

## Chapter 2

# Central Mechanisms for Policy Formulation and Coordination

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*“A government will not endure long if the administration of it remains on the shoulders of a single individual; it is well, then, to confide this to the charge of the many, for thus it will be sustained by the many.”*

— *Nicoló Macchiavelli, Discourses on the First Ten Books of Titus Livius, I.ix*

## INTRODUCTION

In a well-known metaphor, central mechanisms for policy coordination and implementation can be compared to the brain or central nervous system of government. At some levels, the analogy is an imperfect one. Remove the head in any advanced organism and it will die immediately, whereas administrative decapitation would merely result in varying degrees of service degradation, at least in the short run. The German post office continued to deliver the mail even amid the ruins of Hitler’s Reich.

But in other ways, the metaphor is highly appropriate. The nervous system is essential for coordinating motion and for regulating various dimensions of human behavior. When it goes wrong, the result can be disconnected, uncoordinated action. Furthermore, recent research indicates that the brain is a highly resilient organ capable of rerouting neural networks in a variety of patterns as required. In a similar fashion, governments have found many different means of coordinating their activities. While certain principles are common to more successful mechanisms for policy formulation and coordination, their concrete manifestation in organizational structures and procedures varies significantly both between countries and within countries over time.

In many countries with a parliamentary system, particularly those that come from a European or Commonwealth tradition, the cabinet or

council of ministers plays the central role in policy formulation and coordination. In some countries, the two terms are used interchangeably. In others, the cabinet consists of the more influential ministers, and is thus a subgroup of the council of ministers. In this chapter, and throughout this book, we will use the term cabinet to refer to the highest decision-making body of government—whether it is composed of all ministers or of a subgroup. In cabinet systems, the principle of collective responsibility typically applies, in which all government ministers are pledged to support a decision collectively arrived at or to resign their posts. The work of the cabinet has typically been supported by a cabinet office or chancellery, operating either as a separate, stand-alone entity or in conjunction with the prime minister's office.

Presidential systems display greater flexibility than parliamentary systems. Typically, in countries such as the United States (US), the cabinet is a fairly weak body and most decision making is done either bilaterally between the president and his ministers (secretaries) or in trilateral arrangements between the president, the secretary concerned, and senior congressional figures. The US has found it necessary to evolve cabinet-like arrangements to coordinate policy in the area of national security and, more recently, economic policy. The French system relies heavily on the General Secretariat of Government (*Secrétariat Général du Gouvernement*).

As discussed below, centrally-planned systems have also typically relied on a range of collective mechanisms, such as politburos, juntas, and supreme councils, to formulate, coordinate, and implement policy decisions. Their work has in turn often been supported by secretariats, such as the central committee of the Communist Party and its apparat.

Deliberative bodies at the apex of political life have existed for centuries if not millennia; indeed, their roots could arguably be traced back to the councils of elders often found in traditional hunter-gatherer societies. However, the modern cabinet form of government emerged in Europe in the 19<sup>th</sup> century, from the wish to reconcile monarchical rule with emerging pressures for popular sovereignty. It was then exported by European colonial powers—Great Britain in particular—to Africa, South Asia, East Asia, and the Pacific.

The current geographic distribution of cabinet systems reflects this historical legacy. A survey of 182 countries reveals that about two thirds could be characterized as having cabinet-like forms of government, while

almost one half had governments that were strongly cabinet-like.<sup>2</sup> The highest concentration of cabinet-like forms of government is found in South Asia (100 percent) and the Organisation for Economic Co-operation and Development (OECD) countries (90 percent). The lowest concentration can be found in the Middle East and North Africa (21 percent), followed by Latin America (48 percent). In the middle are sub-Saharan Africa (78 percent), East Asia and the Pacific (70 percent), and Europe and Central Asia (70 percent).

As noted, for ease of discussion, the term “cabinet” will be used as a shorthand reference to the most senior body for collective decision making within government, and cabinet office as the secretariat function for this body. It must be noted, however, that such use covers a multiplicity of deliberative decision-making arrangements and of the institutions that directly support their work.

## THE GUIDING PRINCIPLES OF POLICY FORMULATION

The fundamental objective of the policy formulation apparatus is to ensure high-quality decision making by the senior leadership. How does one measure the quality of decision making? Certain categories of decisions can be easily defined as “low quality”. Among these are decisions that are illegal, highly unrealistic, clearly unaffordable, or so flawed and unpopular that they are drastically modified or revoked shortly after they are declared. Box 2.1 lists a set of common problems in policy coordination. Beyond these obvious cases, it is difficult to assess the quality of decision making. Over the long run, broader outcomes of public sector performance, such as robust economic growth, increased foreign direct investment, a stable currency, a sustainable budget deficit, or improving social indicators, can serve as rough proxies. But all of the typical problems of performance measurement apply, including the role of intervening variables and the difficulty of establishing causal links. Case studies can shed light on the quality of individual decisions, but are hard to generalize. Because it is difficult to measure the quality of policy decisions, discussion of effective decision making tends to be dominated by a discussion of principles—how decisions should be arrived at, and what steps are necessary to put these principles into practice.

