely advanced as a device whereby consumers could take their resources with them when they “chose” a provider, whether in the public, not-for-profit, or private sectors (Flynn 1993, Self 1993). While these solutions were widely discussed, few examples exist in the UK of their implementation. There is an element of university students taking their state funding with them to the university they choose, but the competition for total resources received by any one university is heavily regulated through the University Funding Councils, which set targets for student intake for each university and subject area. Universities that either underrecruit or overrecruit suffer financial penalties, so this is hardly an open competitive market (although there is a substantial degree of student choice, but this always existed). In other areas, most notably school education and health care, the intense discussions during the early Thatcher governments about vouchers produced no action.

With neither “internal markets” nor “vouchers” really succeeding in providing a mechanism for “letting the customer choose,” the Major Government came up with a new idea: the Citizens’ Charter (Pirie 1991, Prime Minister and Chancellor of the Duchy of Lancaster 1991). If consumers could not have the right to choose, they could still have rights—over timeliness of service delivery, quality, rights to complain and seek redress, etc. The Charter program was rolled out through the central Government and its agencies (e.g., Taxpayers Charter) as well as the NHS (Patients Charter) and even into the privatized sector (e.g., gas and water). Alongside the various charters as statements of consumer rights in public services came a new “Charter Mark” award for supposed good quality service. This was as an annual, competitive award with a fixed number of possible winners (although it later mutated into a standards-based award). It has to be stressed that neither the Charters nor the Charter Marks implied any change in the amount of choice available to users of services.

D. Let Stakeholders Participate

The fourth model of the NPM could be summarized as: all of the above and a few more. This is the idea that public services are pluralistic in their sponsors, providers, and users and complex in their operation, and therefore have to be "managed" more as networks or constellations of stakeholders, rather than in the principal interests of any one group (i.e., politicians, managers, customers, or others). As an idea, it has only really emerged in the UK at central government level since 1997, although elements of it existed prior to that at lower levels of government (Ferlie et al. 1996).

The intellectual origins of this perspective come from ideas about post-Fordist social forms, globalization, and the increasing complexity of modern societies, policy networks, and networked forms of governance, etc. (e.g., Maidment and Thompson 1993, Foster and Plowden 1996, Mulgan 1997, Weller et al. 1997, Thompson 2003). On a more pragmatic level, they have emerged from frustrations with failing policies and initiatives and what has become known in the UK since 1997 as the "joined-up government" problem (Pollitt 2003).

This approach has resulted in a distinct shift in policy and practice since 1997, although evidence of it emerged before that. In local government, in particular, numerous attempts were made to develop varieties of stakeholder participation dating back to the 1960s and 1970s, although these had been criticized by some as a form of corporatism (Cockburn 1977). The more modern version of this approach, which also linked into other NPM themes, was the new "local governance" agenda, which advocated various types of staff, user, citizen, and civil society involvement in local decision making (Hoggett and Hambleton 1987, Stewart and Stoker 1988, Clarke and Stewart 1991, Isaac-Henry and Painter 1991). Indeed, in the late 1980s a whole new movement in local government was inspired by *In Search of Excellence* and its themes about stakeholder involvement, cultural change, and customer orientation (Clarke and Stewart 1985, 1986a, 1986b, 1987, 1991; Rhodes 1987, 1987b).

Even in the central Government, which had been largely dominated by the first three variants of NPM, examples existed of wider stakeholder consultation, but these were contrary to the main trend, which was to eliminate many of the consultation processes formalized during the post-war period. For example, Thatcher early on abolished the National Economic Development Council and similar consultative bodies.

The New Labour Government sought consciously to reverse this trend in central Government. Numerous consultation exercises and reviews were established in the first couple of years of the new Government. Since then, this new, more consultative approach has been implemented at various levels. Most formally, this has been done at local level with requirements on local government and others to formally consult with other public organizations, civic society, and the public on a whole range of issues such as policing, health care, and economic development (Marsh et al. 2001, Richards and Smith 2002).

III. Summary: Tides of Change

In a fascinating study of the history of reform efforts in the US federal Government, Paul Light discerns four "tides of reform." These were "scientific management," "war on waste," "watchful eye," and "liberation management" (Light 1997). He goes on to analyze how these four tides have ebbed and flowed over decades and how they are subjected to various "gravitational pulls" that keep them circulating just like tides in the sea.

In this sense, like our paradoxical models of NPM, these tides are contradictory but often exist simultaneously, even within the same reform agendas. An example might be the creation of executive agencies in the UK civil service that can be shown to contain all four of our paradoxical models. (For accounts of the agency developments see for example Goldsworthy [1991], Greer [1994], Talbot [1996b, 2004], and Lewis [1997]).

The new executive agencies were created in part to give politicians more power. By setting the framework documents, the budgets, the key performance indicators, etc., directly for agencies, ministers could bypass the traditional Whitehall management chain, giving them much more direct power over these new organizations. Agency chief executives reported directly to ministers: this was "let the politicians decide."

Agencies also were aimed at creating spaces in which "managers could manage." Over a period of time they received extensive delegations of power over organizational, operational, financial, and personnel issues. Alongside these went a (weak) form of performance contracting: the idea was that managers would be given much greater autonomy and authority in exchange for producing specific outputs that satisfied their political "owners."

