

Strategies for government reform

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Governance is the ultimate mechanism for directing the affairs of a nation, and it is, of necessity, the exercise of power because it is the primary official and approved instrument for the making national decisions. This remains true even where there is a strong and independent private sector which controls most of the economic life of the country, because even then, the government has enormous influence over the environment in which the private sector functions. If a government is dictatorial and authoritarian, chances are that decision-making is in the hands of a single individual or a small group of elite power holders. If a government is more democratic and representative, the power of the government must be focused by building a reasonable public consensus for major decisions. In either case, second and third level decisions are linked to the functioning of elaborate structures of government agencies with power designated by laws enacted by legislative bodies that own and operate mechanisms for negotiation, compromise, or decision by fiat.

The one absolute essential for curbing perverse political power is to generate and focus public attention on the activities of the political leadership. The public will always be concerned; the real question is whether such concern can develop real leverage on the political leaders. This is not mission impossible; there are in fact many ways in which this leverage can be built. Even in absolute tyrannies, there are tides running which offer opportunities for reformist action. Old tyrants die, and regimes change. Legislatures and judges find windows of opportunity to change pathological laws or call culprits to account. Internal conflicts between elements of the elite may split the re-

gime and open up further opportunities. And even tyrannies can be overthrown, either by internal forces, or by external pressures. It helps to remember that, primarily by internal uprisings, gone are Duvalier and Marcos, apartheid in South Africa, Franco, Ceausescu, the Khmer Rouge, Charles Taylor and Edi Amin, Peron, Mao and many other seemingly invulnerable tyrants. And the world has acted to terminate the regimes of Hitler, Mussolini, Stalin, Tojo, Hussein, and Milosovic.

Public pressure or the reform of bad laws may be almost hopeless in the short run in the face of absolute tyrannies, and the real hope must be placed in the longer term turns of fate. But the most valuable of such public “watch-dog” activities can take the following forms:

Despite their frustrations, elections still are the one best hope, because they can be used to legitimize and focus opposition. A regime that is forced to steal an election is also revealing the bankruptcy of its national standing, and the narrowness of its elitist base. In the contemporary world, seriously corrupt elections may now precipitate world-wide attention and cause the monitoring of the next election by international evaluators, giving greater hope to the opposition.

In even the tamest of captive legislatures, there will be some members with the courage to oppose the creation of pathological laws. These people can be visibly supported by others in society, and they can identify bad law proposals so that opposition can be mobilized against them. Citizen groups can help protect honest politicians and public officials by giving them positive visibility and making it more risky to attack them. Hopefully, fewer bad laws can be sneaked through in secret. Existing bad

laws stand a better chance of being mitigated or neutralized.

Just as police rely on informers for intelligence, so too can politicians or public officials obtain information from citizens and private organizations about what governments are doing wrong. The worse the regime the greater is the need to make such “whistle blowers” safe, secure and anonymous. But what is really needed are people within the power structure who will listen and perhaps act, and can be trusted not to shoot the messengers. It may be an honest politician, an anti-corruption agency, a newspaper reporter, or a trustworthy public official.

The generation of greater public interest in the machinations of their government is not easy and it may even be dangerous. Public interest relates to the wellbeing of the whole population, and should be clearly distinguished from the more self-serving special interest politics. But even a relatively small group of citizens or a small staffed organization can lock on to an issue such as elementary/secondary education, child care, or the failures of state owned enterprises, or the evidences of corruption. A variety of people have useful skills to contribute: research, writing, evidence gathering, intelligence generation, internet communications and so on. Often, the best sources of such intelligence are from employees of government agencies or state owned enterprises that cannot live with their own corrupt environment.

One of the targets for civic action must be the laws themselves, especially laws that protect the right to oppose the regime. First and foremost, this means the existence of a law that provides for honest elections. In addition, laws are needed that secure the right for people to meet and to protest, and to broaden as much as possible the range of subjects that can be debated without being considered as an attack on the State. Among these subjects should be the right to press for anti-corruption measures, the effective audit or evaluation of agency activities, and the rules under which

corruption can be investigated, removed, or prosecuted.

Obviously, any authoritarian regime can probably block any such efforts, and reform may not always be possible. Reform forces must be patient and persistent, and be ready to take any opportunity that comes along and to capitalize on regime weaknesses. The process of reform has to start at the top with the drafting of national laws. There should be constant pressure to define in law if possible that which is not authorized, or is specifically forbidden, or is defined as illegal. Even policy statements that do not convey specific authority can still be used to commit to national goals and preferred actions. The point is that any means of preventing pathology from being locked into law is of enormous value. Any limitation of political excess of power is worth fighting for. Even if these laws are ignored or violated, they still serve as anchors which opponents of a regime can use to justify attacks on tyrants.