Four particularly important principles emerge from the literature on cabinet decision making: *discipline, transparency, stability, and structured choice*. By the principle of disciplined decision making, decisions should be

financially realistic, consistent, and capable of being implemented. While this principle may appear self-evident, in practice it is frequently flouted. In many countries, decisions are taken without an adequate consideration of their cost implications particularly their downstream burden on the recurrent budget. A study of two African nations, for example, revealed that over two thirds of cabinet decisions were never implemented—a clear sign that the process was producing bad quality decisions and was in need of serious restructuring.<sup>3</sup>

Stability in decision making is important as well. Erratic policy has been shown to be a major obstacle to promote investment and economic activity.

It is equally important that cabinet processes be transparent. The deliberations themselves are normally confidential; cabinet meetings are limited to ministers only or their designated alternates; the record of cabinet meetings contains only the conclusions with no hint at the underlying deliberations; and the minutes themselves have limited circulation. However, the *process* of bringing issues before the cabinet should be clearly understood and rigorously upheld; otherwise, powerful ministers will make “end runs” around the system to advance their own political or ministerial agendas at the expense of the whole. A rigorous process helps to reassure all ministries that if they play by the rules their concerns will receive cabinet attention.

A final principle of well-functioning cabinet systems is that of “structured choice.” Many decisions that flow to any cabinet are routine, such as endorsing relatively modest changes in a department’s staffing or approving diplomatic or military appointments. Often, such business can

**Box 2.1**  
**Common Problems in Policy**  
**Coordination**

- Failure to set major policy priorities, to make tough choices between conflicting objectives, or to translate these priorities into concrete operational decisions, most typically through the budget process
- A policy vacuum, due to discontinuity in government or weak and poorly articulated policy platforms
- Lack of trust between senior policymakers, leading to frequent “end runs” around formal decision structures
- Unclear organizational roles or conflicting agendas among line ministries, or both, combined with a failure to consult all ministries with a stake in a particular decision
- Poorly drafted and inadequately costed cabinet submissions, particularly with regard to downstream expenditures
- Presence of parallel, and often invisible and unaccountable, groups influencing policy from outside the formal government

be dispensed with rapidly. Yet in many countries, a process of steady accretion has occurred that results in a host of trivial matters being brought before the cabinet for decision. (In one Southeast Asian country, for example, a decision to relocate a single public toilet ended up being presented to the cabinet.) Cabinet offices must structure cabinet procedures, and the underlying legal and administrative regulations that feed into them, in such a fashion as to ensure that the cabinet is not swamped by trivial or inconsequential matters to the detriment of more serious business.

## CRITICAL FUNCTIONS

Turning from broader principles to the specific tasks to be performed, a well-functioning policy formulation and consolidation mechanism should perform at least five tasks effectively.<sup>4</sup> These are: (i) providing intelligence and early warning regarding the business likely to require decision; (ii) ensuring that all agencies and departments with a stake in a given issue are adequately consulted; (iii) providing supporting analysis and the careful consideration of options; (iv) recording and disseminating decisions; and (v) monitoring implementation and follow-through. Each will be discussed in turn.

The first task is to ensure that all participants in the policy-making process have adequate time to review items on the agenda. In many well-functioning systems, the agenda is typically circulated a specified period in advance (such as 48 hours). In addition, some cabinet offices, e.g. in the United Kingdom (UK), keep advance agendas to monitor workflow, avoid duplication and exploit commonalities between issues on the cabinet agenda, and ensure that the agenda is consistent with upcoming domestic and international events.

The second major task is to ensure that all agencies or departments with a stake in a particular issue are adequately consulted in advance. This allows the policy-making group to benefit from relevant sectoral expertise, and helps to improve consistency and to avoid overlaps and duplication. Consultation also improves “ownership” during implementation. One should avoid taking an overly mechanistic view of participation for, particularly in times of grave national crisis, there is a natural tendency to narrow the circle of decision making to facilitate consensus and prevent leaks. There may also be times when, for strategic reasons, certain ministries or departments are consulted later than others. However, as a general rule, it is important for purposes of information and long-term sustainability to include all relevant players in the deliberations. (See chapter 14 for a discussion of participation in general.)

Many governments have found that policy advice is often sharpened by contestability or the careful evaluation of alternatives. This function is often performed by central mechanisms for policy coordination, provided that they have the requisite capability. However, in a number of governments, this function is placed within the line ministries. Under these circumstances, the goal of the cabinet office is to manage the policy process so this analysis is conducted properly, and not necessarily to perform the analysis itself. This is particularly important with reference to the adequate costing of proposals.

The fourth essential task is recording and disseminating the policy decisions. A variety of approaches are used in this area. Under the principle of collective responsibility, in many Westminster cabinet systems, only the decisions are circulated. Some countries may circulate both the decisions and a brief summary of the arguments in favor. Other countries provide a fuller treatment of the discussion behind the decision.

The final task is that of monitoring implementation. In many developing countries and some developed countries, the passage of a cabinet resolution is no guarantee that a given decision will be implemented, particularly when the ministry concerned is hesitant to enforce it. It is therefore helpful to monitor the follow-through of individual cabinet decisions, at least on a selective basis.