But agencies were also meant to be much more focused "downward" or "outward" toward customers. In the case of agencies delivering services directly to the public, this meant changing the way services were delivered, improving their quality, and (after 1991) setting clear customer service standards through charters. In many cases enormous efforts were indeed made to find out what customers (users) wanted and satisfy their requirements, at least about how services were delivered if not the content of the service (e.g., how quickly and accurately benefits were assessed as opposed to how much benefit an individual was to get). Where agencies produced services for other government departments, and/or where they were paid for by customers, the agency was expected in most cases to become more competitive as well as customer oriented. Those with genuinely commercial services were converted into self-financing "trading fund" agencies and subsequently, in most cases, privatized.

Finally, agencies were also encouraged not merely to see themselves as service delivery organizations to well-defined groups of customers, but to recognize that they had multiple stakeholders and networks of partner organizations. Thus, for example, the former Employment Service began to hold annual consultations about its "Performance Plan" with a wide range of stakeholder groups (employers, unemployed organizations, charities, and lobbyists).

These four aspects of the agency initiative were clearly contradictory and these contradictions sometimes surfaced as crises and dysfunctional systems.

The dismissal of the Director General of the Prison Service (an agency) over a couple of high-profile prisoner escapes revealed a major clash between the politicians' right to decide and the managers' right to manage (Public Service Committee 1996, Talbot 1996a). In this case the dispute revolved around definitions of the split between "policy" (politicians) and "operational" (managerial) decisions. Since the party with the real power to decide was the politicians, the definition adopted was one that suited their interests, and it was the manager who was dismissed, not the politician.

A more systemic example was the proliferation of mechanisms for "steering" the new executive agencies (Public Administration Select Committee 2003). Here the lack of clarity between the roles and powers of politicians, managers, customers, and to some extent even stakeholders added to multiplying steering apparatuses. For example, in many cases objectives and targets set by agency managers themselves clashed with those developed by ministers, which in turn clashed with objectives set in charter statements about customer services standards.

The most recent systemic example is probably the debate over performance targets. Most of these have been set centrally by politicians, but there have been constant appeals (mostly from managers) either to allow managers to set their own targets or to substitute some form of customer-based competition for targets (Prime Minister and Minister for the Civil Service 1994, 1995).

In their work on organizational and managerial paradoxes, Quinn, Cameron, and their colleagues suggest that such paradoxes can have both positive and negative consequences. The worst cases are where organizations or managers seek to use paradoxical styles or systems in haphazard and inappropriate ways, generating destructive conflicts. Mediocre or moderate success can sometimes be achieved by selecting one particular approach and sticking to it and simply trying to ignore contrary pressures. High performance, they suggest, comes where organizations and individuals can accept and work with contradictory systems and make paradoxical decisions in ways that generate creative tensions. In the move from worst to excellent, one of the crucial factors is full awareness of the paradoxical nature of the systems being managed. But as Brunsson has shown, most organizations excel at what he calls "organizational hypocrisy," that is, creating rational and rationalized "stories" about how things happen, denying paradox and contradiction (Brunsson 1989).

If we were to characterize the NPM reform movement in the UK over the past 20 years, it would have to be called systematic "policy hypocrisy." All the obvious paradoxical and contradictory elements of these reforms have been rationalized away in sophisticated policy statements. Indeed, the British civil service can in some ways be seen as the best possible place to carry out "policy hypocrisy," with their legendary skills at "finessing" policy statements. It was perhaps no accident that the only major comprehensive statement of civil service reform strategy of the 1990s should have been called "Continuity and Change." It would be a mistake to think this represented a conscious understanding of the tensions and paradoxes of the various change agendas being pursued. On the contrary, it was a very urbane attempt to rationalize away such troublesome facts and suggest that the reform policy was all very rational and devoid of contradiction.

The reality is that the paradoxes explored in this short paper are very real and are relatively permanent. The tensions between "politicians decide," "managers manage," "customers choose," and "stakeholders participate" will not go away. The only real issue is how best to manage these contradictions. A first, small, step would be to acknowledge their existence.

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Poverty and Governance: The Role of the State, Good Governance, and an Enabling Policy Framework in Poverty Alleviation in Malaysia

Chamhuri Siwar[1]

I. Introduction

Poverty is still a serious issue facing the developing economies. According to the World Bank *World Development Report* (1990), "the most pressing issue facing the development community: how to reduce poverty." The World Bank *World Development Report (2000/2001)* stated that "Poverty amidst plenty is the world's greatest challenge."

The global picture of poverty is not encouraging. In 1998, out of 6 billion people, 1.23 billion (21%) live on less than US$1 per day, 2.8 billion (47%) live on less than US$2 per day. Between 1965 and 1998, the average income has doubled in developing countries, but widening global disparities have also increased the sense of deprivation and injustice for the poor. Globalization is expected to burden the poor more than the nonpoor.

The development paradigm has seen growth as the primary means of reducing poverty and improving quality of life. Reliance has been placed on market forces and the "trickle down" process to achieve this aim. However, the phenomenon of "market failure" has placed emphasis on the role of government as the key determinant in poverty alleviation. But governments too are burdened by expenditure deficits and inefficiency. Hence, some countries have relied on a mixed-economy approach, emphasizing partnership between the role of the market and government intervention in poverty alleviation. The debate has since moved to the importance of good governance and good coordination between government and the market (World Bank 1997).

Since the 1990s, poverty alleviation and equitable income distribution form one of the major aims of most governments. The 1990s have also seen marked intensification of the process of globalization. Globalization has led to the convergence and coordination of national and international policies. The impact of globalization has generally marginalized the poor and also increased

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poverty and income inequality. For example, the 1997–1998 financial crisis devastated and impoverished millions of poor and vulnerable men, children, women, and families.