Similarly, politicians love to draft broad noble sounding legislative language which seems to promise a government solution to all ills. But reality often is that the broader and more open ended the legislative language, the more power it conveys, and the more vulnerable it is to pathological interpretation. There is usually too great a gap between legislative flights of fancy and the harsher world of implementation. Even in wealthy and stable countries, there is increasing disenchantment over legislative promises not kept. In authoritarian states, wide open legislative mandates are often deliberately sought, since each represents a form of legislative abdication. It transfers all power to the executive and leaves the legislature with no basis for curbing that executive power. Once such wide authority is obtained by the executive, it is extremely difficult to take back, and legislative bodies, having conceded too much, become largely irrelevant.

It is therefore exceedingly important that legislative bodies must be pressed, by whatever forces in the country can be brought to bear, to retain their ability to act as a counter force

to the usurpation of power by the executive. Legislatures need to protect their own authority, first by having the courage to resist pressures to corrupt the laws, and then through their own internal control of the law drafting process. In many cases, a two house legislature appears to be superior to a single house because it creates some checks and balances between the two, making it more difficult for executives to seize control. It is also valuable to create a separation between the drafting of laws and the approval of appropriations of the money to implement the law. As an adjunct of this reasoning, legislative bodies should resist any authority of the government to generate revenue that is not officially controlled through the legislative oversight process. For example, in countries such as the old USSR, the Peoples Republic of China, Indonesia, Pakistan and elsewhere, the military budget is often outside of the regular budget and is virtually uncontrolled. In addition, the military often controls production assets that generate revenue, which is used solely for the support of the military establishment. This has helped to generate unwarranted and excessive military power, and has been a direct and powerful enabler of corruption.

Further, legislative bodies must guard the Constitution and important basic authorizing laws by making them harder to change, usually by requiring a 2/3 majority vote for change approval, or even requiring a Constitutional convention to ratify change. The Constitution and supporting legislation should clearly authorize the conduct of political parties, and preferably they should lay down the rules for honest elections in some detail if possible. Even where a dictator is prepared to steal elections, Constitutional definition of proper elections would highlight the nature of such pathology and provide a stronger basis for opposition.

Also if possible, Constitutions or basic laws should provide mechanisms to prevent the abuse of presidential appointment powers. Patronage is one of the most powerful tools of authoritarian regimes, and it conveys five

great advantages. First, it is used to make sure that key jobs – particularly those which involve control of money or the allocation of valuable resources – are filled by regime loyalists who will do as they are told. Second, political allies and supporters can be rewarded for past services. In many cases, these payoff jobs are in lesser positions such as “commissions” or “boards” with little or nothing to do. Third, some appointments will be protective. For example, if a law requires the appointment of an Inspector General in an agency, the threat of that office to the corrupt can be mitigated by the appointment of a loyalist or an incompetent to the post. Fourth, appointments can reach down blow the crucial top positions. Unless the number and location of authorized positions is strictly controlled, the agency can be filled with numerous, largely meaningless jobs such as “special assistants”, or “assistant deputies” or “deputy assistants”, all of which provide comfortable salaries without the discomfort of doing any work.

One of the more political games played with the agency workforce is the hiring of large numbers of lower level employees in redundant jobs. After the disintegration of the USSR, and the conversion of eastern European states, studies indicated that as many as 40% of low level jobs were redundant and existed primarily so that politicians could say that in their socialist economy “nobody is unemployed”.

It is also widely true in corrupt regimes that most political appointments will have little or nothing to do with skill or knowledge or competence. The acid test is loyalty to the regime. But what is worse is that, when a regime is corrupt, the power of appointment permits the extension of corruption down into the second and third levels of the organization. This networking is often has an elaborate structure of its own hidden within the more formal structure of the agency. At each level, the boss is expected to develop whatever corrupt practices are possible, with profits shared upward to the agency head. Such a perverse structure is self-concealing and self-protecting, and becomes a

formidable obstacle to any effort for reform.

There are ways to counter the growth of such entrenched pathological structures, but all of them rest on the ability to find honest, courageous people to replace the crooks.