## **A MULTIPLICITY OF PRACTICES<sup>5</sup>**

The principles and functions outlined above are essential for effective policy formulation. The specific ways in which they are translated into bureaucratic practice may vary significantly. There are many different routes to effective policy formulation and coordination, none of which is inherently superior to the others. The practical advantages and disadvantages depend largely on country-specific circumstances and norms.

As noted, in parliamentary systems, mechanisms to coordinate policy include the cabinet itself; cabinet committees and subcommittees tasked with coordinating policy in specific areas on behalf of the cabinet; and a secretariat charged with administering cabinet operations. (Depending on the country, the secretariat may also be responsible for providing policy advice.) These are discussed below in turn.

## Cabinet

The size of cabinets can vary significantly both between countries and within countries over time. After several decades of expansion during the postwar period, as governments took on a variety of new tasks ranging from environmental management to consumer protection, OECD countries in the past decade have generally reduced the number of cabinet ministers—even though this often means having to overcome significant political resistance. (See chapter 3 for the number of ministries.)

In determining the appropriate cabinet size, there are fundamental trade-offs between efficiency and manageability, on the one hand, and comprehensiveness and representation, on the other. A small size may ensure quicker decision making, but may run into problems with lack of ownership and inadequate access to information. At the other extreme, some Indian states suffering from chronic political instability have used the creation of cabinet positions to help keep coalitions together. The resulting expanded cabinet, which numbers over 90 ministers, has destroyed the notion of the cabinet as a compact and cohesive policy-making body. As noted at the outset, cabinet may consist of a subgroup of ministers. Thus, some countries, such as Australia and the UK, have attempted to address this problem by creating two tiers of ministers, cabinet ministers and noncabinet ministers.

The composition of the cabinet and cabinet meetings can vary significantly. In many Commonwealth countries, the cabinet is an assembly of senior politicians, whereas countries such as France and Spain have a tradition of appointing at least some technocrats. Some countries appoint only parliamentarians; others prohibit cabinet members from belonging to parliament. In some countries, junior ministers can be called upon to replace their minister if the latter is unable to attend; in others only the designated principal may attend.

The frequency of cabinet meetings can also vary. Most countries hold weekly cabinet meetings. Many countries hold additional meetings as well. Sweden holds up to 20 meetings a month; Norway 12; and in the Netherlands, meetings to set the annual budget may be held three or four times a week. In countries such as France and Norway, the frequency of meeting is fixed by statute. When the head of government enjoys some discretion over the setting of cabinet meetings, there can be significant variation depending on personality. In the UK, Prime Minister Wilson held 59 cabinet meetings a year; Prime Minister Thatcher only 35.

Cabinet meetings may be long (as in Ireland and the Netherlands) or short (as in the UK). However, taking frequency and duration together, at one end of the spectrum Dutch, Norwegian, and Swedish ministers spend up to 40 hours a month in cabinet meetings, whereas at the other end Belgian, French, Italian, and UK cabinet meetings take up as little as eight hours per month. The average appears to be around 12 to 15 hours per month.

Rules generally define the business that goes before cabinet, but these rules are often imprecise or incomplete. (For example, the Norwegian constitution stipulates that all “major issues” must be placed on the cabinet agenda.) In the UK, the matters that should go to the cabinet or its committees are questions that significantly engage the collective responsibility of government because they raise major issues of policy or because they are of critical public importance, as well as questions on which there is unresolved argument between departments. Only in a small number of countries are the rules precise and constraining. In Finland, for example, almost every government decision requires the formal blessing of the cabinet. In the Netherlands, all items requiring cabinet approval are stated in the rules.

An average cabinet will deal with 500-700 items per year (although this number rises to 4,000-5,000 in Finland). As noted earlier, most decisions are routine in nature. Policy decisions typically arise from within the sector ministries, and the role of the cabinet is that of choosing among the policy choices presented to it. In this context, cabinet *decides* policy but does not *make* policy. In well-functioning systems, policy making involves both the specific ministry concerned and the collective decision-making government body.

### **Cabinet Committees**

In the light of the growing complexity of government decision making, the work of cabinets and councils of ministers is increasingly being supported by a network of cabinet committees and subcommittees, whose numbers have significantly expanded in OECD countries over the last two decades (see box 2.2). These committees serve a variety of purposes, but are typically used to identify contending views and interests and resolve them before the formal cabinet submission. They can also be used to develop policy recommendations, coordinate these recommendations, or oversee their implementation. The committees and subcommittees may be formal or

informal, permanent or ad hoc, with the latter typically being constituted to address one-off issues.

Cabinet committees typically have a more diverse membership than the cabinet itself, particularly with regard to informal or ad hoc committees. In addition to ministers or their designated representatives, such group may involve technocrats recruited for their substantive expertise, or in some cases may even involve individuals from outside the government.

