

Chapter 20

Public Administration Improvements in OECD Countries

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We must take from an experience only the wisdom that is in it, and stop there. Lest we be like the cat who sat on a hot stove one day and never sat on a stove again, hot or cold.

—Mark Twain

BACKGROUND

Countries in the Organisation for Economic Co-operation and Development (OECD) have implemented a succession of public administration reforms, which eventually succeeded or failed, providing us with a fruitful source of learning. This chapter focuses on the common trends and lessons that can be gathered from the experience of these countries.¹ Broadly speaking, reforms occurred in two waves from the 1970s to the late 1990s. First came reforms to control government spending. They were followed by reforms to improve services and relations with citizens.

The idea that government should “do more with less” in a context of tight budgets led to “first wave” administrative reforms. (Calling them “first wave” does not imply that they are over, since fiscal restraint is continuing in most countries). Between the end of World War II and the early 1970s, public spending had mushroomed; governments became too costly, too big, and too intrusive; debts spiraled out of control; and citizens felt they were getting poor services for their money. The mid-1970s to the late 1980s consequently witnessed a multitude of budget reductions, public sector downsizing, and privatization, particularly where there was a feeling that government spending was both too high and ineffective, as in Australia, New Zealand, and the United Kingdom (UK). These reforms often took place, when the constitutional structure of the state allowed it, by strong

direction and control from the “center”: owing to the emphasis on reducing the fiscal deficit, the reform process in most cases was led and monitored by the ministry of finance.

From the late 1980s to the 1990s, after fiscal deficits had been significantly reduced in most OECD countries, the goal became “better government.” This meant mainly improvements in service delivery, higher-quality regulation, devolution of responsibilities to lower levels of government closer to the citizens, better access to government information, and greater transparency. In addition, this second wave of reforms, which in a few countries started early in the overall reform process, was also intended to consolidate and develop some key aspects of the first wave, such as providing more flexibility to achieve greater efficiency and effectiveness. Both waves began at once in a few countries that did not initiate ambitious first-wave reforms in the 1980s, such as Finland, which in the early 1990s had to adapt quickly to the changes resulting from the collapse of the former Soviet Union. Italy, for its part, is now implementing comprehensive reform to substantially reduce the public deficit and to modernize government activities.

At the turn of the century, some countries that have been through both phases have begun what could be called third wave reforms. Particularly in some of the countries that led in reducing functions and introducing private management practices, the aim is now mainly to counter some of the negative side effects of past changes, such as fragmentation and ethical tensions.

The various policies and initiatives were driven in each country primarily by domestic concerns tied to specific historical and cultural realities. Therefore, public sector reform in OECD countries does not lend itself to easy generalizations. The shape, speed, and success of the reforms were unique to each country. Some countries tried a “big bang” approach to achieve quick fundamental changes in the roles and functions of government. Others adopted more incremental policies in the effort to improve the running of government or to stretch major changes over a longer time. But all had the same objective of adapting government to contemporary conditions to improve cost-effectiveness and service quality.

THE “FIRST WAVE”: CONTROLLING GOVERNMENT EXPENDITURE

Less Government

More selective government activity

As mentioned, by the late 1970s government was clearly perceived in most OECD countries to have become both overextended and unaffordable. The high level of government expenditure had generated large fiscal deficits, crowding out private investment and jeopardizing external competitiveness. At the same time, public service quality and accessibility had not visibly improved. The success of the ensuing steps to reduce and control public expenditure was substantial. Most countries reduced their fiscal deficit considerably and by the end of the century nine OECD countries (Australia, Canada, Denmark, Finland, Iceland, Ireland, Norway, Sweden, and the United States [US]) were even generating fiscal surpluses.²

However, it is still widely believed that, for sustained economic growth and financial stability over the long term, fiscal discipline must be maintained. The public debt remains too high. The opening of financial markets and the resulting “globalization,” too, are generating new pressures: more than ever before, governments must compete with one another for foreign investments, and to be competitive they must have low inflation and stable exchange rates, and, hence, fiscal discipline. In most OECD countries “regionalization” played a major role in achieving budget stability. The rise of regional economic entities such as the European Monetary Union, for one, requires strict budget control among countries in the European Union (EU). For OECD countries that hope to join the EU—the Czech Republic, Hungary, and Poland—fiscal and economic discipline is central to the success of their integration.

Obviously, reducing government expenditure meant that government had to either withdraw from certain areas of intervention (i.e., do less), function more efficiently (i.e., do the same at less cost), or a combination of both. The expanded welfare programs and commercial activities of public enterprises offered opportunities for reducing the role of the state. Establishing a single market led to a major privatization of commercial public sector activities in EU. Trading in most OECD countries is now largely done by the private sector.

A few OECD countries (New Zealand and, less radically, Australia) went as far as to reexamine systematically the roles and functions of government. Most countries have been reviewing their institutional makeup and devising ways of reshaping the traditional features of the public sector. Among the various approaches, they have split policy making from service delivery (Chapter 6); merged or otherwise rationalized organizations that used to perform similar tasks separately; downsized and reallocated services within government organizations; and devolved responsibilities to line units or subnational governments (Chapter 5). In Canada, for example, as a result of functional and program reviews of all ministries, some ministries shrank by more than half while others faced slower growth in resources despite large spending pressures.

That said, with few exceptions, most of the essential features of the social protection system—pensions, universal medical care, etc.—were not questioned in most OECD countries. Instead, they were modified to ensure their survival. For example, Germany has reformed its public health system quite successfully to keep health expenditures under control, and France is looking for ways to add a capitalized component to its pay-as-you-go pension system to lighten the burden on the economy and improve long-term sustainability. Moreover, some countries with limited welfare provisions have tried to build social programs on the positive public savings achieved in certain other areas, particularly defense expenditure that was significantly reduced in the 1990s (Chapter 1).