Just as the laws must protect against the abuses of the appointment authorities of an agency, laws must provide protection for the conduct of the agency's most important internal processes.

Finally, the machinations of bad regimes can be leveraged from the outside.

Globalization is not a phenomenon being experienced only in the corporate world. Government has also built up a globalized structure including the United Nations, the World Bank, the International Monetary Fund, the World Trade Organization, and many regional bodies concerned with economics and human rights. As these international bodies become stronger and more experienced, they have moved to become forces against pathological governments. In addition, many forms of civic community have become globalized, including environmentalism, unions, the health care professions, women's rights, and many others. These institutions have developed their own doctrine; they assert that they represent acceptable standards of what is right and wrong in their chosen fields. The World Health Organization has extensive and comprehensive standards for all forms of health care that are held up for comparison against the practices in individual countries. Environmental organizations define what is right and wrong with respect to threats to air or water pollution, land use, conservation of natural resources, protection of wild life, and avoidance of chemical hazards. All such organizations now are capable of proceeding against what they consider violations of these standards in any country in the world, regardless of political boundaries, and despite traditional concepts of national sovereignty.

Most developing countries are compelled by economic circumstances to resort to borrowing from foreign sources, both public and

private, and this gives these external lending institutions exceptional influence over the economic policies and practices of their debtor nations, whether they like it or not. The IMF may demand compliance with stringent conditions of government fiscal and monetary reform as a condition for borrowing or extending loan terms, and increasingly, other non-financial organizations have urged and persuaded to make human rights concerns part of the "structural adjustment" requirements that lending institutions impose. Matters such as women's rights, minority rights, voting reforms, and the adequacy of education or health care have been adopted by international lenders.

The same tides are running in the policies of countries even when they give money away. Most developed nations maintain some foreign assistance programs in the form of donations or grants of funds to troubled countries, and donors are increasingly resistant to the wastage of these funds by crooked or incompetent governments. Even private banks find that there is risk in lending to countries with poor human rights records. After many years of indifference, lending institutions now recognize that they must pay more serious attention to the record of corruption in borrowing countries, since neither voters nor stockholders appreciate the sense that lent money is being squandered or stolen. Over the last few years, all of these external forces have had a tendency to become more interrelated, and to concentrate their reform efforts on the more perverse of their client states. The support of these external organizations also lends credibility and backing to those people within a pathological state who are attempting to oppose its regime.

Robert I. Rotberg, in an article in *Foreign Affairs Journal* offers a bleak and shocking compendium of the nature of states that suffer massive failure: "Failed states are tense, conflicted, and dangerous. They generally share the following characteristics: a rise in criminal and political violence; a loss of control over

their borders; rising ethnic, religious, linguistic, and cultural hostilities; civil war; the use of terror against their own citizens; weak institutions; a deteriorated or insufficient infrastructure; an inability to collect taxes without undue coercion; high levels of corruption; a collapsed health system; rising levels of infant mortality and declining life expectancy; the end of regular schooling opportunities; declining levels of GDP per capita; escalating inflation; a widespread preference for non-national currencies; and basic food shortages, leading to starvation. Failed states ultimately face rising attacks on their fundamental legitimacy.” (2)

The aftermath of a catastrophically collapsed state is often a surprisingly fertile time for significant national change for the better. During the height of a powerful authoritarian regime, there is almost no effective leverage that the opponents of the regime can exercise. The grip of the state apparatus is simply too strong. But if somehow a regime can be overthrown, the very emotions that allowed the overthrow to succeed can be used to drive the emotion of reform. The collapse of the Soviet authoritarians, the wave of reform in China, the freedom of black South Africa, the deposing of the Khmer Rouge, the independence of S. Sudan, or the success of the initial Cuban revolution are victories that encourage others to believe that their own dilemmas can be dealt with. When new governments are brought to power, it is seldom clear what they will do or how they will do it. It is vital that the gap between the failure of the old regime, and the period of hardening of the new situation be as productive as possible. One of the first prerequisites is to mount as effective an emergency resuscitation program as possible, and it is here that international organizations are at their best. Emergency aid and funds from foreign donors can largely fill a gap that the weak new government cannot fill themselves. All of the basics of human existence -- food, shelter, clothing, medicines, education and physical protection are the top priorities even to the exclusion of all else.