Formal cabinet committees are often drawn from a particular subset of ministers with cross-cutting or overlapping portfolios. Under President Ramos, for example, the Philippines utilized eight cabinet “clusters”— including agro-industrial development, macroeconomy and finance, human resource and development, political affairs and national security, and water resources management—to enhance interagency coordination and expedite the implementation of major interagency programs and projects. These cabinet clusters met weekly or as often as necessary, and senior officials at the undersecretary or assistant secretary level were allowed to represent the secretary in cluster meetings.

**Box 2.2**  
**Cabinet Committees**

In Western Europe, the average number of cabinet committees has significantly increased over the last decades. These committees identify contending views and interests and attempt to resolve them before the formal decision process. Committee decisions are ratified by the full cabinet, even if ratification is all but automatic. This is particularly significant in the case of the “kitchen” cabinet, an inner core of the most powerful ministers, including the head of government. These may meet to deal with a specific issue or may be permanent and general in scope.

In central and eastern Europe, there are signs that the number of cabinet committees is increasing. All cabinet committees operate with the authority of the cabinet, and the government must formally ratify their decisions.

Most countries use a combination of standing and ad hoc committees, with the exact mix varying over time. In the late 1990s, Australia had five standing committees addressing employment, security, expenditure review, parliamentary business, and legislation, and an additional ad hoc committee addressing violence. Four or five ministers belonged to each of the standing committees, which were chaired by the prime minister. In theory, issues must be discussed at cabinet committee before going to the full cabinet. However, in practice routine matters

are dealt with in committees and go to the cabinet merely for endorsement, while the more interesting items go straight to the cabinet.

Governments vary widely in their propensity to refer disagreements to a cabinet committee or address it within the full cabinet. One study of OECD cabinet governments noted that, on the average, slightly more than half of all disagreements are referred to cabinet committees for resolution. Practice varies, however. Virtually all controversial decisions are routed to cabinet committees in Belgium and France, and almost none in the Netherlands (which contributes to explaining the longer duration of full cabinet meetings in that country).

### **Secretariats**

The office that supports the cabinet has a particular role in ensuring that the rules of debate are credible and efficient, and that there is a realistic prospect of agreement. The secretariat must be in a position to ensure that all major decisions are routed to the cabinet considerations. It must identify and withhold from the cabinet those items that are not legal, that raise obvious policy inconsistencies with prior decisions, or that have not been adequately vetted through the precabinet screening process. (In France, the legality of a proposal must be vetted by the Council of State before being presented to cabinet.) It must clarify the specific issues at stake and the decisions to be taken and provide the ministers with adequate time to consider them. It must then record the decisions and disseminate them to the relevant agencies.

Cabinet secretariats differ along a number of important dimensions. Many are associated with the office of the president or prime minister; others serve the cabinet as a collectivity. Some have responsibility for formulating policy proposals independently from the line departments, or of offering alternative policy recommendations. Others simply manage the process. Some are staffed exclusively or primarily by senior civil servants; others by political appointees; still others by some combination thereof. Their size differs significantly depending on the nature of the function they provide.

Singapore's Cabinet Office is at one extreme. The purpose of the office is only to provide secretarial and administrative support to the cabinet, and it plays no policy role. It is staffed entirely by civil servants, 15 in all, and its work entails receiving and checking the papers to be placed before

the Cabinet, arranging for their distribution, recording the proceedings of Cabinet meetings, arranging for the attendance of officers who may need to appear before the Cabinet, relaying decisions of the Cabinet to the bodies responsible for implementing them, and performing other functions required by the prime minister. The Cabinet itself typically initiates various policy reviews or changes, which are then handed over to professional staff in the relevant ministry for development.

The British system falls in the middle, both in terms of size and operations. It consists of a staff of about 100 under the Prime Minister's Office and another 100 under the Cabinet Office. The prime minister's policy staff is political and consists of only one civil servant and 12 advisers "shadowing" the departments, each responsible for briefing the prime minister in a major area of policy. The goal of the policy unit is to provide proactive advice, to ensure that policy priorities do not evaporate under the day-to-day demands of office, and to serve as an extension of the prime minister in questioning the submissions of various departments. (Occasionally, the unit will also initiate its own proposals.)

The British Cabinet Office is headed by the secretary of the Cabinet. Its work is organized into three areas: (i) defense and overseas affairs, (ii) European affairs, and (iii) domestic policy. It is primarily tasked with ensuring the smooth functioning of the Cabinet, as well as its committees and subcommittees. It prepares the cabinet agenda, briefs the chairman, draws up the minutes, and circulates the conclusions. Its briefing role offers the most scope for influencing policy. In a typical briefing, the chairman receives technical advice on the correct handling of the meeting, the lineup of positions and the likely supporters or opponents of a particular proposal, and ways of resolving the issues. The Cabinet Secretariat is staffed by civil servants on loan from other departments, typically for a secondment period of two years.

At the other extreme is Russia (discussed later). However, the largest and most powerful central body is probably the Office of the President in the US. For most of American history, the office was small and consisted only of the president and a personal assistant. It was not until the 20<sup>th</sup> century, particularly under the presidency of Franklin Roosevelt and his successors that the White House staff expanded to its present size of nearly 4,000.

