

**GOOD GOVERNANCE IN POLITICS,
GOVERNMENT AND CORPORATE SECTORS
IN THE REPUBLIC OF KOREA**

**GLOBAL AND REGIONAL EXPERIENCES
IN
PUBLIC SECTOR REFORM**

By

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“The best cure for dirt, is sunlight.” Anon. US Senator

INNOVATIVE MODELS OF PUBLIC SECTOR REFORM

Context

Economics is the study of how we satisfy unlimited wants from limited resources. Governance is the description we apply to the process of making the collective choices that arise. Public sector reform is about improving links and accountability between the executive government, the public service¹ administration and citizens, as these choices are made. By improving links, the quality of information on which choices can be made is improved and so is the quality of the choices.

Efficient management of the resources under government ownership is crucial to good economic performance. It affects living standards as much as ensuring that public goods are allocated fairly. The need to constrain government spending has forced many governments to assess the value received for money spent on public services. Powerful forces have led to a convergence of different public service traditions and are molding the public services and private sectors of different countries into similar paths.

Convergence

This convergence is in part, the result of all countries facing similar problems and turning to the same fundamental principles for answers. Globalization is forcing all countries to realize that ineffective government can cause a lack of competitiveness for their industries and threaten the stability of the economy and country. Widespread penetration of multinational business enterprises, with linkages into networks of ideas about good management practice, brings together aspects of different administrative cultures and traditions. Firms and universities sending their executives and teachers to the same business schools is providing common sources of ideas about best practice in public sector management and these are being applied in increasing numbers of locations. The declining influence of the idea that businesses are intrinsically anti-social, is forcing people to think realistically about what a public service can deliver.

Political Convergence

Not only has there been a bureaucratic convergence but there is also a political convergence between Social Democratic and Conservative, governments. Economic pressures for international competitiveness, and low inflation, force governments to require public services to perform better with fewer resources. The OECD² has

¹ The New Zealand Term for the Government Administration is the Public Service. In the United Kingdom it is generally called the Civil Service.

² *Issues and Developments in Public Management*, OECD 1997, from Page 77

identified areas of innovation among its member governments. They have been forced to focus on:

- Results, to complement devolved management authority thereby improving performance and enhancing accountability,
- Service quality, which involves public consultation and leads to public services that are more relevant to needs and more responsive to demands,
- Adapting organizational structures to improve service, performance, accountability and efficiency,
- The importance of effective workforce leadership, to facilitate the stronger performance orientation and service-orientated culture,
- Regulatory reform as a tool to improve the capacity of governments to achieve policy objectives efficiently and cost-effectively,
- A strengthening of steering functions at the center of the public service to drive reforms strategically and promote policy coherence on complex policy problems and devolved public sector management.

Areas of Innovation

The overriding theme of public service reforms has been a shift from a focus on compliance with rules to a focus on governance, or the achievement of politically determined goals. In exchange for greater freedom to manage resources and budgets, public service managers are subjected to a greater degree of monitoring of performance and held accountable for results. This puts more demands on the officers of the public service and requires the nurturing of different skills.

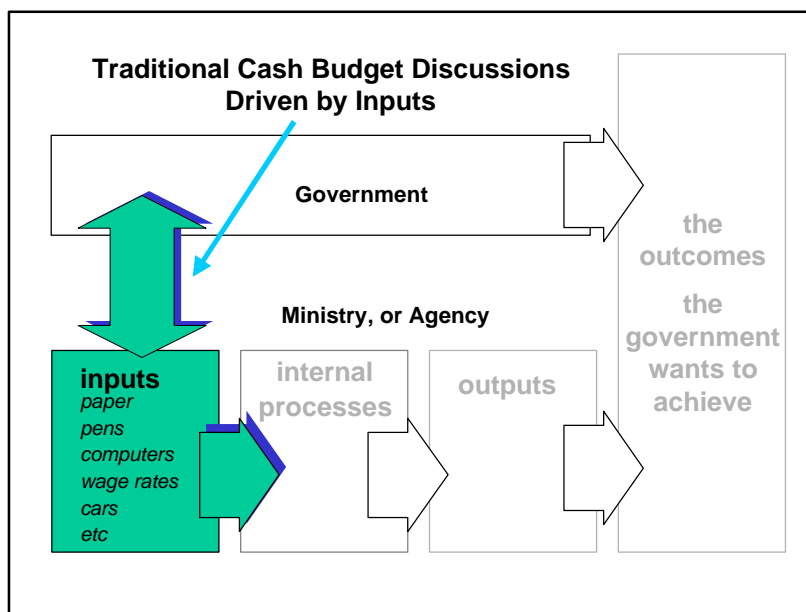
Governance

In the English language, the word "Governance" has its origins in a nautical word meaning, "to steer."

Results: Ownership and Purchase

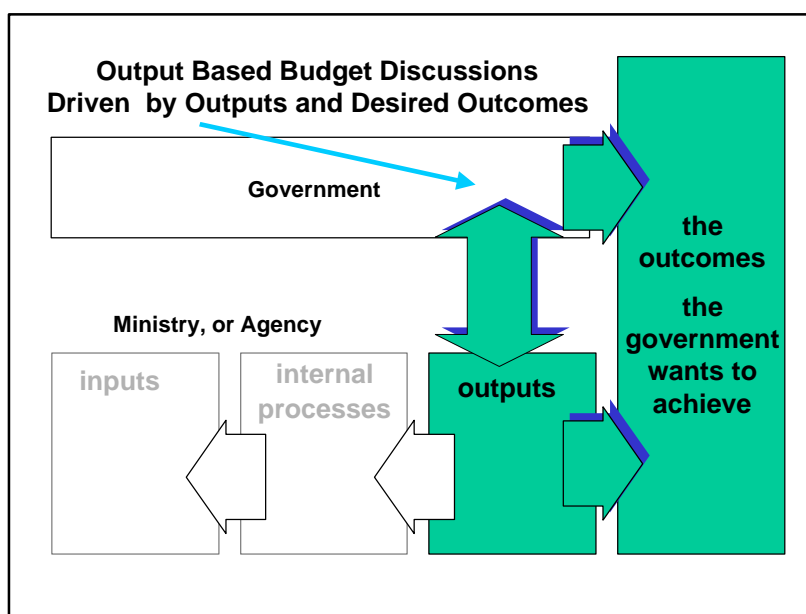
Governments have to be aware that their demand for support and service from the public service goes hand in hand with responsibility for the stewardship of the public service and maintaining its quality. Full accrual accounting and recognition of contingent liabilities has been a big step forward. Sweden, some states in Australia and the United States, New Zealand, and now Mongolia, have gone further and replaced, traditional public service input budgeting. Instead of decisions on inputs, or resources driving policy, policy decisions drive the allocation of resources. The effect of traditional input budgets is described in Figure 1. It shows how under traditional input based budgeting, the focus is on administrative detail. With output based budgets the focus shifts from computers, vehicles and staff numbers to what agencies actually do. The focus is on what they deliver not on what they consume.

Figure 1
Input Based Budgeting



Output budgeting increases flexibility for resources to be managed. The effect of the change is illustrated in Figure 2. The focus moves to the outcomes the government wants to see and the outputs the agency will deliver to that end.