II. Status of Poverty in Malaysia

Generally, poverty is defined as the inability to meet basic needs as measured by income or consumption. Poverty and standard of living are closely linked. Poverty may be visible as shown by several indicators, such as lack of control over resources, lack of education and skills, lack of shelter, lack of access to clean water and sanitation, poor health, malnutrition, vulnerability to shocks, violence and crime.

In Malaysia, poverty is measured by the poverty line income (PLI), which states the minimum level of income or consumption expenditure based on human basic needs, such as food, clothing, shelter, basic services such as education, health care, transportation, recreation, and culture. A household is considered poor if its income or consumption falls below the officially determined PLI (Table 1).

Table 1. Components of Poverty Line Income, 1997–2002 (%)

Expenditure Components	Peninsular Malaysia		Sabah		Sarawak	
	1997	2002	1997	2002	1997	2002
1. Food	62.1	65.5	60.0	53.8	57.8	61.2
2. Clothing and Footwear	7.7	5.6	6.0	4.7	6.6	5.1
3. Other expenditures	25.5	24.1	39.2	36.8	30.8	28.9
a. Rent, Fuel & Power	13.2	12.7	23.1	20.7	8.9	7.9
b. Furniture & Household Items	2.3	2.0	2.9	2.6	3.1	2.8
c. Health & Medical Treatment	1.2	1.3	1.1	1.1	6.1	6.0
d. Transportation & Communications	6.8	6.3	9.0	9.2	8.9	8.7
e. Education, Recreation & Culture	2.1	1.9	3.2	3.1	3.9	3.6
4. Safety Margin (5%)	4.8	4.8	4.8	4.8	4.8	4.8
Total	**100.0**		**100.0**		**100.0**	

Source: Malaysia Plan (various years).

Table 2 shows the level of PLI in the years 1990–2002. The PLI is revised regularly to reflect changes in the cost of living and also differences in regions. In 2002, the PLI was set at RM529 for a household size of 4.6. Hardcore poverty (the very poor) is defined as households with incomes less than 50% of PLI (e.g., RM264.5 in 2002). Beginning with Outline Perspective Plan 3 (OPP3), the low income household measure of RM1,200 per month was introduced as the level of eligibility for government support programs, aimed to improve the income and quality of life of the bottom 30%. In addition, the Physical Quality of Life Index (PQLI), which measures the quality of life or standard of living based on composite indexes of accessibility to amenities and standard of living, is used to complement the use of PLI.

Table 2. Poverty Line Income, 1990–2002
(RM/month)

Region	1990	1995	1999	2002
Peninsular	370	425	510	529
Malaysia	(185)	(212.5)	(255)	(264.5)
Sabah	544	601	685	690
	(272)	(300.5)	(342.5)	(345)
Sarawak	452	516	584	600
	(226)	(258)	(292)	(292)

RM = Malaysian ringgit.

Note: Figures in parentheses are PLI for hardcore poor. Household size has decreased between1990 and 2002 from 5.1 to 4.6 for Peninsular Malaysia, 5.4 to 4.9 for Sabah, and 5.2 to 4.8 for Sarawak.

Source: Malaysia Plan (Various years).

III. Enabling Policy Framework for Poverty Alleviation

In Malaysia, the enablers for effective poverty alleviation may include the role of the state in poverty alleviation, good governance, an effective delivery system, and direct targeting and participation.

A. The Role of the State

The state has a major role to play in poverty alleviation. In Malaysia, poverty alleviation has been a major policy thrust in its development plans, as evident in the New Economic Policy (NEP, 1970–1990), National

Development Policy (NDP, 1991–2000) and National Vision Policy (NVP, 2001–2010). Poverty alleviation has been a major thrust in these policies, receiving strong policy, institutional, and budgetary support at the federal, state, and local level. Implementation of these policies is detailed in the 5-year development plans, from First Malaysia Plan (1965–70) to Eighth Malaysia Plan (2001–2005).

Strong policy support is embedded in pragmatic policies (Chamhuri 2000) the state has to make to include

i) Interventionism, affirmative action, and positive discrimination policies and strategies to assist the indigenous population and correct economic imbalances between the ethnic composition of the population. This has been entrenched since the NEP, in the aftermath of a bloody racial riot that identified poverty among the indigenous population and economic imbalances as the root cause.

ii) Balancing market-driven and interventionist policies and strategies. In addition to the role of government as facilitator, this policy includes giving emphasis to the role of the private sector as a partner in the development process and also in meeting the redistributive objective of government policies. In this way, the Government has to balance growth and redistribution policies and strategies, so as to attain growth and poverty alleviation, in which Malaysia has achieved a reasonable degree of success (see Table 3).

Another feature of the role of the state may be seen in the budgetary support for poverty alleviation. In Malaysia, government expenditure for poverty alleviation has been high throughout its 5-year development plans, averaging 24–37% (see Table 4). During the NEP era (1971–1990), expenditures for poverty alleviation, except for the period of the Fourth Malaysia Plan (1981–1985), which coincides with the recession years of the 1980s, exceeded 30%. The Fifth Malaysia Plan period, which marked the end of the NEP era, saw the largest percentage of expenditure for poverty alleviation. The Sixth, Seventh, and Eighth Malaysia Plan periods saw a reduction in the percentage of expenditure for poverty alleviation; nevertheless it still formed a respectable percentage of more than 25%. The government expenditure for poverty alleviation is mainly for agriculture and rural development, social and infrastructure projects.