In the US, the President's Cabinet meets infrequently and has little real power as a collective body. The individual departments are responsible for policy making in their areas of competence. However, depending on the energy and drive of the President's chief of staff and the national security adviser, a great deal of policy-making authority can be centralized in the White House. In any case, White House staff are responsible for all senior appointments down to three or four levels in the bureaucracy, and the Office of Management and Budget consolidates budget proposals from the line departments and presents them to Congress. Thus, the White House has control over both personnel and the budget.

Countervailing powers also exist. The analytic infrastructure of Congress—including individual legislative staffs, committee staffs, the Congressional Budget Office, and the Congressional Research Service, among others—is far larger than any comparable legislative support system elsewhere. This provides Congress with the ability to effectively challenge policies adopted by the executive branch. Furthermore, the powers given to Congress by the Constitution in the areas of budget and of approving senior appointments provide further contestability.

### **The Role of Elite Agencies in the Policy Process**

In many countries, certain central ministries have acted as elite agencies to facilitate interministerial coordination in both the formulation and the implementation of policy. Normally, they tend to be the entities in charge of the budget and planning. The role of the finance ministry has been profound in policy coordination because of its decisive say in matters affecting taxation, expenditure, public services, and especially expenditure cuts in times of austerity. This role has been enhanced in developing countries undergoing structural adjustment, because of the need for coordinated macroeconomic and fiscal policies.

The Ministry of Finance in Japan has controlled over the years the budget process and fiscal policy, and the Ministry of International Trade and Industry influences the investment patterns throughout the economy. The Economic Planning Board is considered a superministry in the Republic of Korea, with control over both budget and planning. In Thailand, the Ministry of Finance, the Budget Bureau in the Prime Minister's office, the Central Bank, and the National Economic and Social Development Board (the alleged "gang of four") consult each other in budget preparation, inflation control, and economic policy. In Malaysia, an important role is

played by the Prime Minister's Department. The Economic Planning Unit within this department evaluates the impact of government policies and the quality of life in the economy. The Implementation and Coordination Unit monitors the implementation of program components and ensures that government policies and strategies are in line with the objectives of the national development policy and the Malaysian plan.

### **The Importance of Leadership Style**

Finally, the personality of the chief executive matters greatly. Even in countries with well-established cabinet procedures, the style of the leader can have a major impact on both formal and informal flows of information and decision making. In his study of foreign policy decision making in the US, for example, Alexander George identified three broad styles of presidential decision making and several subvariants that operated within the formal policy structure, ranging from the competitive to the collegial and the formalistic.<sup>6</sup>

Case studies from countries as diverse as Australia, Malaysia, Philippines, Russia, and the UK have also underscored the importance of personal style. Some leaders are more authoritarian in their decision making; others use more collegial and consensus-based approaches. Some welcome freewheeling debate; others prefer more structured exchanges; some are proactive, reaching down into the bureaucracy to gather information and advice; others are more reactive, relying on formal channels and reporting relationships to bring items to their attention. And so on. Even with identical organizational structures, these different personal styles can significantly alter the rules of the game under which policy making takes place.

### **OTHER MECHANISMS FOR POLICY COORDINATION**

As discussed, experience shows that central mechanisms for policy formulation and coordination play an essential role in ensuring the consistency, transparency, and predictability of government policy. However, they do not by themselves ensure effective policy coordination. Much of the day-to-day operational coordination takes place at lower levels of the bureaucracy, and for this reason governments have devised a wide variety of mechanisms for advancing both formal and informal collaboration. In a number of countries, particularly those in East Asia, the vast majority of policy issues are resolved through such mechanisms, and the cabinet is used primarily to ratify consensus arrangements that have been made at lower levels.

Formal mechanisms below cabinet level include senior task forces or review committees, as well as interdepartmental teams or working groups. These groups can stretch from the ministerial level down to the working level; can be standing committees with an indefinite life span or they can operate with a sunset provision; can deal with a wide range of issues or focus on a particular problem; and can be created by law, administrative orders, or simple administrative expediency. Other less direct mechanisms for coordination include speeches of senior officials, newsletters and other publications, and, more recently, government Internet web pages.

Spurred by the increasing use of interdepartmental working groups in the private sector, a growing body of literature is beginning to assess the prerequisites for successful collaboration.<sup>7</sup> Successful teams and working groups typically require strong endorsement from senior management, and need to translate their common purpose into performance goals. They often involve a limited number of members (typically fewer than 25) with an appropriate mix of expertise, problem solving, and interpersonal skills. The intent is to develop a sense of mutual accountability, reduce organizational or departmental bias, and ensure that the team members will work to implement a collective solution within their individual administrative spheres of competence.

Many countries recognize the critical importance of informal networks in advancing collaboration and coordination. Sometimes, these networks develop naturally from bonds of ethnicity, religion, education, caste, or marriage—with obvious disadvantages as well as advantages. Frequently, governments have sought to foster informal channels of communication through the rotation or secondment of personnel to central departments or other line agencies for a specific period of time.

