

**NINTH CONFERENCE OF MINISTERS AND HEADS OF
PLANNING OF LATIN AMERICA AND THE CARIBBEAN**

Jointly organized by ILPES and the
Secretaría de Hacienda y Crédito Público
of Mexico.

Mexico City, Mexico, 20 to 22 July 1994

Distr.
RESTRICTED

LC/IP/R.144
8 July 1994

ENGLISH
ORIGINAL: SPANISH

STATE REFORM AND MODERNIZATION

Institute/G.IX.1

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(*) This translation has not been revised.

(I/40705)

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INTRODUCTION

The region's Governments have given clear priority to the task of State reform and modernization. All of them, with variations of intensity and scope, have launched processes of institutional and operational change that are still under way. At this point, it seems appropriate to take the time to contrast experiences, evaluate achievements and setbacks and plan an itinerary of decisions and actions for the near future.

As the societies of the Latin American and Caribbean countries undergo profound and significant changes, the State is inevitably required to adapt to the new circumstances. Failing to innovate in this area would lead to awkward contradictions and a variety of costs that would hamper development. The State has its own non-delegable functions that require it to modernize and to make significant progress in the areas of communication, transparency, efficiency and coordination.

In order to collect information, evaluations and proposals on future courses of action, a seminar was held recently on the important topic of changes in the State.* It was attended by distinguished specialists, most of whom have been directly involved in recent processes of institutional and operational reform of the State apparatus. The ideas expressed by the Institute in this summary document were greatly enriched by the studies presented at the seminar and by the vigorous debate they stimulated. This document is intended only to discuss those topics that seem most urgent and likely to promote a useful exchange of views, opinions and proposals. Revised versions of the papers presented at the above-mentioned seminar will soon be made available to Governments in book form.

* Seminar on State Reform and Modernization, Mexico City, 18-20 May 1994. A list of the documents presented (and their authors) appears in the annex.

This Ninth Conference of Ministers and Heads of Planning of Latin America and the Caribbean is of special importance to the Institute. The opinions and ideas expressed by the authorities will allow it to assimilate their various approaches to and assessments of the issue. At a time when the State is being redesigned, unprecedented functions identified and conventional ones reconsidered, this opportunity for contact with the Governments that guide the Institute's activities is extremely fertile and will help ILPES ensure that its performance responds adequately to the needs of the countries.

I. Basic objectives

1. An essential aim of government action is to consolidate democratic systems with increasingly high levels of social well-being, in conditions of greater equality of opportunity. Democracy should become a cultural value of political society; a transition from representative to participatory democracy would result in the emergence of new political actors and a redefinition of power relations. In addition, to create more equitable societies, it is indispensable to attack poverty and exclusion head-on and, at the same time, to achieve sustained and sustainable economic expansion. Growth and social equity should reinforce each other, and efforts to achieve these twin objectives should be simultaneous and mutually complementary.
2. Today, State action must meet clear requirements in order to win legitimacy: it must be selective, efficient, transparent, informed, consistent with pre-set cost limits, and based on consensus. At the same time, efforts to achieve government objectives require strategic management in order to translate political agendas into specific decisions and actions.^{1/} To that end, overall policy should cover the activities of the main political and economic agents. Neither the State nor civil society acts in a vacuum; their efforts are made in the context of overall policy, which determines their parameters and orientation. Thus, the State must fulfil certain prerequisites in order to help build an equitable, democratic society.
3. Growth provides the resources with which employment is generated and social policies implemented; it thereby promotes peaceful societies and, consequently, political stability, which are preconditions for stimulating the investment processes necessary for growth. Likewise, the concept of sustainable development must be respected so that the rate at which resources (particularly natural resources) are used does not

^{1/} See ILPES, Pondering planning, Brasilia, 1993, pp. 11 and ff.

exceed their replacement and conservation rates, and to avoid adverse externalities of environmental pollution.

4. Perhaps the greatest affront to ethical principles and the most important cause of the region's economic backwardness is the fact that nearly half of its population lives below the poverty line, and that over a fifth of that group suffers from extreme poverty. This situation has its roots in structural heterogeneity; i.e., the coexistence of activities with highly disparate levels of productivity, which causes situations of extreme poverty or marginalization among the lower strata.
5. The basic objectives of social equity and democratization are directly linked to education. Inadequate training is a decisive factor in preventing people from becoming properly integrated into the production system; this, in turn, condemns them to low productivity and poor wages, if not to marginalization.
6. The exercise of democracy requires citizens to participate directly in the political decisions that concern them; for that purpose, citizens must be well-informed so that they can participate intelligently in the discussion of national problems.
7. With respect to the priorities of national production systems, it must be borne in mind that genuine competitiveness is based on increases in productivity achieved through the absorption of technical progress and the improvement of production processes and distribution; it therefore differs substantially from the advantages accruing from low wages and environmental depredation. Thus, integrated efforts should be made to enhance competitiveness and international linkages, technical progress and social equity.^{2/}

^{2/} See ECLAC, Social Equity and Changing Production Patterns: An Integrated Approach, Santiago, Chile, 1992, pp. 105 and ff.