The second priority is certainly the restoration of vital public services, and it makes little difference whether services like a clean water supply, removal of sewage and trash and their related health threats, the restoration of electrical power and the creation of some form of transportation system are provided by the government or by private organizations. Some of these services can be expensive to restore and it is critical to get started as soon as possible, as the painful delays in post-war Iraq well illustrate, as does the lag of governments in the United States to the Hurricane Katrina disaster. In other cases such as the removal of trash or debris, the costs are low and many people are willing to volunteer. Most forms of public regulation must undoubtedly be forgotten in the short run, and if possible much streamlined for the long run. For example, where formerly it might have taken months of bureaucratic clearances (and perhaps a few bribes) to initiate a small business, the government should simply jettison this baggage and turn all small entrepreneurs loose. In fact, the “bottom up” vitality of people starting small enterprises from retailing and customer services to day care centers is the single best hope for rapid economic recovery. The widespread destruction of housing can best be met by temporary shelter not in remote refugee camps but in the old neighborhood communities. The combination of a few shops and some temporary shelter means a return to at least a rudimentary level of communal stability. The government could do a lot worse than to become the supplier of building materials and a central clearing house for the skills needed in both residential and commercial reconstruction. Cheap small loans with long maturity dates are valuable, along with open ended grants of funds to local governments for all forms or revitalization.

These are the places where governments and donor organizations should be committing scarce funds initially. To the extent that additional funds are available, they should be concentrated on short term economic devel-

opment priorities. The criteria for priority setting should not be political but based on the greatest public need. There should never be a return to the distorted allocations of the power base that got a country into the catastrophic dilemma in the first place, and the collapse of the old regime may represent the best opportunity in decades for reallocation of power and greater equity in its deployment. One of the most challenging of these changes will probably be to recast the military away from the oppressors of the population to its guardians. A great fear in a weakened state is that power will be seized by a small band of armed power seekers who will simply start the horrible cycle all over again. Only the military, under effective partnership with a reform regime has the power to prevent this, and there must be a collateral strengthening of law enforcement capacities for the suppression of street crime and protection of citizens and institutions.

One of the objectives of this sequence of recovery is to prepare the way for the return of the displaced population, who may have fled to safer parts of the country if any, or to refugees in neighboring countries. These refugees may have lost everything but they cannot remain for long as unwanted guests in other countries or as permanent wards of a bankrupt homeland. Often, the last remaining resource left to these people is the most important – their energy and their skills. It is especially important that key skills for recovery be induced to return home. This includes doctors and nurses, teachers, managers, business people, and the providers of vital public services such as police and fire protection and public welfare. These people have options about where they exercise their talents and they may not want to return unless they can be shown a pattern of recovery that assures reasonable stability and opportunity.

One of the most dangerous threats to recovery is the prospect of rapid inflation driven by the scarcity of goods which in turn further drives down the current value of the currency. One of the solutions to this dilemma may sim-

ply be to let the informal economy function openly to facilitate the movement of goods and services until the more formal economy can reestablish its capabilities. Such a process should be used to facilitate the restoration of farming as fast as possible and letting farmers sell their produce at the best price possible. This option is likely to be more productive than initiation of (or return to) political price controls that subsidize some elements of the economy and punish others. Similarly a temporary labor market can be created by using external donor funds to undertake rebuilding of vital public infrastructure, which creates at least temporary jobs in construction, distribution and transport. This would be better than some protracted form of public dole.

The longer term ambition for a collapsed state is that it will be able to rebuild a substantial portion of the economy as it was prior to the collapse, and then to use this base as the means to mount a new program of economic development and expansion. Without economic revitalization, it is difficult to see where the revenues will come from to support a revitalization of public social programs and the repair of critical public infrastructure. Many of the less developed countries that have experienced collapse or significant deterioration were socialist states with a high degree of centrist control and dependence on economic policies such as price controls, import substitution and inefficient state owned enterprises that can no longer be subsidized by the weakened and bankrupt state. Such governments will face the sobering necessity of abandoning many strongly held doctrines and policy conceptions about the role of the State. This is precisely the course of action now being followed by the People's Republic of China which has abandoned almost all of the failed doctrines of the communist economic state. The new leadership must become quick studies in moving toward a far more market based and open for two main reasons. First, such an open ended environment may be critical in encouraging a "bottom up" entrepreneur-

ship by individuals that the government could never achieve. Second, if there is any hope of inducing new capital investment from either domestic or foreign sources, investors must be given as much latitude as possible to create viable businesses without government interference. Both import and export controls must be eliminated, and the government must be seen as highly encouraging of all forms of trade. Such openness may downplay in the short run the need for normal government regulation of such concerns as public health and safety or protection of the environment but these forms of oversight can be reinstated over time. Taxation will always be a problem since it is stoutly resisted even in wealthy countries but businesses can be expected to accept a simple, stable tax system with taxes set at reasonable levels.