In many Commonwealth countries, the majority of cabinet office staff are seconded from line departments on the assumption that the cabinet office will benefit from their specific sectoral expertise and knowledge of how their agency works; the ministry will benefit from having one of its own on the “inside”; and the staff will benefit by gaining a broader and less parochial perspective on the functioning of government. Similarly, in former communist countries, senior bureaucrats were typically rotated between line ministries and the central committee. This is also true of the civil service in much of South Asia. India in particular has devised elaborate systems for the training and rotation of staff in leading cadres (such as the Indian Administrative Service) to ensure that central government staff have close relations with their

batch mates in other ministries and departments and are knowledgeable about operations at the district level (see chapter 12).

Coordination of policy within large ministries is also critical. To enhance cooperation among all the organizations reporting to a given minister—departments, service agencies, administrative tribunals, etc.—Canada has developed the concept of portfolio management. Its purpose is to improve coherence in policy formulation and decision processes within and across ministries, provide advice on legislative reforms, exchange information and experience, and work on horizontal issues. This approach is especially suitable for huge ministries with a large span of control.

Policy coordination mechanisms need not be confined strictly to executive departments. In many countries, ministries have developed congressional or parliamentary affairs offices tasked with maintaining good relations with the legislature, soliciting the views of influential lawmakers on matters of relevance to the department, and gaining their backing for priority policies and initiatives. The Philippines, for example, created the Legislative-Executive Development Advisory Council (LEDAC) in 1992 to serve as an advisory and consultative mechanism to ensure consistency in coordinating executive development planning and congressional budgeting. In India, members of parliament have consultative committees attached to various ministries. Party caucuses and coordination committees can also play an important role in coalition governments.

Indeed, policy formulation and coordination should not be confined to government. Many East Asian economies, for example, have used mechanisms such as business/government/labor councils to facilitate the flow of information between the public and private sectors, solicit the views of business and the unions on major policy initiatives, and receive input on how to facilitate investment and economic activity. New Zealand's efforts to enhance the contestability of policy advice has led to the creation of over 100 ministerial policy advisory bodies drawn from all sections of the community. In the US and other OECD countries, independent regulatory commissions often hold public hearings surrounding major policy initiatives, such as a proposed rate hike. In developing countries, these mechanisms are constrained by scarcity of advisors and participants with the requisite expertise, but the importance of dialogue mechanisms is even more important than in developed economies.

## A TALE OF TWO COUNTRIES

The importance of the above functions and institutions is illustrated clearly by the contrast between Hungary and Russia. Even though Hungary and Russia are not representative of OECD or of developing countries, they faced the same challenge for evolving new arrangements for policy formulation, and illustrate the general implications of adopting different solutions to that challenges. For most of the postwar period, these states utilized virtually identical arrangements for policy formulation and coordination. However, after 1989 they pursued very different paths.

Under the communist regimes that ruled central and eastern Europe and the former Soviet Union, the Party's Politburo and central committee provided a generally effective means of formulating, coordinating, and implementing government policies.<sup>8</sup> To be sure, the procedures for decision making were not perfect. They were slow, cumbersome, and excessively centralized. Government ministries played an entirely instrumental role in implementing decisions that were made elsewhere, and relatively trivial issues (such as the amount of reimbursement teachers should receive for travel) were routinely "kicked upstairs" for senior party officials to decide. Decision-making processes were opaque, and there was minimal capacity for sophisticated analysis of the expenditure implications of policy decisions. Considerable discrepancies existed between the official and unofficial rules of the game.

Nevertheless, there was a clear process and set of institutions for bringing issues to the attention of senior leadership, for evaluating them, resolving them, and communicating the resulting decision to the organs responsible for their implementation. In all Eastern European and FSU countries, the Politburo met regularly to decide issues that were often (but not always) vetted beforehand by the central committee. The principle of collegiality ensured that different viewpoints would at least receive a hearing before a particular course of action was adopted. The circulation of personnel between the various departments of the central committee and the line ministries for which they were responsible facilitated the flow of information both upward and downward. In the wake of the events of 1989 and 1991, the abolition of the politburo and the central committee removed the main mechanism for policy coordination in these countries, forcing a search for alternatives.

In the case of Hungary, after a period of trial and error, the Hungarians settled on a cabinet system with two major tiers of decision making. The Administrative State Secretaries (the highest civil service tier, roughly analogous to the Permanent Secretary position in the UK) meets on Tuesdays to vet initial proposals for cabinet. Regular cabinet meetings to approve the relevant decisions and decrees take place on Thursdays.

The Hungarian Government has taken a number of steps to regularize and streamline cabinet procedures. The size of the Cabinet itself was reduced from 19 members in 1993 to 15 members in 1996. The duration of cabinet meetings has been dramatically shortened. Initially, meetings had no structured order, and ministers would present material that was relevant to their particular area without prior coordination or consultation. This was changed to a fixed agenda, in which the Cabinet considers only issues that have been carefully vetted beforehand. About two thirds of these issues are routine and dispensed within a couple of minutes; the rest require more detailed consideration. The work of the cabinet is supported by the Prime Minister's Office, which has a staff of about 500 and is charged with assisting the prime minister in providing information and advice and coordinating the activities of the Government.