Table 3. Relations between Growth and Poverty Alleviation, 1970–2002

Year	GNP Growth (%)	Poverty Incidence (%)	Comments
1970	5.0	49.3	Beginning of NEP era, low growth and high poverty incidence
1980	7.4	37.4	Mid-NEP era, export-led industrialization, changing economic structure propelled economic growth, followed by significant poverty reduction
1985	-0.1	20.7	World recession, negative growth, damper on poverty alleviation
1990–1997	9.1 (average)	16.5 (1990)	Era of robust economic growth followed by significant poverty reduction, focus on eradication of hardcore poor
1997	7.5	6.8	Financial crisis, damper on poverty alleviation
1998	-7.4	8.0	Negative growth. Poverty incidence increased due to financial crisis of 1997–1998
1999	6.1	7.5	Economy rebounded after financial crisis, slower impact on poverty alleviation
2002	4.1	5.1	Low growth, slower impact on poverty reduction. Focus on addressing pockets of poverty and reducing relative poverty.

GNP = gross national product.

Source: Compiled from Various Five-Year Malaysia Development Plans.

Table 4: Expenditure for Poverty Alleviation, 1971–2005

Malaysia Plans	Development Expenditure (RM million)	Expenditure for Poverty Alleviation (RM million)	% of Development Expenditure
Second Malaysia Plan (1971–1975)	7,415.0	2,350.0	31.7
Third Malaysia Plan (1976–1980)	21,202.0	6,373.4	30.1
Fourth Malaysia Plan (1981–1985)	46,320.0	11,238.5	24.3
Fifth Malaysia Plan (1986–1990)	35,300.0	12,970.4	36.7
Sixth Malaysia Plan (1991–1995)	54,705.0	13,900.8	25.4
Seventh Malaysia Plan (1996-2000)	67,500.0	16,084.8	23.8
Eighth Malaysia Plan (2001–2005)	232,442.0	62,918.2	27.1

RM = Malaysian ringgit.

Source: Various Five-Year Development Plans.

B. Good Governance

Governance is related to the activities of government, defined as the manner in which power is exercised in the management of the country's economic and social resources for development. The components of governance include public sector management, accountability, the legal framework, and transparency.

Good governance is characterized by open and enlightened policy making, with sound economic management based on accountability, participation, predictability, and transparency. In Malaysia, good governance is reflected in improved public sector management, sound financial management, and public sector reform. In Malaysia, efforts to promote good governance have come through improvements in the public delivery system to make it more transparent, efficient, and accountable.

The public sector‘s attempt to enhance the efficiency and effectiveness of its administrative machinery is a continuous and serious process. Its seriousness is reflected in the fact that a special chapter entitled "Administrative Improvements for Development" was slotted into the Seventh Malaysia Plan (Government of Malaysia 1996) and Eighth Malaysia Plan documents

(Government of Malaysia 2001). In the 1990s, major efforts were made to institutionalize the culture of excellence, not only in the structure and systems of administration, but also through a paradigm shift in the values and mind-set of public sector personnel. Much effort was put into improving the efficiency and effectiveness of the public sector to enable it to make a meaningful contribution toward national socioeconomic development. New initiatives/reforms included a major shift toward a more proactive and customer-focused management paradigm, enhancement in the quality of service and effectiveness of the delivery mechanism, and strengthening of the working relationship with the private sector. The public sector reform programs included i) quality management, ii) implementation of the client's charter, iii) innovations, iv) provision of quality counter services, v) improvements to systems and work procedures, vi) productivity and performance measurement, vii) wider use of information technology, viii) strengthening of institutional structures, ix) improvements in public personnel management, x) inculcating positive values and work ethics, xi) establishment of an inspectorate system, and xii) implementation of the Malaysian Incorporated Policy (Government of Malaysia 1996).

In the 2000s, continued efforts to improve service delivery and optimize resource utilization will be made, particularly through the extensive use of information and communication technology; the review of existing management structures, personnel policies, and delivery systems to meet the requirements of a knowledge-based economy; the strengthening of management integrity to ensure greater accountability and transparency; and continued collaboration with the private sector and nongovernment organizations (NGOs) to enhance the process of governance (Government of Malaysia 2001).

The present leadership reemphasized the importance of good governance in a recent statement. Prime Minister Abdullah Ahmad Badawi has stated: "I have always been a strong believer in the need to promote good governance. That is why I have vigorously pursued efforts to improve the public service delivery system to make it more efficient, transparent and accountable" (Badawi 2003).

