PUBLIC SECTOR REFORM;
PREREQUISITE TO PRIVATE SECTOR GROWTH

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It is against this background of belief in the fundamental importance of private enterprise that I urge people not to forget the importance to any country of another element of success; namely a carefully designed public sector that can sustain democracy and foster a robust private sector.

It is the public sector, for example, which will either develop market-oriented policies, or conversely, retain and/or produce policies that inhibit the growth of businesses and discourage investment. How significant are governmental policies concerning free trade? What about patent policies? And tax policies? And tariffs?

In this brief paper I will highlight a few of the many ways in which private businesses have a stake in the type of governments that understand the needs of business and can govern effectively.

Economic Reform. People often equate economic reform with the adoption of new macroeconomic policies and plans, assuming virtually an automatic sequence of events from design to successful results. This fallacy is one cause of great disillusionment and even failure.

Private enterprise is deeply affected by the success or failure of macroeconomic policies, which have to be established by the government, although hopefully the government will seek the counsel of business on a continuing basis. If government monetary policies permit inflation to skyrocket, if fiscal reserves are virtually nonexistent, and if fiscal instability mounts, where does that leave the private sector? When governments permit currencies to become substantially overvalued, how can exports compete in the foreign marketplace?

No matter how expert the economists who draw up such plans, and no matter how determined the national leaders may be, there will be no meaningful reform without first having the governmental capacity to implement these reforms and an ability to secure the cooperation of private enterprise.

Various ministries and the central bank have to function as a team. The devaluation of currency mentioned above, for example, will likely result in an alarming rise in inflation unless there is a concomitant program of monetary control by the central bank. Unless their roles in economic reform are coordinated, the reform will sputter as each unit of the economic team surges ahead independently, and then falls back because their individual efforts are not sufficient to move the total program forward.

A full discussion would require examining many other areas such as the necessity of access of credit to businesses and the establishment of a private banking system, all of which require governmental cooperation - and generally some assistance to initiate.

Sustained Effort. People have to recognize that economic reform takes considerable time. Because various brands of "shock treatment" approaches are used at times which include initial draconian steps such as drastic devaluation or sudden clamping down on credit and quick removal of all price controls, some have the erroneous impression that a courageous and decisive initial attack assures lasting reform.

While it is true that under certain conditions this type of approach may shorten the period required for results, it should be recognized that even when this approach works, the complete set of actions required for economic reform cannot be compressed as much as one might like. The total time for people to see positive results may be disappointingly long even when conditions are favorable. And if the shock approach is used in situations where there is not an existing base for a strong private sector that can gear up rapidly to increase economic growth, the period between applying the economic medicine and recovery will, indeed, be long and agonizing.

The difference between rebuilding a vigorous private sector that has been set back temporarily by the ravages of war, for example, and the building of a private sector smothered for decades by a communist approach is enormous in many ways, including the length of time for recovery.

Recovery steps taken in the case of rebuilding after a period of prolonged socialism normally require, for example, a rapid reduction in the bloated bureaucracies of most ministries and public enterprises. In a socialist system in which governments have relied on the public payroll as a means of avoiding significant unemployment, this new phenomenon of rising unemployment creates considerable dissatisfaction and impatience with the time involved in generating new jobs to take the place of those formerly employed by virtue of the overstaffing of public entities. Without positive government action to quickly provide the type of policies and incentives require for rapid development of private sector generated employment, a very prolonged and damaging period of unemployment and underemployment is likely to ensue, a situation which also means problems for business.

Understanding of Private Sector Needs. There are many varieties of privatization, all requiring a government that understands the private sector. Full divestiture involves both a sympathetic government and outside technical, and often financial, help to succeed. Establishing the market value of enterprises that are to be divested is not an easy task for any government, but it is particularly difficult if a nation is emerging from a socialist type of government. The political issues involved may delay the action so long that potential investors grow impatient and place their funds elsewhere. It requires a sophisticated government to determine what regulatory framework may be needed for divested enterprises as distinguished from excessive and counterproductive regulations that remove the incentives for the aggressive marketing and risk taking that private businesses need to produce vigorous growth.