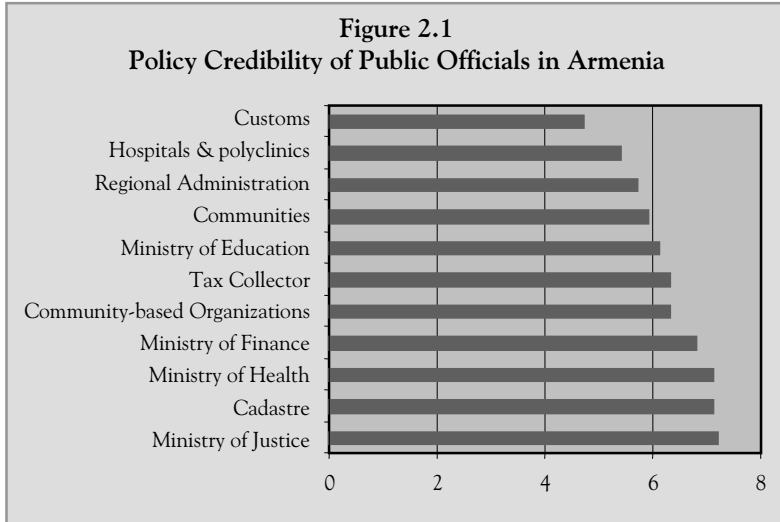
The Hungarian system is not without its flaws, but has contributed to a relative stability in policy that has contributed to enabling Hungary to garner a disproportionate share of foreign investment in central and eastern Europe in the 1990s and enjoy annual rates of domestic investment growth of around 7 percent. Hungary has also been able to successfully pursue a host of important national goals, such as membership in the North Atlantic Treaty Organization (NATO) and the OECD and first-tier status in European Union (EU) accession. There are multiple reasons for this success. Yet, relative policy stability, and the institutional arrangements that support it, has clearly made a significant contribution.

In Russia, by contrast, although the situation is evolving, no effective and widely agreed upon mechanism for policy evaluation and decision making has existed during the 1990s. When they initially came to power in the wake of the former Soviet Union's collapse, President Yeltsin and his associates confronted a hostile parliament, a suspicious government bureaucracy, and powerful party networks still controlling many regions. Their response was to attempt to establish a strong presidential apparatus, to rule the country without having to rely on existing ministerial structures.

Rather than creating a single, dominant presidency, however, this effort resulted in the establishment of several rival centers of power. Parliament strongly resisted efforts to centralize legislative power in the Office of the President, resulting in a “war of laws” in which both institutions issued conflicting decrees. Government ministries under the prime minister resented presidential meddling in their operations. These dynamics were further complicated by the tremendous expansion in presidential staff, estimated at up to 27,000, along with the large duplication in missions and structures. The frequent appointment of supporters to various positions with vague mandates and uncertain responsibilities, and the lack of mechanisms for resolving disagreements, resulted in considerable uncertainty over policy and nearly constant internecine warfare between and within various branches of government.

It is undoubtedly true that the sheer size, ethnic composition, and political instability of Russia made the challenge of policy coordination much more complicated than in Hungary. Moreover, Russia lacked the prevailing social consensus regarding basic forms of political and economic organization and the possibility of membership in the European Union that was widely shared across the political spectrum in Hungary and served as a compass for that country’s reform effort. Nevertheless, Russia’s failure to develop effective mechanisms for policy formulation and coordination has intensified the rivalry between different branches of government, resulting in a cacophony of voices, decrees, and orders at the top, coupled with predatory bureaucratic behavior at many points lower down in the system.

The Hungarian and Russian examples are not isolated cases. Empirical research suggests that policy coherence and consistency make a contribution toward more efficient government. For example, in Armenia a survey showed that the degree of public officials’ commitment to policy implementation depends on whether the policies are frequently changed or contradicted; whether they are well communicated; and whether political micro management undermines policy implementation.



In turn, staff perception of the quality and consistency of policy is an important influence on civil servants' performance. Convincing staff of the consistency of policies is also very strongly associated with apparent reductions in corruption.

The impact of policy inconsistency on public performance mirrors the well-known private concern with unpredictable laws and policies. Erratic policy is known to be a deterrent to investment and private-sector performance. As it turns out, it is also an obstacle to public-sector performance.

## KEY POINTS AND DIRECTIONS OF IMPROVEMENT

### Key Points

The policy formulation and coordination function is fundamental for the smooth running of government. Effective mechanisms for policy formulation and coordination are closely correlated with a more predictable policy framework, better regulation, lower corruption, and a stronger rule of law. These factors, in turn, have an important impact on entrepreneurship, investment, and administrative effectiveness—all of which require clear guidelines and a sense of direction from the top.

Central policy formulation and coordination mechanisms take a different form in parliamentary and presidential systems of government—

more structured and collective in the former, more flexible and dependent on leader's personality in the latter. In all cases, however, they are intended to perform five basic tasks: (i) provide adequate information and early notice about impending policy issues; (ii) ensure prior consultation of all relevant government stakeholders; (iii) give supporting analysis and spell out options; (iv) record and disseminate policy decisions; and (v) monitor implementation of the decisions.