C. Effective Delivery System

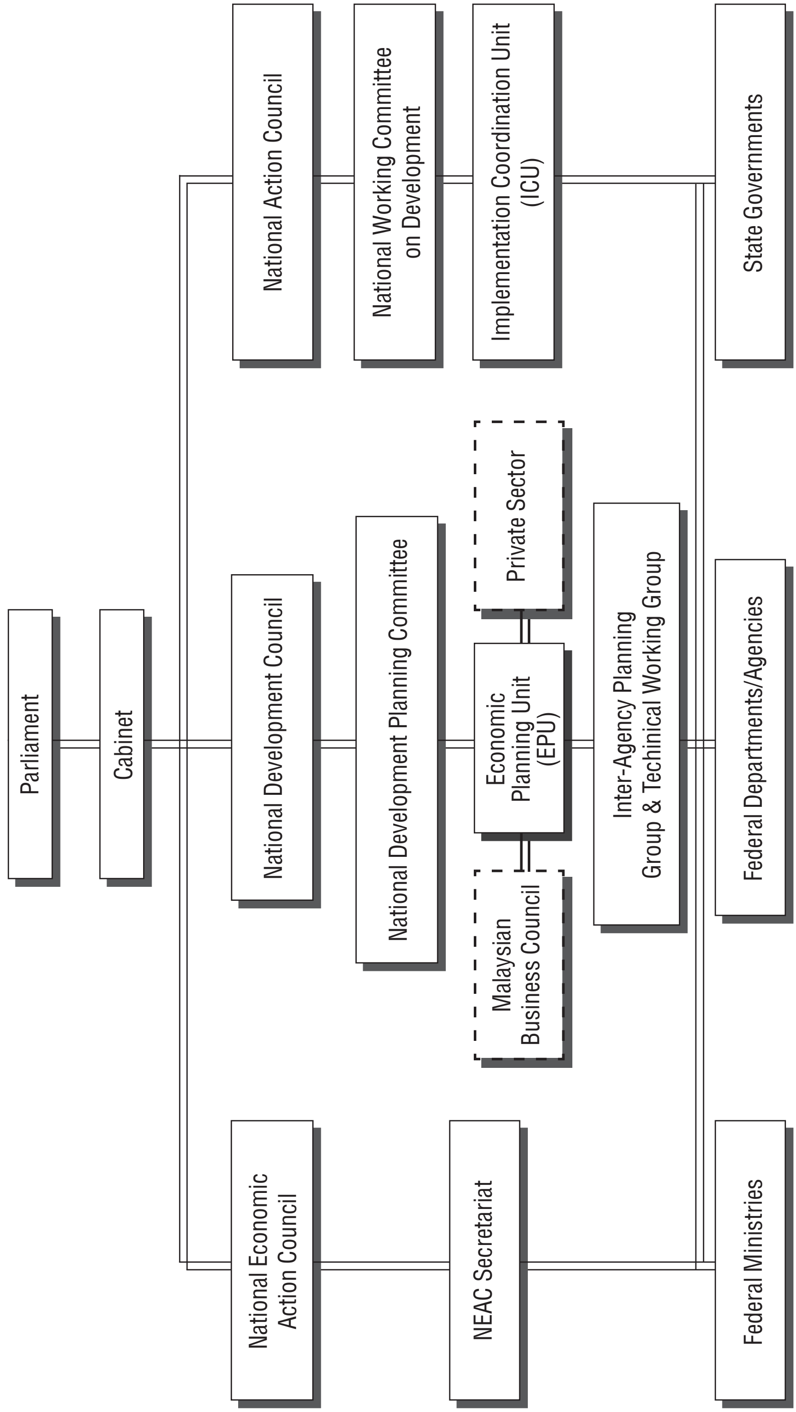
An effective delivery system for poverty alleviation is part of the good governance process. It includes sound planning and implementation capability and entails efficient use of resources, constant monitoring, review, and study impact. The capacity of the state to plan and implement development plans and implement programs and projects contributes to the success of poverty alleviation.

In Malaysia, an effective delivery mechanism is ensured through sound and rigorous planning and an implementation process involving the Economic Planning Unit (EPU) and Implementation Coordination Unit (ICU) as key players and coordinators of poverty alleviation strategies and programs. Development planning in Malaysia was accepted as a function of the government in the 1950's with the preparation of the First Five-Year Development Plan (1956–1960). This function was firmly institutionalized with the establishment of the EPU in 1961 as the central agency of the Government for planning national economic development. At the federal level, the National Action Council and the National Development Council (NDC) serve the Cabinet. All these Councils are chaired by the Prime Minister (Samsudin 1993, Nik Hashim 1994).

Figure 1 summarizes the present structure of planning and implementation machinery at the federal, state, district, and village levels. The NDC, which consists of key ministers, is the highest policy-making body in planning and is responsible for planning, formulation, and coordination of long-term socioeconomic development policies such as the Five-Year Plans. For the purpose of detailed deliberations, the National Development Planning Committee (NDPC), composed of senior government officials, including the Governor of the Central Bank, is responsible for formulating and reviewing all plans for national development and making recommendations on the allocation of resources. The EPU acts as the secretariat to the NDPC, NDC, and their subcommittees and thus provides the necessary linkages for the ministries and line agencies. The respective ministries and agencies maintain a close connection with EPU through their Planning and Development Division, especially on sector planning, development programs, and budgeting. The EPU is served by the Inter-Agency Planning Groups (IAPGs) and the Technical Working Groups (TWGs), as forums of different ministries, departments, and other central agencies for interagency consultation and collaboration. The EPU, together with the IAPGs and TWGs, coordinates strategic planning on poverty alleviation, and involving federal ministries, state governments, NGOs, the private sector, the Malaysian Business Council, and academia. These plans need to be approved by the NDP, NDC, and the Cabinet, before being approved by Parliament. This structure is not static but is changed according to the needs and situation at the time. For example, after the financial crisis of 1997–1998, the National Economic Action Council, which was created with the main aim of putting the economy on the track to recovery, became an important component of the planning and development machinery.

The planning and implementation mechanism is followed through to the state, district and local levels, involving the translation of macro policies and strategies into micro projects and programs. At the state level, the State

Figure 1. Development Planning and Implementation Process in Malaysia



Source: Author's Research.

Economic Planning Unit coordinates the planning and implementation machinery through the State Development Committee. At the district level a similar process takes place, involving the District Office and the District Development Committee. At the local or village level, the Development and Security Committee provides inputs (see Figure 2).

A participatory planning process involves both “top-down” and “bottom-up” processes and ensures the participation of key players, including government, private sectors, NGOs, and beneficiaries (see Figure 3).