Figure 2
Output Based Budgeting



Outputs are service options, offered by ministries, which ministers can either “purchase” or reject. These are expected to make measurable contributions to the policy “outcomes” that ministers are seeking. They are descriptions of what ministries and agencies are actually providing. “Output based budgeting” can be likened to buying a car. The customer is not interested in how many computers are

used, or the training and leave provisions of the factory staff. The customer wants to know if the car is a cost-effective solution to his transportation needs. Similarly, the government judges whether the “outputs” from the ministry will be a cost effective contribution to the outcomes the government wants to achieve.

This is further clarified by distinguishing the government’s need to “purchase” services from its own ministries and agencies, on the one hand, from its stewardship responsibility, as the “owner” of the agency, on the other. New Zealand has probably gone farthest in defining the ownership interest of the government. It can be described in terms of preserving the value of the agency. Ownership has to be refined into measurable concepts. These concepts relate to ensuring:

- Strategic alignment - between institutional arrangements, objectives and co-ordination across the whole of government
- Integrity of the public service – ensuring that the collective management conditions for coherent government are in place and complied with,
- Future capability of agencies – investment in and management of strategically important resources to enable agencies and the public service as a whole to deliver on expected future business demands
- Cost effectiveness over the long run – ensuring required outputs continue to be produced cost effectively.

The government’s ownership interest can be likened to maintaining the capital of the ministry or agency. The ownership interest is preserved if investment, particularly, in human capital equals or exceeds its “depreciation.”

Accountability

Distinguishing ownership and purchase roles is an innovative approach to clarifying roles and strengthening accountability. Other, complementary techniques, can range from performance based partnerships, as in the United States, to performance and service contracts in countries as diverse as Denmark, France, Greece, Iceland and New Zealand. Under a performance contract, the Chief Executive of an Agency has responsibilities similar to a private sector Chief Executive. He, or she, is required to act prudently, exercise due care, including complying with all regulatory requirements, etc.

The Chief Executive is also required to preserve the capital of the agency, (the ownership interest), and comply with the specific tasks and performance criteria agreed with the Minister. The fact that Chief Executive is not required to do anything that the Minister is not prepared to fund, puts him in a stronger position to resist random requests from politicians for ad hoc expenditure for transitory political objectives. The Performance Agreement of the Governor of the New Zealand Reserve Bank, links his salary to the level of inflation. Other Chief Executives have their salaries linked to other indicators of performance.

These techniques have proven more effective in controlling expenditure and performance than the mandated expenditure cuts tried in the many countries, most notably the United States, under the Gramm-Rudman Act. Under this Act, global expenditure targets were set, significantly below current levels, and government agencies were mandated to cut their expenditures accordingly. The problem with this approach is that the public service has no political direction on what is considered high quality expenditure and that which is of lower priority. The good gets cut with the bad. Under a performance contract, or purchase agreement, the politicians are required to spell out their priorities and convey these to the bureaucrats.

Responsive Service

Consumers, who are also voters, increasingly demand service from the public service, as responsive as that they receive from suppliers facing competition. In 1996, Ireland introduced an integrated program aimed at improved service delivery, to citizens, called “Delivering Better Government.” This initiative has been comprehensive in approach and recognizes the need to integrate improved service with improved incentives and training for staff.

Change Can be Popular

On the 1 April 1987, five months before a general election, 60,000 New Zealand public servants were reorganized from ministry employees, on centralized public service wages and conditions, into nine companies, registered under the companies act, with private sector directors and shares owned by the government. More than 10,000 people were made redundant. The government was re-elected with an increased majority. A year later all remaining public servants went onto collective or individual contracts negotiated with their agency.

The United Kingdom has introduced “Citizens Charters” codifying the rights of citizens in relations to bureaucracies. If service standards are below those defined in the charter, compensation may be payable. Even the London Underground has monthly service reports hung at each station to report on service standards for the particular line. Other ways of encouraging responsive service, tried in Belgium and the Netherlands, entail responses from citizens on their degree of satisfaction. Integrating service delivery through “multi-service” centers has been tried in Canada and Finland. There has been a growing emphasis on citizen consultation and participation.

Clarifying Structures

Clarifying Organizational Structures is an important precondition of making public services transparent. Russia is in crisis today, partly as a legacy of the Soviet idea of putting all aspects of a sector under one organization. It ensured that nobody quite knew whether they were running a business, a ministry or were making policy. Sometimes they did all three. Overlapping structures made performance, profitability and even solvency difficult to judge. There is an international trend towards structures where each operational task is assigned to a specific agency or business unit.

Clarifying Functions

The trend has been towards separating organizations engaged in service delivery from those engaged in policy advice, or issuing regulatory rulings. The State Owned Enterprise Act of 1986, in New Zealand set out a framework for managing state enterprises. Essentially:

- Non-commercial functions were separated out from business enterprises,
- Business enterprises were given a primary function of operating as a successful business,
- Managers were held accountable for agreed performance and free to make all management decisions,
- All competitive advantages and disadvantages from government ownership were removed.

Sectoral policy issues, such as subsidies, or occupational regulation were separated from enterprises in the sector. Ministers were separated from day to day decision making but they retained control of strategic decisions, through setting business targets and performance levels for management. Spectacular improvements in performance were recorded. The Forest, Electricity Post Office, Telecom, Post Bank, Airways and Coal Corporations went from massive trading losses to profits in one year. In the Coal Corporation alone, after losing money in 19 of the previous 20 years, it went from a NZ\$ 97 million loss, to a NZ\$ 4 million profit in one year. In the same period the price of coal fell from NZ\$ 100 a ton, to NZ\$ 60 a ton.

The same people were running the enterprises, only the policy framework had changed. The logical progression of this trend is the separation of business activities from the public service altogether. Given appropriate policy and regulatory frameworks, functions that have always been associated with the public service can quite easily be privatized: postal, railways, ports, airports, prisons, care of the aged and social service delivery. As can be seen in Figure 3, in Communist Vietnam, “Equitization” of enterprises, (virtually the same as privatization), has resulted in spectacular increases in employment, profits and taxes paid to the government.

If privatization is not possible, corporatized agencies, in a private sector corporate form and subjected to normal, fair competition can register significant improvements. Experience strongly suggests that the key to performance improvement is the threat of competition. If the benefits are to be sustained eventual privatization helps “cement in” performance improvements.

Investment in Human Resources

The public service in many countries has recognized the need to improve the quality of its human resource. Europe in the eighteenth century adopted the Chinese model of a centralized public service recruited through competitive examination. Countries, as diverse as France, India, Pakistan and Bangladesh retain elements of this model.

France also has the famous “École Nationale d'Administration,” producing graduates dedicated to excellence, which is attended by most of the country’s senior officials and officials, turned politicians. The United Kingdom introduced the idea of a core of senior public servants with the objective of identifying and nurturing potential of high flyers. A similar idea in New Zealand did not really succeed. It was against the main thrust of reforms, which moved away from an integrated public service culture.