II. The role and responsibility of the State

8. In recent years, analyses of State reform and modernization processes have concentrated on the economic dimension and on the rationalization of the administrative structure. In particular, they have sought to establish the respective spheres of action of the public and private sectors, studied the interrelationship between the two and concluded that the public sector's efficiency and effectiveness must be enhanced. The crux of the analyses was the evaluation of privatization and liberalization processes. These government reforms were then set forth in the Washington consensus.^{3/} That consensus was based on a diagnostic study of the Latin American crisis, which appeared to have been triggered by the over-expansion of the State and economic populism; the latter resulted in an inability to manage the public deficit and public- and private-sector wage demands. Consequently, two sets of measures were recommended: one to promote stability through policies guided by market mechanisms, and the other to scale down the State and its degree of intervention in the economy.
9. Reform processes involve the assignment of different responsibilities to the State. Some of them are new (such as those of the regulatory State), while others involve rearranging the order of priority of the State's traditional functions. Moreover, this is not an isolated process that is grafted onto a separate society; State modernization is part of social modernization.
10. The State's role should be redefined, taking into account both the size and the features and functions of the public sector. In this regard, the need to scale down the State has been recognized. However, the problem is more complex. Although, in general, the State has too many employees and functions, merely reducing their number is not the

^{3/} The Washington consensus comprises the documents presented and the debate held at the conference organized in Washington in November 1989 by the Institute for International Economics. That material is summed up in J. Williamson, Latin American adjustment: how much has happened?, Institute for International Economics, Washington, D.C., 1990.

solution. The State system must become smaller, with fewer departments and functions and a redefinition and reassignment of public employment; but it must also become more compact, with greater technical capability, political cohesiveness, a clear vision of its objectives and instruments, and the capacity to exercise its authority under the rule of law. In sum, it must be fit to carry out programmes and projects and to detect and resolve problems and conflicts. These basic orientations can serve as guidelines for the privatization and decentralization processes associated with State reform.

11. Privatizations are part of the policy of cutting back State activity, and have clear fiscal implications (by generating extra revenues and eliminating fiscal deficits). However, by their very nature, they pose complex problems related to public services and to the production system, which includes enterprises that remain under State control as well as private firms. The State must therefore set up mechanisms to regulate the newly privatized activities it no longer implements, and thoroughly restructure those enterprises that remain in the public sector. The central objective of both privatization and restructuring is not to meet fiscal goals, but rather to strengthen the new State structure.
12. Decentralization reflects policies of structural adjustment as well as the democratization process. It implies a redefinition of powers shared among the national Government, state (or provincial) governments and local governments. The national Government would concentrate on activities which are its exclusive domain, and on the strategic direction of the country, while delegating a large portion of the actual implementation of these activities to regional jurisdictions. In any case, it should substantially strengthen the ability of local governments to manage their own affairs; in addition, the central Government should perform a role of monitoring and evaluating policies and, where necessary, implementing compensatory policies.
13. In the wake of the military governments of the 1970s and the 1980s, the fundamental political occurrence has been the installation and bolstering of democratic regimes. In various cases, the most important reforms have targeted the electoral system, with

changes to the length of terms of office and the incorporation of several mechanisms from direct democracy, such as the referendum and plebiscite; the creation of new representative bodies at the local or regional level and decentralization of the ment; and the manner in which judges are appointed.

14. As regards economics, the reforms generally speaking involved the application of the policy of structural adjustment and their implementation depended on prior conditions. Thus, the same measures were repeated in the different countries, with the emphasis and the degree of application varying according to the country. Measures taken included consolidating the right to own property, converting virtually all the processes by which goods and services are produced to market conditions; privatizing public enterprises; promoting and regulating competition; eliminating the fiscal deficit; eliminating subsidies and controls; deregulating the productive sectors; managing the exchange rate; making the Central Bank independent; reforming taxation; modernizing the capital markets; reforming social security; implementing external liberalization; promoting foreign investment; paying off the foreign debt; and introducing flexibility to the labour market. Furthermore, many countries embarked on processes of administrative reform, involving the modernization of institutions and the rationalization of procedures and methods.