Downsizing

Among the various aspects of state withdrawal, downsizing and staff cutbacks have the most direct human implications (Chapter 10). Programs to reduce overall numbers of employees have begun in most OECD countries in the 1980s and early 1990s, in connection with privatization and the restructuring of certain public agencies. In most cases, there have been no outright dismissals and, except in North America (Canada, Mexico, and US), cash payments have rarely been offered as an incentive for resigning from the public service. According to critics, such incentives are not cost-effective and encourage the best people to leave the public service. Indeed, long-established career civil service structures in most continental European countries, as well as Japan and Republic of Korea, prohibit the dismissal of civil servants for financial reasons. In other OECD countries, strict rules and often agreements with labor unions also limit the ability of governments to dismiss redundant staff (Chapter 11). In the Netherlands, for example, a

collective agreement between the central government and the labor unions obliges the Government to look for suitable vacancies for the redundant employee during an 18-month period. Moreover, redundancy programs apply to very few categories of Dutch civil servants, generally those with more than 34 years of service, who can benefit from favorable conditions.

In most OECD countries, the public still holds the view that government should guarantee job protection to its employees. Like the Netherlands, Sweden, for example, makes the home agency responsible for ensuring an effective redundancy process, thus limiting top-down attempts by the central government to reduce the number of staff. Therefore, OECD countries commonly use other tools of workforce reduction over time, mainly attrition combined with recruitment freezes and early retirement.

Some countries, however, have felt that recruitment freezes would adversely affect the adaptability and renewal of the workforce, and that early retirement incentives would be too costly in economic and human terms, particularly in aging societies. Efforts were therefore made to improve the employment prospects of government employees in the private sector. Redundant staff were allowed to engage in a variety of training and development programs, some of them government-run (as Australia), to improve their professional or job search skills. Payments for retraining surplus staff were also an option, as in New Zealand, but without a clear measurement of the outcomes. Even in these cases, however, priority was generally given to redeploying redundant employees within the public service.

It is difficult to assess the impact of downsizing in OECD countries for a number of reasons. First, programs vary a lot from country to country (Box 20.1). Sometimes cuts are made across the board; at other times specific sectors are the targets. Second, the term public employee is defined differently in different countries and data on public employment are difficult to compare. Public employment levels appear to vary from country to country but the differences can be misleading. Also, countries were able to reduce the size of the central civil service either through active downsizing or by shifting employees to subnational government or to public enterprises.³ In countries like Japan or the Republic of Korea where government employment was very low to start with, there was naturally no need for deliberate staff reductions.

Box 20.1**Downsizing in the OECD: Selected Experiences****Canada**

A program review indicated the programs and services to be eliminated. About 45,000 employees were removed from public service over a three-year period (1995–1998) as a result. Priority was given to ensuring employment security and minimizing involuntary reductions.

Finland

The goal was to maintain or reduce personnel levels as part of an overall strict budget policy. Starting in 1997, each agency set staff size within overall budget limits. Government employment declined from 212,000 in 1989 to 120,000 in 1996. However, only 9,000 of this reduction was due to staff cuts; the rest was due mainly to the conversion of government agencies into public enterprises or private companies. Thus, while government employees were downsized, overall public employment did not decline.

Mexico

Since the early 1980s, the Government has made it a policy to limit employment growth as part of its efforts to modernize government, restructure the central public administration, and divest and privatize public sector enterprises. The Central Government staff has been reduced significantly through layoffs and emphasis on transferring services from state agencies to lower levels of Government and to public enterprises. In December 1994, the economic emergency led to new limits on public expenditures, which included programs to reduce, rationalize, and modernize the public service to increase cost-effectiveness. The initial target was a reduction by 10,142 positions (3.1 percent), including vacancies.

More Efficient Government

The public has come to expect better-quality and more accessible public services from government. Because of these higher expectations and the fact that there are simply not enough resources, government is challenged to do more with less by allocating the resources more suitably and making better use of them.

Reviewing the modalities of government intervention

The fiscal problems had a decisive impact on the perceived role of the state. As noted, in a context of tighter budgets, social services and

benefits can be maintained (an essential part of the mission of government, in the view of most OECD countries) only through cost-effective interventions.

More attention must be paid to the efficiency of traditional interventions such as regulation and authorization procedures. Administrative decision making often has to be simplified to ease the burden on the citizens and on business.⁴ Italy, for example, has eliminated unnecessary administrative procedures, replacing permits and authorizations with self-declarations, and streamlining administrative procedures. Most OECD countries are now striving to assess more thoroughly the potential impact of new regulations before issuing them, and then to monitor their impact. Although as recently as 1994 fewer than half of the OECD countries did regulatory impact analysis; by 1999 only Belgium, Czech Republic, Greece, Japan, and Luxembourg had failed to adopt the practice.

Governments withdrawing from commercial activities must also pay greater attention to the efficiency of the public enterprises. Fully privatized activities are outside the public sector (although the choice of activities to be privatized and the manner of their privatization are central issues), but the corporate governance of public enterprises has acquired new importance as government reform has progressed (Chapter 6). Corporatization is meant to balance the public interest with the advantages of autonomy for the public enterprise. Most OECD countries, however, report that corporatization has succeeded in producing more efficient public enterprises only when markets were made competitive and contestable.⁵

Governments have also increasingly contracted out activities to the private sector. Other measures such as vouchers or property rights' markets are more country-specific or limited to certain sectors of government activity—vouchers in education and social housing, and property rights markets in fisheries, for example. Contracting out has been common for many years in simple and low-risk activities such as maintenance or catering. In France, for example, where the contractual approach between the public and private sectors is well developed, the practice of *concessions de service public* (public service concessions) has been in place for a century, especially in water supply. What is new in recent years is the extent to which countries have been prepared to contract out more complex and more central government activities such as information technology, education, and even, in some countries, prison management. A number of countries have made it obligatory for government entities to explicitly consider external supply options for many services.