Figure 3
Equitization of Enterprises in Vietnam

Enterprise Name	Turnover (Billion dong)	Profit (Billion dong)	Taxes (Billion dong)	Number of Workers	Average Income/ (mil dong)
Transportation Agent Equitized July 1993					
Before Equitization	28.2	8.4	5.7	85	21.0
After Equitization	87.2	35.0	2.3	256	29.4
REE Corporation Equitized October 1993					
Before Equitization	46.6	7.4	2.9	334	9.8
After Equitization	297.0	23.5	17.4	700	19.7
Hiep An Shoe Company Equitized October 1994					
Before Equitization	4.8	0.0	0.027	435	5.5
After Equitization	5.0	0.1	0.136	486	7.2
Long-An Export Processing Co Equitized July 1995					
Before Equitization	23.3	1.2	0.7	850	4.8
After Equitization	25.2	1.2	0.8	930	6.0
Fodder Processing Co Equitized July 1995					
Before Equitization	26.9	2.8	1.8	92	6.2
After Equitization	33.6	3.4	2.0	103	7.0

Source: Vietnam Deepening Reform for Growth, Table 3.2, Page 43, as of Oct '96

Under the New Zealand State Sector Act of 1988, each Ministry or agency is now its own employing authority. Public servants once had to seek promotions, to jobs in other towns to gain, small pay increases. Managers now have the ability to negotiate individual contracts with individual employees. Retaining key personnel helps preserve the agency’s human capital. Outside recruits are not discriminated against. Few state agencies these days can keep, “in-house” the range of expertise they require and most hire short-term consultants for specialized tasks or to supplement their staff during busy periods. Individual contracts bring flexible private sector practices into the heart of the public sector.

Fragmentation

Devolution of responsibility to managers eliminates many petty rules, which undermine efficiency and puts a lid on cost increases. However, it also creates the potential for fragmentation of responses to issues, which impact across the whole service or the whole society. Coherence can be maintained by inculcating shared approaches and common philosophies. One common philosophy has been the broad trend from government regulation to recognizing competition, as the principal regulator of markets.

In the 1960s, the systems of Program Based Planning and Budgeting were used to attempt strategic coherence. The aim was to subject every program to a “zero base and judge future commitments against common principles. The results of these exercises were generally disappointing. To give strategic focus to the public service, Irish and New Zealand governments have tried to define “Strategic Result Areas” and within these, the “Key Results” expected from individual ministries. Strategic “Result Areas” are the descriptions of where the government wants its policies to impact. Key results are brief descriptions of the impact the government wants its policies to make.

There is debate about the correct sequencing of defining outputs or developing an overall strategic capability³. Evidence seems to suggest that defining outputs has the advantage of ensuring that government organizations understand current activities. It is very difficult to manage an organization if you do not know what you are doing. Defining strategic goals, through Strategic Result Areas, suggests what the organization should be doing. Defining a strategy before clarifying current activities makes it difficult for politicians to see the linkage between strategic plans and what departments or agencies are actually doing. By contrast if outputs are defined Ministers have a clear idea of the services they are purchasing and there the logical step is clarifying whether these purchases contribute to desired strategies.

Common Threads

World-wide, there has been a trend away from direct involvement by government in economies, instead government focus more on their role as a rule maker.⁴ Most Governments now rely on competition as the principal regulator of economic activity. They rely on the private sector absorb business risks and promote economic development. The quality of outputs of institutions and the profits of businesses are more important than particular ownership.

The overall pattern of arrangements that emerges will reflect a particular government’s confidence, or skepticism, regarding the probability of government intervention doing more good than harm. *Market liberal governments*, demand evidence of tangible net benefit from new government interventions. This tradition

³ See, *Future Issues in Public Management*, New Zealand State Services Commission, Page 63, Ian Ball’s contribution, *Issues in Public Management Improvement*.

⁴ This section owes a great deal to a paper by Butcher/Scott in 1994, for a World Bank Public Sector Reform Project in Bangladesh.

believes that most government interventions will make the situation less predictable and result in inferior outcomes. Traditionally *Social Democrat governments* believed that market forces should be kept within well-defined limits, and are more likely to have confidence that government selective intervention can improve on market outcomes.

Corporatist governments are interventionist in the economy and society but need not be particularly social or democratic. Corporatism in the Iberian Peninsula and Latin America saw the powers of government used to serve elites, ostensibly, in the interests of the wider population. *Developmental governments* tend to take a strong line of intervention in the pursuit of a country's development. It is usually regarded as a passing phase. Developmental goals are very important. Market forces are encouraged and initially fostered but modified and managed by strong government persuasion or regulation.

The Government Shareholder:

"Government is always a rotten shareholder: it has a vision of about 18 months, being constrained by the distance to the next election, it is rapacious for dividends, niggardly with new capital, and always wants to second guess management and influence their decisions on behalf of their constituents." – *John Third, Managing Director Guinness Gallagher Consultants, Wellington*

These categories are not watertight. Most governments have attributes that fall in each category. China, of the Marxist-Leninist tradition, has a massive privatization program underway, including health and education services. Canada, more in the market liberal tradition, prohibits the private sector from providing health services.

Market Failure and Government Failure

Many demands for government interventions are designed to prevent "market failures." These include laws to regulate competition, externalities, information asymmetries, to provide for access to public goods, anti-social preferences, risk management, uncertainty, adjustment costs and for social equity. These and many other examples can be cited as examples of market failure. Those with a skeptical attitude to markets can easily find examples of market failure and use these to justify market intervention by governments.

Government intervention may, however, "crowd out" other initiatives and do more harm than good. Difficulties with government intervention can lead to adverse effects, so severe, it would have been better to have done nothing. These are examples of government Failure. It is not possible to rely on voting processes, any more than the market, to establish consistent public policy choices. Pressures from special interests seeking particular advantages to the cost of the public at large is known as "rent seeking." In countries with Social Democratic traditions expanded roles for government have been associated with the introduction of education, health care and stability. In the United States, the focus is more on the costs of rent-seeking and a skeptical approach is taken to government intervention of all kinds.

Public sector organizations operate in a weak incentive environment by comparison with private sector firms. Their customers often have no choice of alternatives. At

Service with a Smile

1960s, frustrated
(nationalized) British
Railways booking clerk, who
has just served a demanding
customer: “The public seem
to think we run this railway
just for them!”

the core of the problem is what are known as “agency costs.” These are the costs of establishing objectives and monitoring compliance with them. They are also efficiency losses of imperfect contracting between the politicians, as principals, and the public administrators, as their agents. Experiences with Government Failure have resulted in a body of literature with a skeptical approach to government activities. Transaction Cost Analysis⁵ and New Public Management Theory⁶ explain the importance of strategic management, in achieving policy objectives. Public Choice Theory developed in the United States, likens the growth of bureaucratic activity to the drive by businesses for profits.⁷ This and Agency Theory⁸ analyze the relationship between a government and its agencies as an implicit series of “contracts.”

Policy recommendations from these theories focus on finding satisfactory ways to negotiate, write and monitor contracts to minimize the chances of opportunism, (deception, corruption etc.) by the agent. What they highlight is that public ownership and management of activities is likely to lower incentives for effectiveness and efficiency. Facing multiple objectives, managers have multiple excuses. The trend, of the public sector borrowing techniques from the private sector, is recognition of weak incentives facing public sector managers when advising on difficult choices.