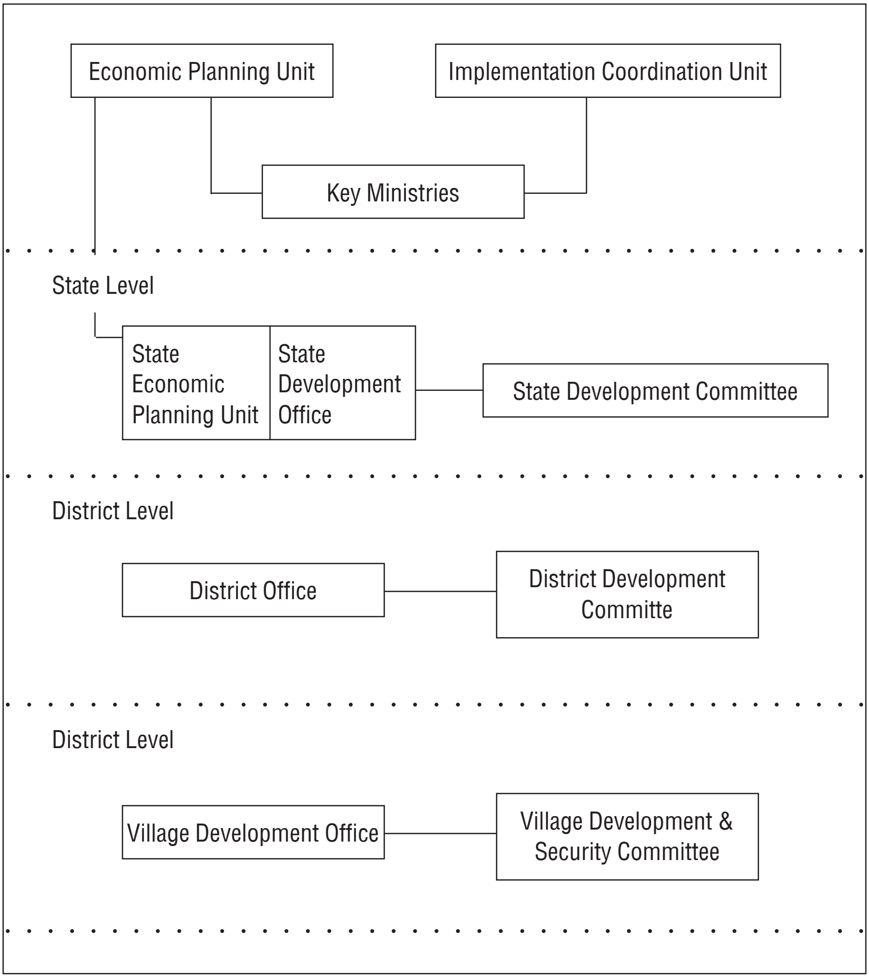
The planning horizon extends from short-term (annual budgets) to medium-term (5-year plans and midterm review of 5-year plans) and long-term (10–20-year Outline Perspective Plans [OPPs]). Normally, a major planning exercise is conducted prior to the beginning of a 5-year plan or an OPP. Eight Five Year Malaysia Plans, spread over three OPPs, have formed the thrust of the NEP, NDP, and NVP, respectively (see Figure 4).

The effective and efficient implementation of development plans forms the crux of successful planning. The success of the plans and policies is evident in the effectiveness of the coordination and monitoring mechanism of project implementation at all levels. The ICU of the Prime Minister’s Department was created in July 1971 to monitor implementation of the 5-year development plans and to oversee implementation, coordination, and evaluation of development policies, programs, and projects. In a project management concept, implementation involves mechanism by which planned policies are translated into programs and projects. Another task involves evaluation, the analytical assessment of public policies, organizations, or programs that emphasizes the reliability and usefulness of findings to improve information and reduce uncertainty.

Like the EPU, the ICU coordinates program and project implementation at the federal, state, and local levels. At the federal level, the ICU coordinates the work of the National Working Committee on Development (NWCD), chaired by the Chief Secretary of the Government, and the NDC, chaired by the Prime Minister. At the state and district levels, parallel mechanisms are in place, linking with the State Development Council, the State Working Committee on Development, and the District Working Committee on Development.

The main role of the NDC is to decide on the overall policies and development strategies, to ensure that the implementation of the National Development Plan and policies meets their objectives and to evaluate the implementation strategies of development projects. Among others, the role of the NWCD is to ensure that the implementation of programs and projects implemented by various ministries and agencies is in accordance with the objectives of the national plans and policies; to identify and overcome the major constraints and limitations faced during the implementation stage of

Figure 2. State, District, and Village Planning and Implementation Process



Source: Author's Research.

the development projects; and to monitor, review, and evaluate analytically development plans and policies.

The project monitoring system in Malaysia has a long history, related to the establishment of an information system. It started in the First Malaya Plan (1956–1960) with the Rural Economic Development (RED) Book System, where information and progress reports on projects were kept and updated. The first computerized/centralized monitoring system, known as Project Monitoring System 1, was established in 1971; all agencies sent project reports to the ICU through a special form where the information was captured and processed in the ICU computer system. In 1981, an integrated information system of the Central Agencies (EPU, Treasury, ICU, and Accountant General's Department) known as a SETIA was implemented, focusing on the financial progress/performance of projects and programs. In 1991, an integrated scheduling system focusing on physical progress, known as SIAP, was implemented. In 1996, an integrated information system of SETIA/SIAP, focusing on the financial and physical performance of projects, was implemented, linking the ICU, EPU, Ministries, State, Treasury and Accountant General's Department.