Contracting out is discussed at some length in Chapter 13. The OECD experience with contracting out suggests several preconditions, even for relatively simple activities, including the following: the existence of a competitive market among suppliers; open and verifiable procurement procedures; and the availability in government of solid technical and legal skills in contract management. These preconditions, along with the high transition costs involved, may set practical limits on contracting out complex activities. As in all institutional changes, if implementation issues are not given enough attention the potential benefits of contracting out can be dissipated and the costs can turn out to be higher. A specific consideration is the costing method used by internal and external bidders. Because costs are difficult to calculate precisely, there is a danger that short-term gains may be paid for by reduced long-term performance. Accordingly, the usefulness of contracting out is not easy to assess. The US experience with contracting out, for example, showed that without an audit and baseline data for effective comparison and given the differences in accounting procedures and the controversy over costs the true net benefits of contracting out are difficult to calculate.

Reviewing public management systems

Two main aspects—personnel management and performance management systems—should be considered. The following should be read in conjunction with the more extensive discussion of personnel management in Chapter 11 and of performance in Chapter 18.

It is often assumed that more flexible management of people can lead to more effective and efficient public service organizations. In OECD countries this assumption is subject to debate. While about half of the countries have started making personnel management changes with that goal in mind, the other half, mainly in continental Europe and Japan, retain some features of the traditional system of a career civil service. Increasingly common in OECD countries, however, is recruitment based on merit. Moreover, governments, such as that of France, are giving greater attention to job content than to salary-scale positions, and greater emphasis to devolution of authority, training, and mobility.

OECD countries that have implemented personnel management reforms in recent years have focused mainly on giving more responsibilities to managers for managing their staff and improving the performance of the workforce. In a few cases, the government agency “manager” is now

responsible for recruitment and dismissal, as in New Zealand, where a private sector–like system exists.⁶ Often, however, the authority given to managers is accompanied by new specific guarantees to protect civil servants in their new working environment. The new system that Switzerland will introduce in 2001 (Box 20.2) gives a greater role to public service unions, and similar trends are observed in Nordic countries. Also, labor practices can be subject to oversight by a public service commission, which sets broad guidelines for personnel management throughout the government, while leaving much more autonomy than in the past to line managers to negotiate specific arrangements and make individual personnel decisions (Chapter 11).

Box 20.2
Recent Civil Service Reforms in OECD Countries

Italy offers a comprehensive example of civil service reforms in operation. Since 1993 the country has been heading toward the privatization of the civil service. This means that the employment terms and pay of civil servants, which used to be set by administrative law, are now covered by contracts under the labor law. The duties of politicians are more clearly separated from those of public managers, and managers are now paid based on performance. Public managers have fixed-term, two- to seven-year contracts and are no longer appointed for life, as they were in the old system.

The Republic of Korea is introducing the open personnel system (OPS) throughout the Government. Under the former closed personnel system, vacancies in higher grades (director level and above) were filled mostly through promotion within the Government. Much importance was placed on job security, somewhat to the detriment of competition among individual members. The OPS brings the element of competition into the civil service and makes administrative services more transparent. More than 130 out of 758 senior positions (20 percent) in 52 central agencies (excluding those related to public security such as the National Intelligence Service and public prosecutors) will be open to outside candidates. Professionals from the private sector, especially in law, accounting, construction, etc., are expected to be drawn into the public service. Contracts will define the specific terms of employment, including salaries. This flexibility is also intended to promote more varied personnel management practices among the ministries and agencies, and to develop the capability to tailor those practices more closely to specific programmatic needs.

In Switzerland, the civil servant status established in 1927 will be abolished in 2001. The focus is on a “cultural change” in Federal Government. The new recruitment process will be aligned with private sector recruitment. One aspect of the change is a shift in the onus of protection from the laws to stronger participation by personnel representatives and collective bargaining.

The opportunity to recruit from the private labor market is an important aspect of this evolution. In Japan, this was underlined in the report of the 1999 Council on the Public Service Personnel System, which recommended midcareer recruitment from outside the administration as a concrete measure to promote openness, diversity, and flexibility in the civil service. Other models go further and consider the public sector as a vast enterprise that hires and manages its staff in conditions analogous to those of private enterprises. In this open structure system, wages and working conditions would be determined more by the labor market for the various kinds of jobs than by the grade occupied in a hierarchy or a given length of service at that grade.

Some countries also recruit senior officials based on fixed-term contracts. This has been the case, for example, in New Zealand, where all senior civil servants are now under fixed-term contracts with precise performance targets. Fixed-term contracts are also being used for certain senior executives in Australia (at the federal level), Sweden, and more recently in Italy, Republic of Korea, and United Kingdom (UK). The contract can be renewed if necessary, but renewal is not automatic. However, other countries that have initiated human resource management reforms prefer to retain indefinite-duration contracts except for very specific assignments. This is the case in Canada and the Netherlands.

The new style of human resource management makes itself felt at the individual level primarily through new classification systems. The classification system must be flexible enough to promote the career development goals of public employees while at the same time addressing the needs of the organization, for which the focus is naturally on positions rather than individuals. Career development must be managed accordingly: individuals must make progress and acquire new competencies and new skills. Mobility, both horizontal and vertical, is usually promoted. In Finland, New Zealand, and UK, each agency is free to use its own system of job classification.