Many of the initiatives discussed above are designed to clarify objectives and provide fewer excuses for non-performance. Improved governance invariably results from policy and regulatory activities, commercial and operational activities being separated internally, inside bureaucracies, or institutionally, and at ministerial level. These measures aim at reducing the costs of intervention but will achieve nothing if the regulations simply push costs onto the private sector. Increased taxes or increasing the private sector’s costs, as it complies with rules and regulations destroy job creating potential, irrespective of the motives for interventions. This leads to a review of the lessons from international efforts at regulatory reform.

MAJOR LESSONS FROM REGULATORY REFORM

Government Regulations

It is difficult for a public service agency to appear neutral if it is simultaneously running businesses and competing with entities, it regulates. If both activities are in a single agency, it is never clear if results are due to administrative excellence or to regulatory bias. The recent trend has been to separate regulation from trading activities, rely on competition, as the principal regulator of economic activity and to

⁵ *Reshaping the State*, New Zealand’s Bureaucratic Revolution, Boston, Martin, Pallot, Walsh etc, Oxford University Press, 1991 page 7

⁶ Op cit page 8

⁷ Op cit page 2

⁸ Op cit page 5

move to “objective orientated” regulation. This last style of regulation lays down standards that must be met, but allows the maximum discretion in how to comply. This approach reduces the cost of regulation, minimizes the opportunities for rent-seeking and makes it easier to hold people accountable. This

Careful Consideration

“Thirty five years ago, as a young field officer, I used to search for the deeper meaning underlying the strange regulations that emerged from the head office of the ministry. With the benefit of nearly 28 years of experience, I can now say, truthfully, that there isn’t any. In all those years, as a government adviser, all the regulations I was involved in putting out were the result of last minute panics and hasty ill considered compromises.” *(Senior Official at retirement function)*

environment focuses on whether the objectives of regulations can be achieved more cost effectively than by prescriptive rules.

Trade Regulation

Government regulations evolved from trade taxes and monopolies for favored supporters of monarchs or autocrats. “Economic rents” accrued to the person with the rights conferred by the regulation. These were used to bribe sufficient influential people to sustain the sovereign in office. The beneficiaries of trade taxes are easy to identify. They are the groups protected from competition. Taxes increase the prices competitors must charge. Groups penalized are more diverse and frequently not greatly affected by any individual tax. Taxes on imports reduce the volume of imports because they are dearer. A large number of taxes in place has the effect of pushing up costs in the local economy.

For both reasons the demand for foreign currencies falls, resulting in an exchange rate higher than it would otherwise be. This favors importers and penalizes exporters. Producers who function exclusively in the local market can pass on cost increases. Exporters, cannot. Their incomes are cut and their costs increase. This reduces their ability to export. The principal effect of an increase in tariffs, is a cut in exports⁹. The principal cost of regulated trade is a loss of international competitiveness. Following the end of World War II, the centrally planned, African, Latin American and other economies, engaged in tight protection for local industry. The main impact was to price their products off world markets.

In recent years, Korea has significantly reduced formal barriers to trade. Competitive economies have greater growth potential and greater potential to export. It now appears that in the face of the Chinese devaluation, in 1994, many economies, such as Malaysia, Thailand, Indonesia and Korea, did not move fast enough to expose local manufacturers to the new reality. Retaining protection slowed the transition to more sophisticated forms of manufacturing, where China cannot yet compete. Trade protection was a major cause of current problems.

Price controls are a special form of trade regulation. Because of the asymmetrical information possessed by regulators and regulated they are generally ineffective if kept in place over long periods. There was no benefit to the consumer from liquid

⁹ *How Protection Taxes Exporters*, Clements and Sjaastad, Trade Policy Research Centre, 1984

fuel price controls, which had been in place in New Zealand for forty years. It was the oil companies, which had profits guaranteed by regulation. Deregulation forced the companies to compete with each other rather than spending their time lobbying government. After deregulation, each of four foreign oil companies had to spend NZ\$ 300 million to secure their market share.

Currency-Exchange

Currency and capital controls have similar effects as trade controls. They inflate the value of the domestic currency and discourage exports. They also have the effect of discouraging inward flows of capital and creating opportunities for “rent seeking” activities. Countries such as Nigeria, Kenya and China which have operated dual exchange rates, or used administrative methods to allocate currencies for many years, pay a heavy penalty in undermining the integrity of their public services.

Ganging Up

“I know that oil companies are ruthless and cut throat competitors. I much prefer that they spend their time and energy competing with each other, rather than ganging up against me!” – New Zealand Minister of Energy on the deregulation of oil industry.

If a currency peg is combined with loose supervision, administratively directed credit to favored clients or institutionalized “rent-seeking,” the government is in fact underwriting currency speculation. An important benefit of market determined currency values, is that speculators carry all the risks. A clean float by Malaysia would have ensured that George Soros would have carried all the risks. Currency controls create a “one-way-bet” for speculators. They can only win.

Financial System

At the core of the government’s power over the financial system is the right of the government to issue currency: seignorage. Printing paper banknotes and exchanging these for valuable goods and services is profitable. If currency issue is prudent, the principal risk for the financial system is the risk of bad management of financial institutions. In the Savings and Loans fiasco in the United States of America, lending by banks was deregulated, while the government guarantee to depositors were left in place¹⁰. This provided a huge incentive for banks to take big risks. The potential rewards were enormous and the risks were zero. In Asia, there was an accumulation of dud-loans in banks. These had an implicit government guarantee that neither banks nor their clients would be allowed to fail. The potential rewards were large and risks were minimal.

These guarantees last only as long as lenders are confident that the local government has enough reserves to back up the fixed exchange rates and enough cash to bail out their banks. When most of the “Tiger Economies,” developed large balance of payments and budget deficits, this confidence eventually evaporated. The crisis has forced many countries to review their systems of prudential regulation of banking

¹⁰ See *Full Faith and Credit*, L William Seidman, Random House 1993

systems and Thailand, Korea and Japan, have taken steps to improve the quality of banks.

Even the most diligent bank regulators have weak incentives in relation to bank depositors, directors and shareholders. In some countries, steps have been taken to put more responsibility on the banks themselves, for remaining solvent. There are heavy legal and financial penalties for transgressions. Guarantees, explicit or implicit have been removed. Depositors are empowered by regulations requiring banks to use transparent accounting systems and to report to their depositors regularly. Private sector financial analysts have stronger incentives, than central banks officials to ensure that the institutions they are dealing with are solvent.

Bankruptcy

Putting in place effective bankruptcy laws contributes greatly to appropriate governance mechanisms for financial and commercial markets. There are many occasions when bankruptcy occurs for no fault of the bankrupt person or institution. Sudden downturns in agricultural prices, like those in 1985, bankrupted many farmers who had managed their finances prudently. However, often bankruptcy is associated with imprudence or criminality. In these cases it is important to ensure that the control of assets is transferred from the bankrupt to the creditor in an orderly process. Bankruptcy laws provide an alternative to creditors, other than direct action to recover property, or extra-legal action to recover debts.

The collapse of Perigrine investments in Hong Kong following default, by a borrower, PT Steady Safe, in Indonesia, is an example of the need for adequate bankruptcy laws. The Indonesian laws gave no confidence that the creditor could recover its capital. The defaulting borrower remains in operation the unhappy lender is bankrupt. Official practices must ensure that “rent-seeking” appeals to influential people do not thwart legitimate recovery actions.