Using this system, the financial performance of projects during the plan period could be monitored, matching the original, midterm, and final allocations with actual expenditures. For example, as of 31 July 2004, out of 48,639 subprojects monitored, ICU determined the status of subprojects as follows: completed (67.3%), ahead of schedule (0.9%), on schedule (24.1%), delayed (1.7%), planning stage (5.6%) and unenergized (0.4%) (Ahmad Shahrom 2004).

With regard to poverty alleviation, the monitoring of projects and programs include the *in situ* development scheme, crop replanting subsidy, agricultural extension services, rural economic development program, housing assistance and rehabilitation program, and attitudinal rehabilitation program.

IV. Targeting and Participation

An effective and efficient delivery system also entails correct targeting to the poor. Identification of the poor and directing benefits toward the poor are considered as the best solution to the problem of poverty alleviation. Several motivations impel correct targeting of the poor, including ensuring efficient use of resources, avoiding leakages, reducing costs, and increasing efficiency. In an era of budgetary deficits, with pressures to reduce expenditures, the need for correct targeting of the poor to increase efficiency of the delivery system is paramount.

In Malaysia, serious attempts to identify the poor started in the Third Malaysia Plan (1976–1980) with the identification of the poor into rural and urban target groups. The rural target groups were classified into paddy farmers, rubber smallholders, coconut smallholders, fishermen, and estate workers, while the urban poor were unofficially classified into squatters and low-cost flat dwellers, petty traders, and dwellers in urban traditional and new villages. Poverty data in official documents up to the Fifth Malaysia Plan period (1986–1990) were classified into rural and urban poor, with detailed classifications for rural poverty.

With significant reduction of poverty having occurred by the end of the NEP era in 1990, the focus of poverty alleviation shifted, with emphasis on the eradication of hardcore (extreme) poverty, defined as individuals with household incomes less than 50% of the PLI. The identification of the hardcore poor (HCP) involves a tedious exercise of establishing a registry, verifying it with other agencies and local authorities, and maintaining and frequently "cleaning" the lists. The incidence of the HCP was reduced from 4% in 1990 to 0.5% in 2000, and the Government hoped to totally eradicate hardcore poverty by 2005.

In addition, direct identification and a specialized delivery mechanism for poverty alleviation was instituted via an NGO involving a microcredit program implemented through Amanah Ikhtiar Malaysia (AIM). This replication of the Grameen-type microcredit scheme has been implemented since 1986, and as of June 2001 had reached 75,000 beneficiaries in 61 branches with a total loan disbursement of RM582 million (AIM 2001). Various impact studies of AIM's microcredit program have shown resounding success in terms of outreach, repayment rates, impacts, and sustainability (Chamhuri and Quinones 2000).

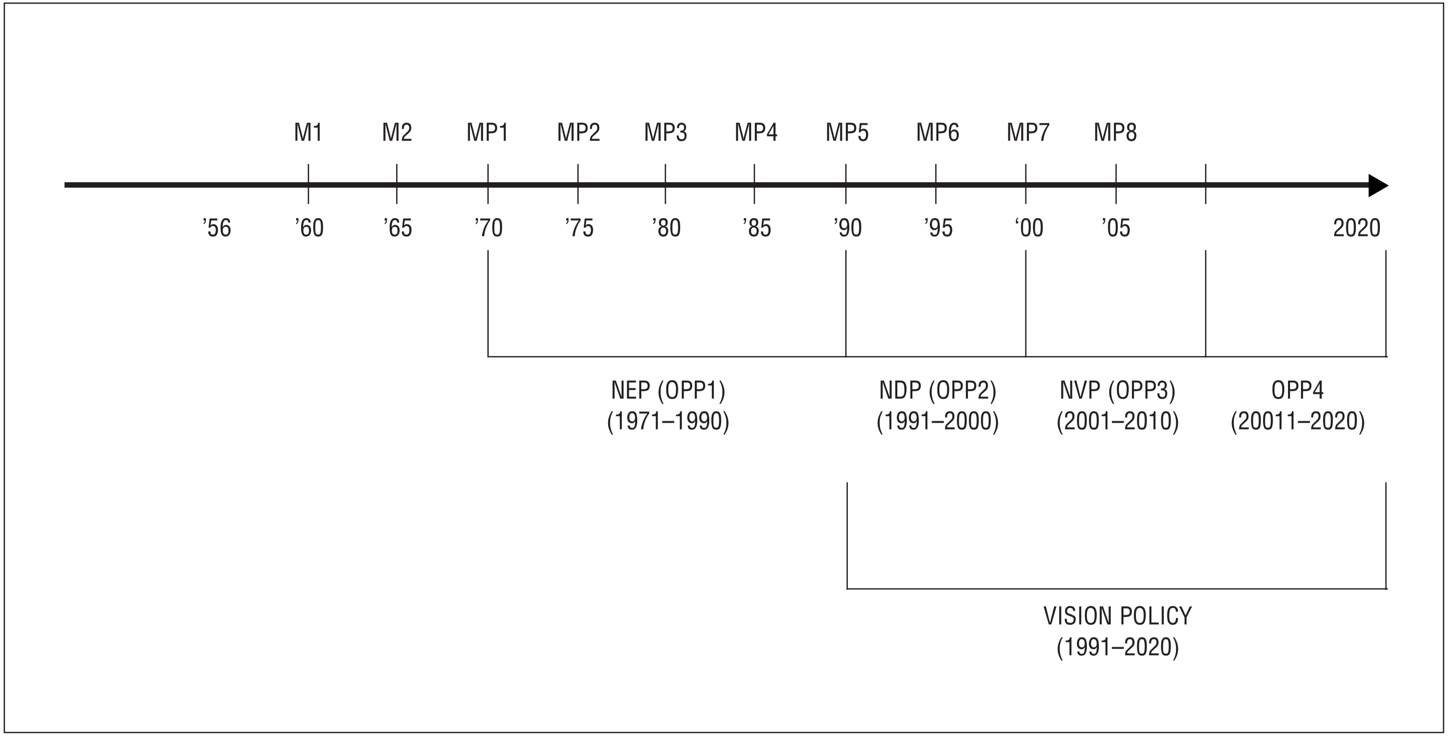
The classification of poverty into poor and hardcore poor in rural and urban areas was maintained up to the present Eighth Malaysia Plan period (2001–2005). In view of the success in eradicating poverty, in the Mid-term Review of the Eighth Malaysia Plan (2003–2005) a new category of the poor, known as the vulnerable, was included, defined as those with household incomes between the PLI and RM1,200 per month, which generally falls in the bottom 30% of income distribution. This act, while enlarging the target group of the poor, may affect the efficiency and effectiveness of poverty alleviation programs, unless proper verification and monitoring is done.