Devolved management and increased flexibility can, however, be perceived as a challenge to public service homogeneity, and particularly to equity between agencies and cohesion between civil servants. To deal with such issues, some countries like Australia have kept employment conditions essentially the same for all agencies. Still, whatever their management choices may be, all countries must address the important need for flexibility. France, for example, did not reform its job classification systems but introduced allowances to answer the needs of specific categories of employees (like nurses) that could not be taken into account within the traditional, homogeneous, and rigid pay system (*nouvelles bonifications indiciaires*).

Flexibility of personnel is sometimes a costly investment (profitable only over the medium term) and generates internal tensions between the personnel management agency and the budget entities. Also central is the relationship with the labor unions, which generally criticize these new forms of management as giving too much discretion to middle-rank managers. The reforms are likely to generate tensions as well from the point of view of recruiting and keeping a highly skilled civil service staff. In an open system, to attract and keep the best is an enormous challenge, particularly considering the lack of statutory protection to balance the relatively lower salaries in the public sector. For those who do choose to stay in government service, motivation will be an issue since the government, with its limited resources, will be hard-pressed to provide good career opportunities.

Performance has been a conventional requirement of bureaucracies, although a number of OECD countries feel that government was performance-oriented only in theory and not in fact. New challenges require a stronger performance orientation within government. This calls for a shift from traditional compliance-based controls to a system where performance is assessed in terms of efficiency and effectiveness.

There is an increasing focus on both the performance of civil servants and the performance of public services. Italy, for example, is introducing strategic planning and the measurement of program and policy effectiveness, and many other countries are also interested in developing benchmarks and indicators. The Austrian Government, in November 1999, issued its second Performance Report of the Federal Administration on 11 out of 12 ministries in an effort to show high efficiency in spending taxpayers' money and to build up an overall performance indicators system.

Performance contracting is emerging as a key tool of public sector reform in OECD countries (Box 20.3). It is often viewed as a useful vehicle for clarifying objectives and supporting new management monitoring and control methods, while leaving the day-to-day management to the managers themselves. By the commonly accepted definition, performance contracting is the range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results. Yet there is considerable dissimilarity among the uses and forms of quasi-contractual arrangements, and the degrees to which parties are bound by the agreements (Box 20.3).

Box 20.3

Performance Contracting in OECD Countries

Seven broad types of performance contracting are used in the public sectors of OECD countries.

- *Framework agreements* cover overarching strategies and priorities for a department or agency and are made between a minister and a chief executive (e.g., framework documents for “Next Step” agencies in the United Kingdom (UK), and letters of allocation in Norway).
- *Budget contracts and resource agreements* set budget levels between the central budget office or finance ministry and the chief executive of a department or agency (e.g., Danish budget contracts, which originally offered budget guarantees for a multi-year budget period).
- *Organizational performance agreements*, are made between a minister and chief executive or between a chief executive and senior managers, breaking down overall strategic goals into program elements and setting specific, often detailed, operational, process, and output targets in exchange for increased operational autonomy (e.g., French tax administration and performance-based organizations in the United States [US]). These agreements are also used by the management of state-owned enterprises in many OECD countries.
- *Chief executive performance agreements* between ministers and chief executives often complement organizational performance agreements. These are also made between senior management and staff at various levels (such as those used in agencies in Australia, Denmark, New Zealand, Norway, and UK).
- *Funder-provider agreements* clarify responsibilities by separating the role of the funder from that of the provider of the services. Purchaser-provider agreements based on a purchase-provider model can be found in Australia (on a limited basis) and New Zealand.
- *Intergovernmental performance contracts and partnership agreements* are often linked to the devolution of programs or funding from national to subnational government. They provide state and local governments with funding in exchange for specified levels and quality of service. Such contracts are more common in the education, health care, and labor market services areas, where the national government retains formal responsibility and accountability for service provision but finds that programs are more effectively implemented by local authorities. Partnership agreements between levels of government can be found in Canada, France, Germany, Norway, Spain, Sweden, and Switzerland
- *Customer service agreements* are statements of service standards provided by a program or service to its clients to specify the quality and level of services to be expected and, in some cases, the avenues of redress and compensation if services fail to meet standards. Customer service agreements can be found in Australia, Belgium, Denmark, France, Italy, UK, and US.

Although performance contracting generally rates a favorable assessment from the countries (clearer objectives being the most commonly mentioned achievement), lessons are difficult to draw from the various practices, since implementation should always be tailor-made to the country. A case study on the French Directorate General for Taxes nonetheless described several factors that must be considered before performance contracting is adopted.

- As a management tool, it should be applied throughout the organization and tailored to the needs of each division.
- It should be flexible enough to be linked to other management processes such as strategic planning and the performance management system for senior managers.
- It should provide a framework for exchanging accountability for the results of devolving management authority. The relational aspects of performance contracting were also seen as important to gaining management and staff involvement and support for modernization and reform.

THE “SECOND WAVE”: IMPROVING SERVICE AND RELATIONS WITH THE CITIZENS

Although, as we have seen, the chief aim of public management reforms was first to stabilize or reduce expenditure, most countries were under increasing pressure from the public. This is primarily due to developments in technology and communication (citizens are better informed and expect quicker services); education (citizens are more discerning); secularization (citizens are more individualistic and critical); and wealth accumulation (citizens have the means to exact the level of service they feel they deserve, as well as to pursue alternative service delivery options). Citizens want to have their say in the way the public administration is run and expect the best services at the lowest prices. These pressures create major tensions when reform is put into practice: governments must cope with more diverse needs and preferences while striving to maintain some policy cohesion. Longer-term structural factors like demography also exert additional pressure on the economy and society. Further improvements in governance are thus called for.