Professional Qualifications

Attempts to restrict entry to business activities by imposing entry restrictions are difficult to refuse and pernicious in their effects. Taxi regulation is an obvious common case. By licensing entry, fewer taxis are available, average fares and average incomes for drivers and owners increase. The value shifts from the car to the license. Licenses become very valuable, (licenses to print money!), and the quality of cars and service deteriorate. With deregulation, the quality of cars and service improve rapidly. However, few people want surgery from untrained doctors, so the health and safety aspects need to be separated from attempts to “rent -seek.” Repeal of rent-seeking regulations can encourage competition, offer significant cost savings, improve standards of service and increase the international competitiveness of the economy.

Public Companies and Accounting Standards

The case for registering public companies is similar to that for banks. The trend is in the direction of making directors more accountable for their actions. Laws requiring directors to accept far more responsibility including a large degree of personal responsibility have been passed in Australia, New Zealand and the United States. The emphasis is on adequate reporting, use of acceptable accounting practices and personal liability for actions. Here too transparency is the regulator.

Accounting standards are crucial elements of transparency and as such are an appropriate area for intervention. Rather than the government regulating to require all businesses to have a particular system, it is more flexible for the government to allow individual businesses to adopt the system that suits that business, provided the system is of a standard acceptable to the regulatory body of the accounting profession.

Access to Publicly Owned Resources

The rights and obligations attached to access to public resources depend crucially on the legal framework in place. In several jurisdictions, the sale of land also carries with it the air above and any mineral below the surface. In the United Kingdom and most countries with European connections minerals ultimately belong to the State. In societies, which were formerly considered, “frontiers,” air and water were treated largely as free goods available to the first arrivals.

As the scarcity and environmental values attached to public goods have become more apparent, regulatory devices have been tried to control access, exploitation and depletion. In general, those, which create a property right, which can be traded, contribute the most to economic efficiency and environmental integrity. Discharge permits or rights of access to the radio frequency spectrum are tradable, they will gravitate over time to the parties, which can make the most valuable use of them.

Trading property rights is not a perfect method of allocation. It can sometimes have unfair or socially undesirable results, as when a pornography vendor can obtain access to the frequency spectrum over a bid by an educational channel. Socially desirable outcomes can be achieved in other ways. Government funding can be provided on a competitive basis to stations that are prepared to carry quality programs. Charging for access, of itself, can have positive effects. If higher prices for native timber encourages timber companies to move to the higher quality, higher value product end, of the retail market, it will reduce their demand for timber and increase their incomes.

Competition

The United States Sherman Act of 1890 was directed against combinations and restraints of trade. Some of these were de-facto monopolies but most

Contestable Proposition

Why do we only have one Monopolies Control Commission? Debate at Oxford University Union (Debating Club)

were simply efforts to manipulate markets. In the public mind, much attention is focused on the use of market power, or dominance in a market, to restrict competition. Literature that is more recent, stresses the need to achieve economically efficient results. The philosophy could be described as “If you have additional wealth you can argue later about who gets it.” Forcing a small market to have two suppliers may encourage a small amount of competition but the overall level of prices might be higher than if there were only one. The better solution is to allow imported products to compete with domestic producers, reducing all prices, to the benefit of consumers.

A form of monopoly, widely discussed in public policy literature is the so-called “natural monopoly.” This arises from high costs of entry, increasing returns to scale and a low responsiveness of the quantities purchased to changes in the price because of a lack of close substitutes. It is common in the “network industries” such as water,

Charging for Services

Faced with a huge budget deficit the New Zealand Government began charging for many services that were previously free. One of these was the hygiene inspection of milking sheds. Farmers protested to their union leaders against the imposition of the NZ\$ 25 fee. The leaders protested to the government and the government consulted the Dairy Factories. It was discovered that hygiene tests at the factories had made this type of inspection redundant 23 years before. The whole system was scrapped.

electricity, gas and transport. These industries have large sunk costs. They cannot service their capital if they price equal to their marginal cost, which is zero. Regulatory authorities usually allow them to recover average costs. This involves a loss of welfare, although less than if profits are maximized. Government oversight by nationalization was once seen as a way of regulating networks. However, nationalization also acts as protection for bad managers. This is also costly. Fortunately, technology is revolutionizing networks. Most networks now face competition in the market place as when cell-phone companies compete with the “plain old telephone” companies. If a firm has a de-facto monopoly, because of high entry costs, or because of a small market, there is no need to regulate to make it a legal monopoly. Technology increasingly enables new entrants to compete.

Costs of Regulation

Governments must not lose sight of the cost of regulatory measures. Regulatory reform will fail if additional costs are simply loaded onto the private sector. Many forms of regulation have costly side effects. These include:

- Compliance Costs to the regulated party,
- Costs of bureaucratic activity,
- Opportunity costs of lost time and resources,
- Inefficiencies, caused by sub-optimal outcomes,
- Moral hazard costs of non-compliance and avoidance.

Some estimates of the costs of regulatory compliance on businesses in the European Union, Canada and United States are attached as Appendix 1. The fifth row shows

that, two-thirds of firms in the United States spend an average of US\$ 17,000 per employee on regulatory compliance. Firms with 1-4 workers spend \$ 2,080 per employee, firms with 500-999 employees spend \$ 120 per worker. The table also shows that the average cost of Federal Regulation is US\$ 5,700 per person. It is likely these costs not only represent a fraction of the true costs, but the evidence shows the regulations discriminate against small business sector, which creates most jobs.

Many people criticized the “light handed” regulatory regime for telecommunications in New Zealand, which relies on negotiations to settle access disputes, for excessive litigation. It was pointed out that the total cost of litigation to all parties, was less than the cost of two years work of an industry specific telecommunications regulator. In Peru in the early 1980s extensive efforts to promote employment failed until it was recognized that the cost of complying with a plethora of well intentioned environmental and labor regulations made it almost impossible to set up a new business and create jobs. 25 permits were required to open a “hot-dog” stand. VAT was popular in New Zealand because it only had one rate, was on everything and appeared fair. Several additional rates or exemptions would have increased the compliance cost of the tax by about 30% for each additional rate.

Regulatory reform has been driven by the realization that the quality of outputs from publicly regulated services could not justify the considerable costs involved. Other ways could achieve the same results more cheaply. Competition will often provide more information than a regulator could possibly seek, for no cost. Competitors will be much tougher on an incumbent, and benefit consumers much more, than a regulator. “Cost effectiveness” is a useful test of regulatory interventions, provided the costs experienced by all parties concerned are included.

TRANSPARENCY AND ACCOUNTABILITY IN KOREA

Background

In public services, the trend is towards clear mandates from political leaders, efficiency in the use of resources provided by political processes and accountability and transparency in monitoring of performance. Regulatory reform is seeing a move away from prescriptive regulations with harsh penalties for infringements, towards competitive regulation of markets, incentives for self-regulation and “objective orientated” regulations. These trends emphasize the need to hold individuals accountable for decisions, cost effectiveness of administration and enforcement. Meeting international best practice in these areas will require many changes in Korea.