Participatory development is a crucial component of good governance, and good governance is a prerequisite for a successful participatory process. Genuine participation embodies some form of empowerment of the population and participation in the development process. People should be involved throughout the project or program cycle, in the design, implementation, monitoring and evaluation stages. Participation could involve the private sector, NGOs, and the beneficiaries of projects.

V. Pragmatic Poverty Eradication Policies and Strategies

Malaysia has followed the "Growth with Distribution" policy since the 1970s. This policy has been the thrust of macro-perspective policies such as the NEP (1970–1990), NDP (1991–2000), and NVP (2001–2010). The

Figure 3. Five-Year Development Plan in the Context of Outline Perspective Plans



NEP = New Economic Policy; NDP = National Development Policy; NVP = National Vision Policy; OPP = Outline Perspective Plan.
Source: Modified from Shamseedin Hitam 1973: 171.

uniqueness of Malaysia's policy is in the affirmative action strategies, giving priority and emphasis to the indigenous or *Bumiputra* communities in terms of benefits of poverty alleviation and restructuring programs. Various sociopolitical and economic justifications may be given for this overriding strategy, which in the end benefits the nation in general in terms of creating a more balanced and just society. Much debate took place on the possible trade-off between growth and equity, but Malaysia has shown that both growth and equity could be achieved with prudent and efficient management of financial, physical, economic, and human resources. Here lies the critical role of the state, especially through its public sector management in ensuring good governance and effective delivery mechanism of poverty alleviation programs.

A. Growth Policies

Malaysia has always believed that growth is a prerequisite for redistribution. Macro policies that have contributed to sustainable growth include the following:

- i) Structural Change and Diversification Policy, which ensured smooth structural change of the economy from a commodity producer to an industry and services producer;
- ii) sector policies, including
  - a) an Agriculture and Rural Development Policy with respect to food security and sufficiency, land development, land rehabilitation, rural development, National Agriculture Policies I, 1984–1991), II (1992–1997), and III (1998–2010); and
  - b) an Industrial Policy: an Industrial Master Plan charting growth of industries, incentives, infrastructure, industrial zones, finance and banking, telecommunications, ports, taxes, and subsidies;
- iii) investment policy covering both foreign and domestic investment, incentives for investments, equity participation, etc.;
- iv) savings and fiscal policies, including savings rate as a percentage of gross domestic product, financial services, interest rates, microfinance, revenue and expenditure, fiscal allocation, tax burden, and rebates;
- v) employment and labor policies, including sector employment, foreign labor, wages, minimum wage and subsistence, training, and human resource development; and
- vi) price policy, including low inflation rates, control of food prices, basic needs and essential services, expenditure burden, etc.

B. Distribution Policies

Malaysia's distribution policies include

i) poverty alleviation policies, strategies and programs, including economic programs, agriculture and rural development, urban and industrial development, and entrepreneurship and small business development;
ii) affirmative action equity and restructuring polices and programs, including pro-poor and pro-indigenous strategies, education, and human resource development, wealth restructuring, equity participation, and special share schemes;
iii) social infrastructure, including welfare, housing, health care, education programs for the poor, pensions, and old age schemes;
iv) provision of basic needs and amenities, including water, electricity, housing, food, clothing, infrastructure, and services; and
v) access to resources, including land, water, credit, and legal aid.

VI. Conclusion and Lessons

This paper highlights Malaysia's success in poverty alleviation, emphasizing the enabling policy framework, including the role of the state, good governance, effective delivery mechanisms, targeting, and pragmatic pro-poor poverty alleviation strategies and programs. The role of the state is critical in balancing growth and distribution policies, especially in implementing the delicate affirmative action policies. The commitment of the state to poverty alleviation is evident in its strong institutional and budgetary support, including a supportive and efficient public sector that ensures good governance and effective delivery mechanisms through planning and implementation coordination.

These are some of the important lessons from Malaysia's success in poverty alleviation. These are not to discount the role of the private sector and NGOs, which have complemented the implementation of the various poverty alleviation programs. Above all, political stability has ensured the continuity of the various policies, in the context of the perspective and visionary plans, and translated into pragmatic strategies and programs in the 5-year development plans.

Nevertheless, poverty will remain an issue and an important agenda for development. Even if absolute poverty may be eradicated, the issue of relative poverty, i.e., the widening income and wealth gap between ethnic groups, sectors, and regions, will pose critical challenges for poverty alleviation in the future.

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