Moving Closer to Citizens

Improving responsiveness and quality

In the past, many have criticized government as being more concerned with meeting its own needs rather than those of its citizens. Reforms acquire legitimacy to the extent that they are able to deal with this perceived failing. But what citizens expect is less easy to define. They want more efficient and effective service delivery, certainly, and this puts the administration and the citizens in a provider-consumer relationship. But they also demand freedom and equity, which presupposes that the government will protect “the public interest”.

Service delivery thus gains a central role. Some common elements have been identified as essential to sustained, responsive service delivery.

- *Transparency.* Citizens should be informed about how the administration works, what constraints public servants face, who is responsible for what, and what remedies are available if things go wrong.
- *Participation.* Citizens now resent being treated as passive recipients of whatever the administration dishes out. In many cases, as in tax administration, the government needs their cooperation to perform its task.
- *Satisfaction of “client” requirements.* As far as possible, citizens should be offered services that correspond to their particular situation. The “one size fits all” approach to service delivery is no longer appropriate, neither is it necessary as the new technologies and flexibility in the public sector allow services to be matched to requirements.
- *Accessibility.* Citizens should have easy physical access to administration at convenient hours and be offered information in plain language.

Efforts to be more responsive to citizens have led several countries to set service standards, which were sometimes given particular prominence in high-profile documents such as public service or citizens’ charters, e.g., in Belgium, France, Italy, Portugal, and UK (see Chapter 13 for a detailed discussion of citizens’ charters and country illustrations.)

A reduced administrative burden is another central aspect of better-quality service to citizens, particularly for the business community. This

often entails simplified requirements and standardized forms (e.g., those of customs), sound use of information from clients, (e.g., preprinting of entries on forms), the use of information technology (e.g., electronic data interchange, electronic payment of taxes), and an increasing awareness of the costs involved (e.g., the cost of statistical inquiries). Tax payment through the Internet, which considerably diminishes the cost of tax collection, is now developing in the US and other countries (such as France) are also moving in that direction. (See Chapter 19 for further discussion of the use of informatics in government.)

Most OECD countries have initiated so-called one-stop shops—central entry points into the administration for citizens dealing with specific matters, mostly business. One-stop shop systems often presuppose preliminary negotiations between the departments concerned and sometimes across levels of government. The most recent initiatives have been implemented in Italy, Portugal, and Spain. In Italy, a one-stop shop at the local level has been given the responsibility for granting authorizations for new industrial plants. It unifies the 40 different procedures, involving many different government agencies, which were previously necessary. This is expected to reduce the time needed to process authorizations. Spain has similarly created a one-stop shop for businesses dealing with the Government.

Decentralizing responsibilities

Better service delivery is increasingly seen as bringing the government closer to the citizens to better identify their needs and tailor the service to these needs.

In the UK, for instance, local governments underwent reorganization in the 1980s and 1990s to offer the taxpayer better value for money (although political influence may have driven these reforms). Thus, there was a discernible movement of power upward to Central Government, and most services that were not “marketized” were performed by nonelected central government organizations (quasi-nongovernment organizations or *quangos*) rather than by elected local governments. But the feeling that the changes had produced democratic and accountability deficits was growing, and this was one of the factors that motivated current efforts to decentralize power.

In traditionally centralized countries like France or Spain, the decentralization that occurred mainly through the 1980s was seen as a

fundamental element of democratic governance (Box 20.4). This is also true of OECD countries that have recently applied for membership in EU, i.e., Czech Republic, Hungary, and Poland. The implementation of the *acquis communautaire* in their domestic systems also has major implications for their institutional arrangements and administrative apparatus, decentralization being one major challenge.

Box 20.4

Decentralizing Responsibilities: The Experience of France and Spain

In France, the decentralization laws of 1982 devolved authority to the regions and the *départements* in a wide range of areas such as urban development, economic support measures, and local transportation. They also gave the regions and *départements* responsibility for constructing and maintaining secondary schools (similar to the responsibility of the communes for primary schools, which had been in place for a century), while retaining responsibility for most other education policies at the central level.

In Spain, the creation of autonomous communities has brought about significant transfers of responsibility, including the decentralization of health and education systems, as well as of public works, agriculture, environmental protection, regional development, and social assistance. The process is continuing as new sets of functions evolve.

Even in countries where subnational government traditionally enjoys a relatively high degree of autonomy, the feeling that regional and local levels of government should carry out more functions is driven partly by financial considerations and partly by the need to manage closer to the citizens. In the US, the National Performance Review endorsed the empowerment of states and localities as a way of unraveling complex program requirements and allowing program managers, frontline workers, and community leaders to redesign programs around performance objectives, such as changes in income, employment, or quality of life. Such a decentralized federal system encourages diversity, which can be seen as a strength of the system despite the enormous complexity that it also brings.

The experience of OECD countries shows that, to be effective, decentralization of authority to lower levels of government should be accompanied by a decentralization of resources to perform the new tasks. One other important aspect of devolving resources is replacing traditional oversight with new accountability mechanisms, such as robust ex-post controls (e.g., regional courts of account in France) to make up for the resulting increase of corruption opportunities for local officials.

Enhancing Accountability

Enhanced accountability, both political and financial, is the counterpart of providing more freedom and flexibility to managers. Where authority is devolved to line managers, there arises a concern that the increased managerial autonomy will cloud or diminish ministerial responsibility and, thus, public accountability overall. In most OECD countries, only ministers report regularly to the legislature. Should senior civil servants be made directly accountable to the legislature? This remains a matter for debate.