For several decades, Korea has enjoyed prudent macroeconomic policies and continuing incremental structural reforms. A once poor agrarian economy has been transformed into a sophisticated industrial society. During 1997, Korea’s real GDP grew by about 6 percent and consumer price inflation declined to 4 percent. Fiscal policy remained prudent, with a small projected budget deficit for 1997. Most countries regarded these numbers as indicators of success but by recent Korean

standards, were an economy in recession. At the same time, the limitations of Korea's system of detailed government intervention at the microeconomic level have become apparent.

From the beginning of 1997, an unprecedented number of highly leveraged chaebols, moved into bankruptcy. Chaebols had operated with an implicit government understanding that they would not be allowed to fail. The high rate of bankruptcies in 1997 reflected a number of factors, including excessive investment in certain sectors and weakening export prices caused by intensive competition. They also indicated that the implicit guarantee could no longer be sustained. Bankruptcies led to a sharp increase in non-performing loans in the banking system. This increased the pressure on the non-favored, job-rich, but underdeveloped service sector. It already had to pay higher interest rates and queue for loans, behind the chaebols. The dramatic decline in stock prices cut the value of banks' equity and reduced their net worth. It led to downgrades of Korean financial institutions by international credit rating agencies and a sharp tightening in the availability of external finance, leading to more bankruptcies and major job losses.

Policy Framework

The government of Korea has put in place a comprehensive policy package to address the structural weaknesses that cause the present difficulties. Tight monetary and fiscal policies are designed to provide the macroeconomic conditions to support comprehensive structural reforms. The government's economic program¹¹ is built around:

- A macroeconomic framework designed to continue adjustment in the external current account and contain inflationary pressures,
- Recapitalizing the financial sector, and make it more transparent, market-oriented, better supervised and free from political interference;
- Measures to improve corporate governance;
- Accelerated liberalization of capital account transactions;
- Further trade liberalization; and
- Improved transparency and reporting of economic data.

The problems that have been identified call for a greater degree of transparency and accountability, imposed by the necessity to operate in an increasingly globalized world economy. Appendix 2 contrasts the traditions and practices pre and post reform with the pre and post reform positions in New Zealand. It uses the same framework to analyze the trends in Korea. It also projects these trends forward to suggest the possible effects of the proposed reforms on the Korean Public Service.

Generally the decisions taken so far are moving in the right direction. Missing, it is the realization that a focus on the cost effectiveness of regulations and greater

¹¹ See the "Letter of Intent" to the IMF, and Memorandum on the Economic Program, December 3, 1997

flexibility of labor markets can be very positive for a society. If the Korean Public Service fails to meet international best practices, offering cost effective service and regulation, it will be difficult for private businesses to borrow money, obtain credit and ultimately to enter contracts with any other business organizations in the world. The likely impact of proposed changes is now analyzed using the framework of Appendix 2.

Microeconomic

Funding

Where enterprises gain most of their capital from sharemarkets, analysts and investors demand high levels of reporting and transparency with respect to the profitability and solvency of enterprises. This check was absent in Korea because most capital was obtained from banks on conditions determined politically rather than on the economic assessments of investment proposals. This allowed enterprises to put expansion, market-share and diversification ahead of profitability and solvency. Instead of a prudent 60-40, or 40-60, debt/equity ratio, many chaebols had debts five times greater than their equity.

The decision of the government of Korea to require the publication of consolidated accounts for the major groups is an appropriate regulatory step. The fact that many of the chaebol will have to shed assets and businesses to improve their balance sheets will also enhance transparency. Further moves in the direction of publication requirements to shed “sunlight” on what is happening inside enterprises will strengthen the positions of minority shareholders and market analysts. It will require the public service to ensure that publication deadlines are kept and that reports have been properly audited.

Ownership

The small role of public and institutional shareholder scrutiny of the chaebols was further weakened by the large degree of family control exercised by the founders of the groups. If the owners of enterprises make bad decisions for their businesses this will not cause a national crisis, provided that they also carry the risks. In the unreformed Korean situation, banks carried risks, and implicitly the government, while the gains were enjoyed by the lucky family businesses. As the United States’ Government discovered in the Savings and Loan fiasco and other governments have since, carrying risks for enterprises over which they no control, is a gamble.

Korea’s reforms will make banks manage their credit risks, on economic criteria freed from political considerations. They will also open the banking sector to participation by wholly owned foreign banks. Competition and the threat of competition are the most rapid way to improve performance of existing banks. It is also more difficult to put political pressure on foreign banks than it is on locally owned institutions. Regulation of banks will have to rely more on open market operations and on the need

to meet basic standards of solvency. The government can still absorb financial risks if it wishes, but these will have to be recognized and provided for in the budget.

Provision

Korea is not burdened with excessive social welfare provision and government spending on welfare. Indeed, there are grounds to believe that extensions of social provision to speed up adjustment would have positive results. A sufficiently generous severance package reduced the staff of British Airways by 30 percent in six months and New Zealand Rail from 23,000 to 5,000 over five years. In both cases employees taking the risk of leaving a formerly secure job knew that a publicly funded unemployment benefit was available if alternative jobs could not be found.

Although the Korean bureaucracy is well regarded for its technical expertise, there has been constant criticism of the tendency of officials to second guess and micro-manage the affairs of community organizations and businesses. There has also been criticism of the length of time required to get decisions from the bureaucracy in areas where they really do not need to be involved at all. In 1996, foreign consultants helped Korean officials prepared a reform package designed to modernize the postal service. They were told that it would take nine months for government advisers to consider the package. Bureaucratic indecision like this has enormous costs in lost efficiency gains.

Regulation

Korea has traditionally relied heavily on prescriptive regulation rather than objective orientated regulation. It is difficult to foster incremental change in the mindset of civil servants and dramatic action may be necessary. In ten years, the New Zealand State Services Commission achieved little by way of negotiated devolution. With a change of personnel, the tactics changed. All functions were devolved and negotiations related to which ones should be returned to the center. Within three months, agreement had been achieved. Focusing on one or two key indicators of performance, combined with devolved detail, will increase the effective control by the government while avoiding much bureaucratic frustration.

Public Service

The training of civil servants needs to be changed to emphasize that in many situations the government gains effective control by deregulation rather than by taking minute decisions. It is important to focus on the cost effectiveness of regulatory interventions when compared with other alternatives. This may require changes in the skill mix of the civil service. There will need to be a greater focus on the broad picture.

Contracting out functions is a good way to develop this discipline. It has two beneficial effects. Service delivery is cheaper and the process of defining deliverables and performance standards, for writing contracts, forces officials to clarify their

objectives and define timeframes. The role of officials then is to manage the performance of the contracts and to report on achievements and progress to the government.

Macroeconomic

Fiscal

Generally, Korean budgets have been balanced over economic cycle. The government is committed to maintaining this record. Budgeting by outputs is a way for a government to get control of expenditure detail, while delegating control of resources to managers.¹² To provide greater transparency as to its success in meeting fiscal targets, a set of fiscal rules, such as are contained in the New Zealand Fiscal Responsibility Act 1994,¹³ could be useful¹⁴. This Act has been designed to provide political and legal incentives for prudent fiscal behavior. It creates extensive publication requirements and has dramatically improved the quality of information available to Members of Parliament. The Parliament has also been required to update its own procedures to cope with the additional information.