III. The weaknesses of the State today

15. The real problem is not to reduce the functions of an all-powerful State, but rather to strengthen those States which are weak, although they may encompass wide areas. In many situations, this weakness is expressed mainly in the inability of the State to impose its own order, as well as its inability to formulate and execute stable public policies which respond to the needs of the community. In several cases, this weakness is the result of an array of deficiencies: the ineffectiveness of institutions (in particular, the Legislature and the Judiciary), the inadequate functioning of political parties, the fragmentation of key social institutions and the failings of the public service.

16. Currently, the fundamental legal frameworks which various countries in the region generally respond to the needs of another era. In the light of this anachronism, several countries have carried out or are currently carrying out constitutional reform processes. In addition, the division of State authority (the executive, the legislature and the judiciary) does not always function with the necessary efficiency.
17. The economic crisis, which translated into a fiscal crisis, weakened the ability of the State to meet not only society's demands unleashed by the democratization processes, but also the normal functioning of the administration.
18. In the light of clear examples of corruption in some countries of the region, state action should deal with the danger of just such a spreading of corruption. Any policy, no matter how enlightened or beneficial it may be, will fail if it is tainted by corruption, or even if corruption is suspected, given the lack of transparency in public management.
19. Building a consensus and formulating and implementing public policies are also fraught with difficulties. On occasions, we have been witness to a kind of "privatization" of the power of the State, which involves pressure groups exerting influence over State institutions, in an effort to persuade the latter to adopt decisions which serve the interests of the pressure groups.
20. Several administrative services face serious problems which are affecting the way they function. Of course, the problem is not widespread and the degree of the problem differs from case to case. Several of the extreme situations which present the greatest state of decline -which can affect a limited number of specific cases- involve the absence of good technical workforces, which is sometimes due to patronage in the recruitment process, high staff turnover -itself subject to political whim- to a drop in quality which results from staff cutbacks and to lower wages due to the fiscal crisis. There often exists an archaic institutional apparatus, which impedes and slows down any procedure; highly unproductive or less than efficient management; and a lack of

transparency which gives rise to suspicions of corruption. Nevertheless, it would be simplistic to cut back drastically the number of public employees; a better solution would appear to involve establishing upskilling programmes, and retraining staff, and reassigning their tasks, in accordance with the priorities fixed by government programmes.

IV. Proposals

21. The issue of reform and modernization of the State is a highly complex one. It not only involves making public administration more efficient -as would suggest an initial approach- but also resolving a complex network of relations among the State, foreign nations, different national jurisdictions, civil society, firms and even different departments within the same government; and all within the framework of political, economic and social objectives, inspired by the strengthening of democratic processes. Furthermore, given the diversity of the region, it is not possible to speak of a "prototypic state", or of uniform solutions for the whole region, or even for different territories or communities within the same country. Solutions must be in keeping with radically different situations, which reflect the structural heterogeneity key to the region's configuration.

22. In this context, what matters is the quality and selectivity of State intervention, and not just the size of the civil service apparatus. There then arises the matter of the limits between the public sphere and the private sphere. It is not possible to trace a definite dividing line between the two, given their constant interpenetration. Private agents must act within the prevailing institutional framework, which is legal and public, and these agents require the public sector to act to ensure the framework operates properly. The guarantees the State provides private agents are essential, as are its spending on infrastructure and security, its economic and financial support, its internal and external protection, etc. Inversely, the public sector is strongly influenced by private businessmen. Rather than negotiate a new "treaty of limits" between the public

sphere and the private sphere, there is a need to establish "boundary integration agreements". There is a need to guide market forces, controlling excesses and making up for shortcomings. Also of importance are the links established by intermediate associations and groups, which are neither state-owned or commercial, and which enrich democratic life.

23. When the ownership and management of public services and monopolistic activities are transferred to the private sector, the relevance given to markets creates the need to establish regulatory and supervisory mechanisms. When public services are privatized, the State should establish regulatory mechanisms to ensure that they are provided efficiently and at equitable prices. With respect to the financial system, steps should be taken to prevent the liberalization of credit and interest rates from leading to a financial crisis; a system of State or community guarantees should also be established that provides small and micro-enterprises and low-income groups with access to credit. Social security systems based on capitalization regimes administered by private agencies require close State supervision to preserve the solvency of such institutions. In the labour market, the trend towards flexibility and the restructuring affecting some activities call for Government presence; possible negative social effects (e.g., unemployment) should be offset and intensive training should be developed, especially for those who have to perform new tasks.
24. The State should be reformed at the same time and in a way congruent with the modernization of the private sector and other social actors. The private sector is given the task of restructuring and expanding production and developing managerial skills. At the same time, it should cooperate with the public sector for scientific and technological advances, job creation and environmental protection. In order to carry out those functions efficiently and effectively, the private sector should leave its protectionist world and seek one of efficiency and competitiveness, which would require sweeping restructuring.
25. In recent years, politics, the economy and society in Latin America have changed profoundly. Consequently, the structure and functioning of the State have also