A key issue is the ability of oversight bodies, such as parliamentary committees and audit institutions, to adapt to the new management approach, and their preparedness to focus on larger strategic issues. It is clear from the experience of OECD countries that many legislators and auditors have yet to make this adjustment. Adding to the traditional concerns on financial and compliance issues, the new focus on outputs and outcomes is most challenging. Legislatures and audit bodies are often hampered by inadequate systems and staff, and the management reforms are bringing this old problem into sharper relief.

While there is no single solution, some countries feel that one way of providing more effective accountability while giving more discretion to managers may be to separate accountability for administration (operational management) from that for policy (strategic management—see Chapter 6 for a fuller discussion.) Sometimes the focus is laid on improving information to the legislature and auditors through regular performance and financial reporting. But this also calls for additional capacities and resources.

A related issue is the need to exercise adequate control over activities and practices of semiautonomous units that are deliberately placed at arm's length from the government. For example, traditional parliamentary control mechanisms for the crown entities in New Zealand do not necessarily fit the new relationships that have been established. Moreover, moving significant services from the center to semiautonomous entities may risk increasing political patronage.

Another issue is financial. When giving more discretion to managers to manage their budget—one should ensure that financial control is effective. Most OECD countries feel that traditional *ex-ante* controls, budget procedures, and accounting systems may not suit the current context. It is

argued that devolving power to line units and measuring performance by results calls for adopting private-like mechanisms, i.e., accrual budgeting and accrual accounting. The use of these techniques has sometimes been presented as a trend among OECD countries. But in fact, accrual accounting and accrual budgeting have been introduced only in Australia, New Zealand, and Iceland, and the UK has announced plans that have not yet been fully implemented. Accrual budgeting has been considered but not adopted by the other OECD countries. However, accrual accounting is taking place throughout the government in Canada, Finland, Sweden, and US; pilot projects have begun in the Germany, Ireland, and Netherlands; and France is considering the matter.⁷ Given the relatively limited and recent experience in this field, accrual accounting innovations should be described as a promising practice for OECD countries rather than as a transferable model. Otherwise, attention might shift from more vital challenges to a costly and time-consuming innovation that may not be a true priority.

In addition, one should keep in mind that accrual accounting has been introduced in countries where a number of prerequisites were in place, and that these circumstances may not be present elsewhere, e.g.:

- a pool of well-trained high-level and middle-rank managers;
- a well-developed accounting industry, able to put the system in place and train the civil servants; and
- a high degree of computerization of all government agencies.

METHODS OF REFORM

Varying Speed and Scope of Reform

The speed and scope of reforms have varied among OECD countries. It is possible, however, to identify three broad models that reveal different attitudes toward change, although they have in common the main goal of balancing financial savings with more responsive service to citizens.

Private sector orientation

This has been initiated primarily by Westminster-type countries (and to some extent the US). Introducing greater competition and choice has been attractive from the point of view of both gains in economy and efficiency and improvements in quality and choice. One of the traditional criticisms of the public sector was the lack of creativity and adaptability compared with

the private sector. This led to the conclusion that performance could be improved by exposing public service to market discipline. Common reforms include breaking up public monopoly power (through privatization or other means) and introducing market-type mechanisms (through more competition, better pricing, dispersed decision making, monetary incentives, and deregulation).

Among private-like management techniques, the use of internal markets has been applied to particular sectors such as the health sector, e.g., in the UK. These initiatives have led to uneven results. The benefits traditionally expected of markets are greater choice, lower prices, and better performance and quality. However, it is not clear how these market-type practices affect total resource use in the sector. Also, experience has shown that these market-type practices need to be adapted to the overall public management objectives. One risk is to create false markets with more perverse disadvantages than traditional public monopoly. The reluctance of some countries to use such mechanisms has been partly due to concerns about fair competition.

Building new solutions in existing models

The Nordic countries have focused instead on making better use, on the one hand, of the traditional well-developed third sector and local governments to which many tasks were devolved, and, on the other hand, of the flexibility of the strong autonomous agencies that were central to implementing the performance systems. In Denmark, for example, associations have greatly benefited from the “marketization” of the housing sector.

The chief characteristic of the Swedish approach is a significant decentralization both to local authorities and to line agencies within a still large public sector. The choice has been to maintain a modestly reduced but still major welfare commitment between government and citizens. The Government has therefore focused on performance, modernization, and citizens’ satisfaction while retaining its essential roles in the social arena.

Pragmatic approaches

Continental European countries, as well as Japan and the Republic of Korea, have generally preferred an ad hoc approach. As we underlined earlier in this chapter, some of the key characteristics of traditional bureaucracies were maintained—including personnel management—while radical changes were introduced in other areas of public administration. These experiences

vary from country to country, and the only possible generalization is their incremental nature.

The most promising efforts currently being developed include communication strategies, working methods, and transparency in government. Republic of Korea, for example, is implementing a comprehensive effort applied at various levels of government, to use information technology in a way that provides greater transparency, in particular for issuing licenses.

Common Issues

One general issue that has emerged from past reforms is that structural change has side effects and costs. Merging entities or creating new structures is not always the most efficient way to achieve real change; close attention should be paid to introducing the right incentives and adapting management practices. Some specific problems that occurred in connection with the reforms in OECD countries are also worth highlighting.

Performance measurement difficulties

Rewarding individual performance is in principle a very good thing, but is difficult to apply in practice. In particular, measuring individual productivity for nonmarket products is highly problematic. This leads to difficulties in establishing quantitative public sector performance criteria and individual performance measurement. None of the attempts to provide performance-based special reward systems for civil servants has been successful. Additionally, in most cases, such attempts have had a negative impact on the morale of civil servants. Many OECD countries have therefore abandoned special mechanisms to reward individual performance and have focused instead on team performance at the level of organizations or units. Of course, performance was and remains a key consideration for individual promotion and career development.