Budget

Governments help shape the economic and social destiny of their nations. To do that the governments have to work through public service organizations. A budget process, needs to be organized around defining outputs that will contribute to the government's objectives. Its objectives are the changes in the social and economic outcomes that it seeks.

Output based budgets require the public service to deliver the outputs it has contracted to provide. This can add to accountability, transparency and democracy. Government intervention adds no value to the general good of the community when it is arbitrary and ad hoc. A transparent output orientated budget process can ensure that options are carefully assessed and prevent ad hoc policy-making.

Monetary

Prompt action has been taken to enact legislation to set up strong and independent prudential supervision and increase the transparency of financial institutions. This included time-bound action plans for the orderly exit of nonviable institutions, procedures and policies, to deal with weak, but viable financial institutions and measures to improve the commercial orientation and risk management of the financial sector. The Plan included new laws for central bank independence, (with price stability as its main mandate), consolidated supervision of all banks and requiring

¹² The New Zealand Public Finance Act of 1989 provided for budgeting by outputs, rather than inputs.

¹³ *Government Reform in New Zealand*, International Monetary Fund, October 1996, Graham C Scott, Page 66-70

¹⁴ See Appendix 4

corporate financial statements to be prepared on a consolidated basis and certified by external auditors. Foreign financial institutions will be able to participate in mergers and acquisition of domestic financial institutions. Financial statements of large financial institutions are to be audited by internationally recognized firms. Prudential standards will be upgraded to meet Basle core principles.

These steps are all in the regulatory direction of making more information available to markets so that competition and transparency regulate not officials. The participation of foreign firms is significant. It is the first real threat to the management of banks that if they do not perform the institution may be taken over and management replaced. The importance of the threat of takeover in holding the boards and managers of banks accountable should not be overlooked. For the future health of the financial system, shareholders that exercise inadequate control over institutions should be prepared to lose their capital. Innocent depositors, however, should not lose their life savings.

Labor

It is widely recognized that many of Korea's problems are a result of the lack of flexibility in the Korean labor market. Most countries have come to terms with the end of lifetime employment and most people expect several changes of job during a career. The new Korean Employment Insurance system will assist in the labor redeployment. Steps to improve labor market flexibility have been suggested. However transparent accounts and contestable management are also tools in the self-regulation of labor markets.

Ordinary people are resilient, realistic and basically sensible. They will cope with bad news but hate being kept in the dark. They do not expect much, but hate being told things which obfuscate or confuse. What they resent more than anything is evidence that problems have been allowed to develop and those responsible for fixing them are doing nothing about it. Transparency in accounts and business activities will remove some of the mystique from the financial side of businesses and force union leaders and their members to be more realistic in their demands. A strategy designed to make union members better informed and to make unions more responsive to their members would be consistent with the thrust of other reforms. If union leaders are not realistic, their members will be, if they are supplied with the facts and asked to make decisions.

Public Service

Reform of corporate governance and corporate structures is high on the Korean agenda. The same yardstick needs to apply to the public service. If corporate balance sheets (including profit and loss accounts) are to be improved in line with generally accepted accounting practices and subject to independent external audits, full disclosure, and provision of consolidated statements for business conglomerates, the same should apply to the public service. The public service needs to research international best practice and applying it to itself. The comparison with the situation in New Zealand in Appendix 2 shows that the reforms remain unclear in key areas.

As far as possible the activities of the public service should be made contestable. This can be achieved by careful definition of core public service functions and distinguishing these from those functions, which can be supplied by outside agencies. Many functions such as public works, postal services, air traffic control, prisons, social service delivery, even policy advice and many others can be made contestable. The public service can retain the work if it is cost competitive and produces a quality product.

More than anything, Korea's public service needs to appreciate that international competitiveness, prosperity and job creation in Korea relate to keeping down the cost of doing business in Korea. The public service can make its contribution through increasing efforts to find cost effective ways of performing public service functions.

CONCLUSION

The potential for inefficiency inherent in bureaucratic forms of organization has become more apparent in recent years. Ineffective government is a major hindrance to international competitiveness and prosperity. The efficiency gains from moving activities from ministries to more appropriate governance frameworks such as corporations, or semi-commercial entities, and from privatization, have been remarkable. Most of these efficiency gains have been achieved because the new frameworks make failures and achievements visible. Once systematic measurement is in place, it is possible to hold managers accountable.

Korea's current problems stem from many years, during which the political system was weak, the bureaucracy was involved in economic decision making and informal networks were required to obtain official recognition. The American author, P J O'Rourke says, "when you put politicians in charge of buying and selling the first thing to get bought and sold is politicians." De-politicization of many economic decisions will overcome many problems. Politicians have an important role to play in the governance of a community. They have to interpret the will of the community through the spectacles of the community's long term interests. They function best when they are held accountable for policy and leave the detail to the ordinary citizens.

Public sector reforms aim to ensure that politicians focus on areas where they can add value and step back from those where their involvement is too costly. First generation reforms have focused on appropriate devolution of authority, improving management controls, effective cost controls, improved human resource practices, productivity and quality improvements, and improving the effectiveness of general managers. A second generation of issues is developing, with the recognition of the need to improve strategic management, recognize ownership issues, improved management in the wider state sector and improve the quality of service to citizens. Improved transparency of decision-making, improved the quality of information with which politicians can make difficult choices are the tools with which to achieve these goals.

Appendix 1, The Costs of Regulation

What is Measured	Cost Estimates	Source
Administrative costs to government		
Costs for staffing and operating federal regulatory agencies in the United States	US \$ 15.6 Billion (1995) 133,000 civil servants	Centre for the study of American Business, 1994
Administrative costs of regulatory bodies at the federal level in Canada	C \$ 1.8 Billion (1995-96), not including taxation authorities	Treasury Board of Canada
Administrative costs to firms and citizens		
Cost of EU and national administrative burdens on EU firms	540 billion ECU/year (3-4% of GDP)	Third Annual Report, the European Observatory for SEMs 1995
"Tax operating costs" for firms (administrative and compliance costs) in the United Kingdom	UK £5 billion/ year (1986-87), 4% of total tax revenue, (1.5% of GDP), £58 per employee for firms with 1-5 employees	Centre for Fiscal Studies, UK 1989
Administrative compliance costs of taxation, social insurance and subsidy application in the Netherlands	Gld. 7.2 billion (1989), or 1.5% of GDP	Allers, Martin 1994
Costs of paperwork and operational requirements of regulation (excluding capital costs), clerical costs and time in firms due to regulatory requirements	Two-thirds of firms in the US spend an average of US\$ 17,000 per employee on regulatory compliance. Firms with 1-4 workers spend \$ 2,080 per employee, firms with 500-999 employees spend \$ 120 per worker	Hopkins, Thomas (1995), A Survey of Regulatory Burdens
Hours of time per year spent by businesses, state governments and citizens in the United States on federal paperwork, data collection and information retention requirements.	In 1996, 6.89 billion hours were spent complying with federal paperwork requirements	United States Office of Information and Regulatory Affairs
Measure of recurrent direct costs of federal government information requirements to small and medium enterprises in Canada	Businesses with fewer than five employees spend 8% of revenues on federal information requirements, 5-19 employees 3.8%, 20-49 employees 2.4% etc	"Federal Information Costs for a Panel of Small and Medium Enterprises." Toronto, 1995
Direct compliance costs		
Total compliance costs in the <i>United States</i> , (including administrative costs) to firms and citizens of federal regulations, plus efficiency losses of regulations in some sectors	US\$ 617 billion in 1996, (US\$ 5,700 per household)	Hopkins Thomas (1995) "Federal Regulatory Burdens: An Overview", in "The Hidden Costs of Regulation in Europe," European Policy Forum, London, UK