Important as divestiture of most public enterprises may be, there will always be a few that public policy will determine should be retained as public enterprises.

Development of market oriented incentives for public enterprises that are to be retained as public entities involves a careful blend of public requirements such as transparency and public accountability, while at the same time requiring the hiring and training of staff with the entreprenuership needed for efficient operation and aggressive marketing. It is impossible for government officials to make sound judgments in such areas without having had prior experience in the private sector, although this problem can be alleviated somewhat by various advisory mechanisms which draw upon private sector experience, provided precautions are taken to guard against conflicts of interest.

Managerial Capacity of Government. Perhaps less apparent to policy makers, but nonetheless of considerable practical consequence to business are the delays and extra costs borne by business, because of government red tape, such as onerous procedures and incompetent processing of permits and licenses or the inordinate delays encountered by imports in the customs operations.

Confusion and overlapping roles and lack of accountability in ministries is a highly frustrating circumstance which often confronts businesses. When decision making is shared among a number of officials, perhaps further diffused by the presence of advisory and coordinating committees, delays are inevitable, and the task of fixing responsibility for these delays in order to stimulate action becomes time consuming and often fruitless.

These types of governmental inefficiencies that so often plague businesses are not avoided simply by good intentions or promises of government leaders. Neither are they are swept away by edict. Stultifying red tape can be avoided only through recruiting and retaining well trained government employees and by process designers who know how to set up streamlined government procedures. These are always in short supply.

Corruption. Political instability and erosion of public confidence resulting from corruption damages the nation as a whole, but business is impacted as hard by government corruption as any segment of society. It is certainly true that a few businesses can move forward with the benefit of bribes, kickbacks, and access to inside contracting information. The private sector as a whole, however, suffers along with the public generally.

By and large it is the smaller businesses that are hit hardest by red tape and corruption. They have the least resources, and the least top level access that are needed to overcome these obstacles. Yet a broad based private sector that includes small business and micro-entreprenuers is important from the standpoint of economic and also better able to help provide social and political stability than a private sector dominated by a few large enterprises. It is also very much in the interest of private enterprise to include a large number of small businesses to help provide the political support needed for government actions favorable to a healthy private sector.

Again, the avoidance of government corruption requires more than honesty and good intentions. It requires the careful design of procurement systems that minimize vulnerability to corruption. It requires painstaking development of accounting and contracting systems that decrease opportunities to misuse funds. Corruption avoidance requires independent auditing organizations and the capacity in all ministries for quick corrective action.

Most of all, corruption fighting requires a system for replacing patronage with the merit selection of those in the public service. Again, this also requires selection of top ministerial officials who are experienced in running operations that are efficient and honest. Too often, these are in short supply.

SUMMARY

Governments simply are not effective in generating economic growth. For many reasons the engine of growth is the private sector. But a vigorous private sector will not emerge in any nation that has in place a weak government that cannot avoid economic instability and the resulting threat that the country may deteriorate into near economic chaos. Private businesses cannot thrive in an environment of misguided government policies that throttle trade or fail to understand how the market system works and how to support it. Neither does the private sector do well when the government is corrupt or when it shackles business with bureaucratic red tape.

Because government does play a vital role in enabling business to move forward, it is important that the private sector take a strong interest in helping government leaders with information and constructive suggestions. Too often business leaders around the world spend too much time in their board rooms grumbling about government and not enough time trying to find areas of common ground. Too often government officials deal at such arms length with the private sector they fail to recognize how much the energy of that sector can contribute to the national goals. And too often neither one realizes the necessity of working together as partners in the complex task of moving the country forward. Finally, to earn public support, it is important for business to practice good citizenship such as paying its fair share of taxes and protecting the environment from industrial pollution.