Program evaluation

Also problematic is program evaluation, i.e., an in-depth assessment of results that goes beyond indicators and seeks to identify cause-effect relationships and the reasons for a particular level of performance. Evaluation is important because it could provide a good alternative to traditional controls in a context of devolved management: if an organization continuously evaluates itself, control ceases to be exceptional and loses any inquisitorial

character. In Australia, for example, all departments have been required to evaluate each of their programs every three to five years since 1987. But the experience of Canada and the US suggests that, however valuable such evaluations may be for assessing policy changes, they are of more limited use in annual budgeting and expenditure control. Difficulties arise for several reasons: the complexity of the information analyzed, problems of timing between the evaluation and the budget cycle, and a focus on reducing expenditure—all limit the frequency and the quality of the evaluation.

Ethical tensions

Governments must be alert to the implications of making radical changes in a period of adaptation and instability as this can create new opportunities for less integrity and more corruption (Chapter 17). Public procurement and contracting out create new partnerships between the public and the for-profit sector, while at the same time the new devolved environment removes traditional controls. Only a strong tradition of public integrity allied with the commitment to sustain an ethical infrastructure can prevent major failure.

Fragmentation and confusion

Fragmentation and confusion are also significant risks when giving more autonomy to managers or to lower levels of government. In the US, for instance, efforts to give greater flexibility to states and localities have not resulted in greater harmony between levels of government. Instead, the necessary parallel expansion of federal mandates has heightened intergovernmental tension. Similarly, the extensive use of the private sector in service delivery, sometimes in competition with public institutions, has led in some countries to a degree of confusion on who is in charge of what, and citizens can find it hard to find their way in the complexity created by the multiplicity of service providers. This is mentioned as an emerging problem in the social sectors in the UK, for instance.

Low morale and reform fatigue

Low morale and reform fatigue are a risk when comprehensive change is taking place, and civil servants are constantly required to do more with less, while at the same time their jobs are threatened. The potential negative implications of decentralized personnel management

for staff morale have often been underestimated. For many countries this would mean internal conflict and increased uncertainty, which could lead to the opposition of the civil service to reform. This is why Australia, Canada, Netherlands, and the Nordic countries have maintained mechanisms for ensuring the cohesion of their civil service through the close involvement of the employee unions in the reform process (e.g., in the Nordic countries) or the maintenance of some central systems of job classification (e.g., in Australia). Governments can avoid reform fatigue by gaining stakeholder buy-in, rewarding innovative and responsive behavior, and communicating successful outcomes. Instead of continuous reform, governments need to evolve organizations that can *adapt to change*.

After almost 20 years' experience with various reforms, OECD countries felt that they should meet to compare their experiences and discuss potential improvements and new challenges for the future. In a symposium organized by the OECD (Government of the Future: Getting from Here to There, 14–15 September 1999), the Public Management Service of the OECD (PUMA) used nine country case studies and presentations by academics and practitioners in public reform.⁸ The following general lessons can be drawn, and provide the basis necessary to elaborate third wave reforms.

Need to think strategically

The challenge to government is to move away from opportunistic reform toward more strategic reform. Strategic reform involves developing a clear vision, building a constituency, planning tactics to achieve outcomes, and communicating the vision and anticipated outcomes to stakeholders and the public at large.

Need to consult with citizens

A common vision serves to unify political leaders, senior officials, frontline workers, and the general public. It also provides a guideline for choosing goals, for developing strategies to achieve those goals, and for measuring results. To articulate a common vision, government must consult with stakeholders and bring together their many, varied visions. The task of consultation is not an easy one. Government needs to gain support for reform from other centers of power, especially political leaders, and to work with them to identify a public agenda out of diverse interests. It also needs to educate its citizens about the stakes of reform. The public is interested

in the results of reform, not necessarily in the process. Gaining public support for reform means not only choosing an agenda that the public cares about, but also earning the public's trust that government actions will lead to positive results.

Need to communicate to the public

Communicating the need for reform involves transmitting the values and goals that underlie the reform vision and identifying and addressing the public's fears. A compelling statement of values creates an emotional connection with the public by reflecting its own desires, and helps government workers overcome bureaucratic self-interest to change behavior. Communicating the process of reform helps government workers understand their role in reform and maintain the cohesion of reform efforts. It also provides a timeline for achieving results. Communicating successes with reform serves to build public confidence and maintain the momentum of reform efforts by bolstering political and public support. The reform message must be simple, understandable, and honest; must point out the potential costs and inconveniences of reform; and should not over promise outcomes.

Create a change-enabling culture

Reform should seek long-term change in the behavior of government by changing organizational culture. Incentives need to be built into reform efforts so that government workers are rewarded for actions and outcomes that are consistent with reform goals. Government must foster cooperation rather than coordination by reducing the segmentation of tasks and putting emphasis on global performance. Each country has a different institutional model for providing the capacity to drive reform. The more decentralized the system, the more important it is to have both formal and informal channels of communication to maintain cohesion in the reform process.

Leading the reform

There is currently a debate among OECD countries on how to bridge the gap between the development of reform and its implementation. Some countries have stressed that providing incentives for leadership could help bridge the gap. This could be done by encouraging innovation and rewarding successes, and giving potential leaders the opportunity to develop leadership skills on the job. For other countries, well-functioning structures and processes deserve greater emphasis.