For the good conduct of the above tasks, four guiding principles emerge from the international experience: (i) discipline, in order to exclude policy decisions that cannot be financed or implemented; (ii) transparency of decision-making processes, while preserving the confidentiality needed for frank debate; (iii) predictability of policy direction, avoiding frequent reversals of policy decisions; and (iv) structured choice, i.e., an orderly process that brings to the attention of policymakers only important issues, and screens out trivial matters.

A strong and effective secretariat is therefore a must for effective policy coordination. In presidential systems, the secretariat function is normally placed in the office of the President. In parliamentary systems, it can be either in the Prime Minister's Office or in a cabinet secretariat, which serves the cabinet (or council of ministries) as a collective group. Policy secretariats can vary in size and function. The Singapore Cabinet Office with 15 civil servants is at one extreme, with the Office of the US President with over 4,000 staff at the other extreme, and the British Cabinet Office and Prime Minister's Office in the middle, with about 200 staff combined. However, in all cases the office must at least assure an orderly flow of traffic and facilitate the decision-making process.

Finally, for the policy formulation and coordination process to work well, in addition to a well-functioning central office there must be good cooperation at all levels of the bureaucracy. This cooperation requires both formal mechanisms such as committees and interdepartmental working groups, and informal networks of communication and cooperation among civil servants, which the government should encourage and support.

### **Directions of Improvement**

The first requirement of an effective administrative apparatus is to define and communicate to it clear policy directives and decisions. Therefore, there is a need for institutions capable of producing decisions that are

consistent, affordable, and capable of being implemented. There is also a need to improve transparency and predictability in the policy process, so that powerful individual ministers do not short-circuit the system and undermine collective goals in pursuit of their parochial interests.

Improvements in cabinet systems and related organizations should be geared to better performance on five basic tasks: (i) provide intelligence and early warning regarding the policy items likely to come before the cabinet; (ii) ensure that all agencies and ministries with a stake in a given issue are adequately consulted; (iii) provide supporting analysis and the careful consideration of options; (iv) record and disseminate decisions; and (v) monitor implementation and follow-through.

Among the key principles of policy formulation, probably the least observed in developing countries is the principle of discipline. Promulgating policies that are “dead on arrival” because they are unrealistic devalues the policy-making process and reduces the impact of leadership. It is essential, therefore, to introduce concrete provisions for greater discipline in policy formulation, as for example a requirement that no decision can be presented for cabinet approval unless it is fully costed and is consistent with other legislation and rules.

Experience demonstrates that there are many routes to more effective policy coordination. Pronounced differences exist not only between countries but within the same country over time. These differences matter in terms of the speed and cost-effectiveness with which decisions are reached, as well as the degree of ownership among various ministries and departments responsible for implementing those decisions. But there is clearly no one right answer to the question of how policy-making institutions should be improved, provided that the improvements focus on the five tasks noted above. Generally, however, the size of the decision-making group can be small and hence its decision-making effectiveness greater, to the extent that there are mechanisms to assure broad consultation with other government entities and the public.

It is important, therefore, not to look at central policy formulation mechanisms in a vacuum. Often, their success is supported by additional coordinating mechanisms. These range from cabinet subcommittees to interministerial task forces and working groups to congressional liaison offices and business-government coordinating councils, and can perform a useful complementary role. Also very important is for governments to find ways

to encourage informal cooperation at all levels of administration, and remove obstacles to the free flow of information within government.

These considerations are of particular relevance for donor agencies, which have recently begun to assist the effectiveness of central decision-making mechanisms in developing countries. The resources involved are often very small, but hold significant promise for assisting the efforts of many developing countries to improve the quality of their service delivery, regulatory functions, and public administration in general.

### NOTES

- <sup>1</sup> The authors thank Omer Gokcekus, Steve Knack, and Ranjana Mukherjee for their research assistance with various aspects of this chapter. This chapter relies partly on Beschel (1998), George (1980), and Reilly, et. al. (1998), in addition to the other specific sources mentioned.
- <sup>2</sup> See Nick Manning et al., (1999).
- <sup>3</sup> See Schacter, with Haid and Koenen-Grant (1999); and Koenen-Grant and Garnett (1996).
- <sup>4</sup> These observations are taken from Peter Mountfield (1995).
- <sup>5</sup> This section draws extensively on Nick Manning (1999c). See also SIGMA Center of Government Profiles (<http://www.oecd.org/puma/sigmaweb/acts/cogprofiles/flags.htm>); Kaul (1997); and Reilly, et.al. (1998).
- <sup>6</sup> George (1980), pp. 145–168.
- <sup>7</sup> See especially Katzenbach and Smith (1993); see also Kormanski and Mozenter, “The New Model of Team Building: A Technology for Today and Tomorrow,” *The 1987 Annual: Developing Human Resources*; B.R. Tuckman. In this context, teams differ from working groups in that a working group’s performance is a function of what its members do as individuals, whereas a team’s performance includes joint or collective work products and mutual accountability. The observations draw heavily on Katzenbach and Smith’s conclusions.
- <sup>8</sup> For a fuller discussion of this topic, see Beschel Jr. (1997). See also Stephen Fortescue (1995) and Huskey (1995).