Appendix 2, Changing Roles of the Government and Public Service in New Zealand and Korea
Changing Economic Roles of the Government in New Zealand and Impact on the Public Service¹⁵

MICROECONOMIC ROLE

	Funding	Ownership	Provision	Regulation	Public Service
PRE-REFORM PERIOD					
Theory	Market failure	Equity, nationalistic arguments	Direct provision by government	Direct controls, sector specific	Centralised state bureaucracy
Policy	Direct funding by parliament	Widespread state ownership	Widespread public provision	Regulation of price and entry	Detailed controls, mixed roles
REFORM PERIOD					
Theory	Public choice, property rights	Principal, agency	Supply side thinking	Contestability, light handed regulation	Separation of policy and operations
Policy	Public goods and social services only	Corporatisation and privatisation	Contracting out to the private sector	Commerce Act, general powers	Performance contracting, monitoring

MACROECONOMIC ROLE

	Fiscal	Budget	Monetary	Labour	Public Service
PRE-REFORM PERIOD					
Theory	Eclectic Keynesianism (random meddling)	Input Budgeting	Price and Quantity targets, seldom met	Social Contract,	Service to the public
Policy	'Stop-Go,' put and take adjustments	Incremental Budgeting	Interest rate and lending controls	General wage increases	Unified career public service
REFORM PERIOD					
Theory	Budget Balance over economic cycle	Output Based Budget, full accrual accounting	Inflation target for Central Bank	Market-based bargaining	Public Choice, Transaction Cost
Policy	Fiscal Responsibility Act, prudent, management	Finance Act	Reserve Bank Act,	Employment Contracts Act	State Sector Act

¹⁵ *Utility Regulation In New Zealand*, Alan Bollard and Michael Pickford, NZ Commerce Commission, 1998

Changing Economic Roles of the Government in Korea and Possible Impact on the Public Service

MICROECONOMIC ROLE

	Funding	Ownership	Provision	Regulation	Public Service
PRE-REFORM PERIOD					
Theory	Market failure	Equity, nationalistic arguments	Provision individuals and government	Sector sepcific direct and indirect controls	Centralised state bureaucracy
Policy	Direct government funding and individual	State supported tycoon ownership	Modest public provision	Regulation of price and entry	Detailed controls, mixed roles
REFORM PLANS					
Theory	Public choice, property rights	Principal, agency	Supply side thinking	Transparent heavy handed regulation	Separation of policy and operations
Policy	Public goods and social services	Privatization	Contracting out to the private sector	Sector specific, transparent	Performance monitoring

MACROECONOMIC ROLE

	Fiscal	Budget	Monetary	Labor	Public Service
PRE-REFORM PERIOD					
Theory	Development economy orientation	Balanced Budgeting	Development orientation	Lifetime employment	Service to the public
Policy	Focus on expanding market share	Incremental Budgeting	Controls, undermined by lax supervision	Suppressed wage demands	Career public service
REFORM PERIOD					
Theory	Budget Balance over economic cycle	Balanced Budget	Inflation target for Central Bank	Market-based employment-bargaining	Focus on transaction cost of regulation
Policy	Prudent management	Improved collection and quality of spending	Agreement with IMF	Greater flexibility	More human resource development?

Appendix 3

Origins of Government Intervention

The British Parliament is often called the “Mother of Parliaments.” The words it uses to describe its activities tell us a lot about the history of government. When Kings needed money, they expected their subjects to pay taxes. Kings sent their subjects the “bills.” Even today, draft new laws are called “bills.”

Subjects wanted to know if they were getting value for their taxes and wanted to discuss individual payments. That is why the assembly of the people’s representatives is called a “Parliament, ” derived from the French word, – parler- “to have a talk.”

When the Parliament made a decision to pay or not, it had to send its representative to tell the king what they had decided. He had to speak to the King. That is why the chairman of the Parliament is called the “Speaker” although he seldom speaks. Even today, when elected, the Speaker pretends not to want the job. This reminds the new Speaker that unhappy kings sometimes chopped off the heads of their unlucky predecessors.

The King sought advice from his “Cabinet of Ministers,” so called because his advisers would gather, to discuss the advice they would give, in the “cabinet” a cupboard just off the King’s throne room.

The Cabinet needed money and staff to get things done. That was the origin of public administration and this led to more taxes.

British Courts evolved from disputes over the correct taxation for individual taxpayers. An early Court was called the “Court of the Exchequer Chamber”. (i.e. The room where taxes were paid, and haggling took place over correct tax obligations).

These words unlock the origins of the modern legislature, judiciary and executive, including the public service.

Appendix 4

The Fiscal Responsibility Act 1994

An Outline

There are three distinct elements in work of the New Zealand Parliament and its committees in scrutinizing the financial management of nation's affairs by the executive¹⁶.

- Scrutiny of the government's intentions for the current year as expressed in its budget proposals;
- Examination of the actual performance of departments as reported in their annual reports and financial statements and by comparison with the plans laid out a year earlier; and
- Examination of the performance of state-owned enterprises and other non-departmental government entities.

The Public Finance Act of 1989, brought major improvements in reporting to Parliament in terms of requiring the ex-post and ex-ante information to converge and to be related to issues of performance. The Fiscal Responsibility Act 1994, specifies requirements for information and policy documents while establishing statutory for the Government and Treasury for providing that information. The Act seeks to address possible biases in democratic processes toward outcomes that are not in accord with voters' interests. Publicly available, timely and accurate information is the primary tool. The following reporting requirements are designed to expose the longer term implications of current fiscal strategies:

- **Projections** – Projections of the impact of fiscal variables for up to ten years are required
- **Information Systems** – The same information systems are required to be used for budgeting and reporting of the Government's Finances, Generally Accepted Accounting Practices are required throughout,
- **Targets and Guidelines** – Five principles of prudent fiscal management are acknowledged:
 - reducing debt to prudent levels,
 - balances between expenses and revenue,
 - maintaining net worth,
 - prudent management of fiscal risks,
 - policies consistent with a reasonable degree of predictability, and,
 - only temporary departures from the above allowed,
- **Reporting Requirements** – A structured sequence of fiscal reports is prescribed. These include:
 - A Budget Policy Statement to set out strategic priorities, (by 31 March each year, about two months before the budget),
 - a Fiscal Strategy Report, (on the day of the Budget),
 - Economic and Fiscal Update Report, containing three year forecasts,
 - A Half Year Economic and Fiscal Update, and
 - Fiscal Forecast for each Government Department, also presented at the time of the Budget.

¹⁶ See Scott, op. cit. Pages 64-70.