KEY POINTS⁹

Government expanded substantially in most OECD countries after World War II, and by the mid-1970s had become overextended and unaffordable. The resulting fiscal pressure prodded public administration reforms, which occurred in two broad waves from the late 1970s. The first wave—"less government"—consisted of reforms to control the growth of government spending. The second wave—"better government"—comprised reforms to improve services and relations with citizens. Currently, a "third wave" may be ongoing to correct some of unforeseen side effects generated by the earlier reforms, and to reconcile the advantages of greater managerial autonomy with the need to preserve cohesion and integrity in the public administration.

The *first wave* of reforms included efforts to both control aggregate expenditure and make government more efficient. Helped by the stimulus provided by the fiscal discipline requirements of EU, by the end of the century these efforts had been successful in restoring fiscal stability in most OECD countries.

The goal of expenditure reduction required greater selectivity in government intervention as well as some downsizing of the government apparatus. Most OECD governments responded to this challenge by withdrawing from commercial activities, while maintaining their general commitment to social protection (e.g., pensions, universal health care).

Downsizing was also achieved largely by attrition and redeployment rather than by outright staff cutbacks. The specific content of personnel management reforms varied. Some countries (e.g., New Zealand), went as far as trying to establish a single public/private labor market with fixed-term contracts for public employees and maximum mobility from one sector to the other, while other countries (e.g., Japan) have retained the traditional features of the lifetime career civil service. In most countries, however, managers have been given greater flexibility to make individual personnel decisions and to evaluate the performance of their staff.

Preserving the social protection compact, in the face of more limited resources, required also efforts to make government more efficient. In most OECD countries, such efficiency improvements were attempted through corporatization of public enterprises; some regulatory streamlining; arrangements to contract out service delivery to private entities; and giving more authority to managers. Corporatization was largely successful in improving efficiency in

public enterprises, but regulatory simplification was neither universal nor very far-reaching on most OECD countries, and contracting out is subject to severe limitations and risks. Accordingly, much of the hoped-for efficiency improvement in government rested on assigning greater responsibility to managers to manage their budgets and staff. However, managers' flexibility has been limited by the need to preserve the newly restored fiscal discipline and assure uniform treatment of government employees across all agencies. In some cases, the added authority given to managers was counterbalanced by a greater role for the employee unions. In many OECD countries, therefore, improvements in public administration efficiency were generally not as significant as the substantial improvements that were achieved in the aggregate fiscal situation.

The *second wave* of reforms—better government—was stimulated by the increasing pressure from the public for improved services and for a more responsive administration acting to serve the citizens rather than dictate to them. The two broad directions of reform consisted of moving closer to the citizens and assuring stronger accountability.

The former entailed mainly efforts to improve administrative responsiveness and service quality, and bringing the responsibility for some services closer to the users by decentralization. In turn, better service quality called for improving transparency in administration, opening channels for participation, addressing client requirements, and increasing accessibility.

Enhanced accountability is the counterweight to providing more autonomy and flexibility to public managers. However, even when effectively counterbalanced by internal accountability, the greater autonomy of public managers carries the risk of diluting the accountability of the executive as a whole to the legislature. This raises issues such as whether top public managers (rather than ministers) should report directly to the legislature, or whether legislative bodies are adequately equipped to oversee results, and similar difficult questions. One solution in some OECD countries has been to separate accountability for operational matters from accountability for policy. In any event, greater autonomy for public managers has entailed in most countries the need for stronger external audit and evaluation.

The speed and methods of administrative reform have been mostly country specific, but three approaches can be identified among OECD countries. A few countries shifted to a private sector approach in government, through introducing quasi-market mechanisms, splitting policy from implementation,

adopting commercial accounting, etc. Other countries added new solutions to existing models, for example by giving more responsibilities to the voluntary sector. A third group of countries preferred ad hoc pragmatic responses to specific problems, while maintaining their framework of rules and procedures. Common issues have emerged, however, and mainly the difficulties of measuring performance; ethical tension between delegation of authority and protection of integrity; risk of fragmentation and confusion in state intervention; demoralization from authoritarian introduction of top-down reforms; and uncertainty from never-ending change transformed into an end in itself. As noted, therefore, many OECD countries are now in what may be called *third wave* reforms—to preserve the good innovations of the previous years while jettisoning the ones that have proven to be too costly or counterproductive.

NOTES

- ¹ The guidance and extensive comments of Anne-Marie Leroy and Salvatore Schiavo-Campo are gratefully acknowledged. This chapter partly relies on Boston (1998); Ives (1995); Jensen (1998); Premfors (1998); Rhodes (1998); OECD (1995b, 1996, 1997b); and the OECD Public Management Web site: www.oecd.org/puma/.
- ² Excluding interest payments on government debt, several other countries (e.g., Italy) also generate a “primary budget” surplus.
- ³ See Schiavo-Campo et al. (1997) for a discussion of the methodological difficulties of measuring and comparing government and public sector employment.
- ⁴ Moreover, complex and opaque regulations are a prime source of corruption, as discussed in Chapter 17, and regulatory streamlining is the single most effective means of combating corruption.
- ⁵ The Japanese Government has been weighing the need for the public sector to hold on to public corporations, considering current socioeconomic conditions, and has been taking steps to abolish, consolidate, or streamline public corporations as decided by the Cabinet in 1997. Among other changes, six financial institutions were merged into three in October 1999.
- ⁶ A national reflection on the advantages and costs of this system was set under way with the change in government from the 1999 elections.
- ⁷ Accrual budgeting requires accrual accounting; accrual accounting does not require accrual budgeting (Chapter 7).
- ⁸ These documents, including the report on the Symposium findings, are available on PUMA’s Web site (<http://www.oecd.org/puma/>).
- ⁹ Because this chapter is a review of OECD country experiences, the customary section of “Directions of Improvement” would not be appropriate and is omitted. (Some of the lessons of reform experience in OECD countries were described in the previous section.)