

IMPORTANCE OF PUBLIC SECTOR REFORM
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Our reasons for suggesting that public sector reform should be a more important component of the initial technical assistance to Eastern Europe are as follows:

1. Development of Private Sector. Hopefully, the new political environment in Eastern Europe will provide badly needed opportunities for private enterprise to contribute heavily to the future of the people of Czechoslovakia through jobs and strong economic growth. Only the private sector can provide this growth.

It is the public sector, however, which will either develop market-oriented policies and provide a positive environment for private enterprises, or conversely, produce policies that inhibit growth of the private sector and present obstacles, such as onerous processing of permits and licenses and inordinate customs delays because of red-tape and inefficiency. Divestiture of expensive public enterprises obviously requires a public sector partner in the process.

The emergence of a vigorous private sector will require sustained economic reform and political stability, circumstances which are almost impossible without the establishment of a stable and competent government. The same is true of foreign investment. Macroeconomic policies, such as the avoidance of overvalued currencies and high inflation, are essential for a thriving private sector. The new government has limited experience in these critical areas, and technical assistance in sustained implementation of privatization and economic reform would seem to be essential.

2. Democratic Institutions. Neither the yearning of people for democracy nor high level policy decisions to achieve democratic institutions and practices in themselves produce reforms. This is clearly an area of drastic public sector changes that can be institutionalized only through careful planning. Our experience in Latin America demonstrates some of the difficulties involved, although we believe the process will be somewhat easier in Poland because of their culture and their strong leadership.

The electoral process is a vital component of democratic initiatives, and with committed leadership, can be established rather quickly. Administration of justice that commands the confidence of the citizenry, however, involves many other governmental activities, national and local, and requires considerable time and effort to institutionalize. A.I.D. hopes to provide assistance in some aspects of the democratic initiatives, but more elements are needed.

3. Corruption. Recent history with instances in which repressive governments have been swept away, only to be replaced with well intentioned leadership that lacked the competence to avoid emergence of a new brand of patronage and corruption.

Aquino's government, for example, is now threatened not so much by the communists as by wide-spread incompetence and the fact that Marcos' despised corruption has been replaced with corruption by Aquino appointees. Arguments that patronage and corruption have not reached Marcos' levels are not regarded as very relevant in Manila. Protests in Tiananmen Square began primarily as complaints against patronage and incompetence in the government. The democratic dimension was not strong at the beginning of those protests. Some of us, though, who were in China at the time saw democracy develop rapidly into a rallying cry as the weeks went by without a response from the Chinese leaders.

If patterns of patronage and corruption are permitted to redevelop in the early stages of the new government, they will be very difficult to eradicate later on. These are additional areas of capacity building that cannot be handled on a piecemeal basis.

4. Governance. Although Czechoslovakia has some very able people in the new leadership, we understand their ranks are thin. This means that a handful of people are faced with a very formidable task of quickly (a) developing a public sector, capable of planning and implementing a sustained economic program, (b) establishing democratic institutions and practices (c) establishing meaningful local government and effective relationships between Prague and those governments, (d) promoting market oriented incentives and a strong private sector, and (e) establishing procurement, financial and personnel management that will both guard against corruption and yet not inhibit the capacity of a fledgling government to act.

Governance will involve effective functioning of the top echelons of government if these basic objectives are to be realized. It will require, for example, the planning, implementation, and coordination of a variety of inexperienced ministries and agencies on a sustained basis while dealing with a convergence of major issues, establishing a new political system, and operating in the unaccustomed environment of public visibility and open criticism.

Not many well established governments are capable of doing all these things under conditions far less demanding than those facing Czechoslovakia. In addition, the time pressures will be enormous, particularly when one remembers how quickly large

scale protests can develop from an impatient citizenry with unrealistic expectations of the improvements freedom will bring them in their quality of life and how soon those improvements will take place.

Many aspects of public sector reform will require a longer term effort in Czechoslovakia over an extended period of time. This includes the establishment of effective accounting systems, personnel classification systems, executive and employee development programs, etc. The great urgency at the moment is not these detailed administrative systems, however, but rather that of establishing a basic organization and management framework that will enable rapid implementation of policy decisions, as well as the prompt installation of basic finance, personnel, and procurement controls that will avoid corruption from the outset.

Worldwide experience has demonstrated many failures and near failures of economic and political reform because of (a) lack of political will to sustain the difficult, but often necessary, structural adjustments required by certain donors as conditions for their assistance, and (b) major deficiencies in the managerial capacity of the governments receiving assistance to implement economic, social, or political reform.

The great opportunity the courageous people in Czechoslovakia have gained for themselves is far too important to lose because we and others fail to provide proper cooperation and support.