changed profoundly. This reality makes it necessary to update diagnostic analyses: one cannot act today based a reality that no longer exists. What reality is today has to be discerned, in order to discover alternative courses of action more conducive to democracy, growth and social equity.

26. In developed countries, governability is normally considered to be the State's capacity to respond to increasingly greater demands of its population; when the State cannot respond, leading to ungovernability, it would be due to a supposed "excess of democracy". In Latin America, to the contrary, governability is affected more by a "weakness of democracy", owing to a lack of quality participation on the part of a citizenry that was rendered passive. Two requirements must be met for governability: legitimacy and efficiency. A State is legitimate when it is based on the rule of law and has social support. It must not only fully respect individual and political freedoms, but it must also ensure other dimensions of the political system, such as an autonomous, honest and efficient court system, a constant struggle against corruption, and a social consciousness that associates growth with social equity. The second requirement for governability is efficiency, which depends on a explicit definition of the sphere of State action and a substantial improvement of implementation mechanisms.
27. The public functions emerging from State reform^{4/} can be classified in three groups. The first group includes the classical tasks of government: provision of public goods and services (justice, citizen safety and foreign relations); the administration of major disequilibria (macroeconomic, social and environmental); and lastly, the accumulation of social, physical and human capital.
28. A second group of emerging public functions consists of the reconciliation, through government regulation, of diverse particular interests with those of the community, when they differ. These are difficult tasks to perform in the political, institutional and technical spheres.

^{4/} See ILPES, "Gestión estratégica, planificación y presupuesto" (ILPES/E.XV.03/IP/R.122), Buenos Aires, 1992, pp. 17-18.

29. The third group of State functions deals with strategic management, i.e., the State's role in foreseeing, designing and acting as a catalyst in order to orient and give impetus to national development.^{5/} Adaptations are made in the name of "nation-building", based on a national consensus and guided by a long-range view that is flexible, adaptable, indicative and formulated by many different actors.
30. The process of taking and implementing decisions has two aspects: the first deals with the political qualities that have to be brought together; and the second with the more urgent reforms of public administration. Political qualities refer to the behaviour of the main actors, institutional improvements and the way Government relates to political and labour leaders and pertinent organizations of civil society. Above all, the political, economic and social actors have to have the intention and capacity to define what kind of country they want and how to achieve it, which entails: the will to reach consensus on the essential aspects of the project, overcoming conflicting immediate interests; political parties that democratically elect their leaders, discuss their programmes, draw closer to ordinary citizens and are open about their financing; the recovery of a medium- and long-term horizon, that makes it possible to programme responses to demands and to accumulate results; the public discussion of problems, and the open search for the adhesion of citizens.
31. Successful reform and modernization of the State depend not only on the strategic concept underlying them but also on the transparency and efficiency with which they are carried out. In other words, there must be no suspicion about honesty, and they must affect the substantial aspects of State management. Some of the priority issues to be resolved deal with personnel policies, which call for attracting and holding high-level personnel for a reasonable time span, creating an organizational culture (a collective attitude of serving the community and individual users), and constructing systems of real incentives. At the same time, in order to improve the quality of decisions, systematic, relevant, timely, reliable and appropriately selected information must be made available, along with analyses adapted to government functions and

^{5/} See ILPES, "Pondering planning", op.cit. pp. 11 ff.

coordination mechanisms. It should also be remembered that the implementation of programmes and policies is the most important moment of government action and can be the most critical point when administration is weak.

32. With this new orientation, it will be possible to overcome the defects of more reductionist ways of thinking and emphasize the relationship between State and society, and between private initiative and public intervention. It will also become clear --as already mentioned-- that it is impossible to provide one recipe for every country and situation. More importance will be given to the reciprocal linkages between different actors intervening and the most appropriate roads to reform. And it will be necessary to foresee the main consequences of reform, since processes with satisfactory results in some moments and dimensions can have undesired consequences in other spheres. This could be the starting point for a theoretical and practical effort which, based on a comparative systematization of Latin American experiences, would make it possible to analyse the paths to reform most suitable for each national situation.

ANNEX

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