Of equal importance is the need for the reconstituted government to come down harshly on all forms of corruption. Many of the old corrupt officials will remain in place since there is probably no one to replace them, but they must be made to understand that a return to the “good old days” will not be tolerated. The best hope for the government lies in honest leadership from the top down, and the creation of small hard-hitting anti-corruption units with real power to investigate and indict. There should also be the recognition that 99% of the population wants fairness and equity and want to be honest if possible but it is essential that the pathology of government corruption is essentially eliminated.

It is possible also to be hopeful that people are better at reconciliation than governments. Too many governments made the fatal mistake of deliberately using the ethnic or regional diversity of the population to foment conflict for perverse political gain. People can be induced by their government to hate each other as the horrible examples in the Sudan, Yugoslavia, Rwanda, Israel and a dozen other countries demonstrate. But if such hatred is unleashed it has proved to be uncontrollable and ultimately has contributed to the destruction of

the governments that unleashed it. It is often forgotten that such diverse populations were able to live together in relative peace before the government generated its hate policies. If a renovated government reverses such perversities and begins to promote reconciliation it is likely that the people will respond. South Africa is leading the way in such reconciliation promotion in the form of its Truth and Reconciliation Commission which is a model both in intent and in procedure that any government can emulate.

Government failure and collapse is always catastrophic and destructive, but it may also be a time of great opportunity to get rid of tyrannical leadership, remodel government institutions away from control to facilitation, attack the entrenched apparatus of corruption, and begin the process of restructuring of the economy. Recovering failed governments will find that there is a lot of support for a reform program of this kind from foreign governments and from international organizations and NGOs.

Reform of Macroeconomic Policies

The government must be able to maintain a monetary policy that concentrates on control of inflation and the stability of the economy. Both the government and the private sector must be able to find money to borrow at reasonable rates. The value of the national currency must be maintained and not allowed to fluctuate excessively, and it must trade at a reasonable rate in the international money market. But all too often, the real economic policy in a pathological state is something very different. Pathological leaders use whatever wealth the economy produces to buy power and pay each other off. Such governments become a vast corrupt structure, led by their leaders, universal in its application. The “big men” steal big; the little men steal small and all are fellows in a conspiracy of concealment. The public is lied to, or bought off by populist subsidies. The annual budget of governments are highly vulnerable to the sins of overspend-

ing, but the political leadership seldom allows expenses such as salary increases or funds for maintenance and repair unless they have political value. But responsible fiscal policy should be dealing with the legitimate demands for capital expenditures for public infrastructure, funding for a reasonable “social safety net” and the normal day-to-day operations of the rest of the government.

Many countries also suffer from the inadequacies of the tax system. In some cases, taxes are too narrow and inequitable so that some potential payers are allowed to escape. Whole segments of the economy such as the informal economy, or state owned enterprises may dodge taxation entirely. If tax collection and enforcement is weak, chances are that it is the allies of the regime who are let off the hook. Centrist governments may insist on central collection of most taxes, which deprives regional governments and cities of the ability to take advantage of other tax sources that might be more productive. Those governments that are notoriously inequitable and corrupt inevitably create public resistance to taxation and outrage to corrupt tax evasion.

Reform of Trade Policies

Usually there is a great deal of concern about the balance of trade in a given country. Separate but related policies are needed which set the environment for both national exports and national imports. A deficit of trade (i.e. more imports than exports) is usually seen as bad because it drains money out of the domestic economy. In order to improve the balance of trade, many countries try to restructure their economy to promote industries that can export. However, export becomes feasible not because of government policy but because there are many companies that can in fact be competitive in trade markets by offering goods at prices that compete favorably with what is available in other countries.

But the whole pattern of ISI or import substitution strategies, if maintained for too long, leads to what is now perceived to be the sub-

optimal investment of scarce public funds. Government ISI policies generally have been interventionist on a broad front. Every ISI country has used an elaborate rationale for public intervention, masking the essential failures, and fooling the public into thinking the government knows what it is doing.

The urge to protect and subsidize ISI public enterprises has led to a cascade of related multiyear planning, heavy regulation of all economic activity, used as weapons of economic control, administered prices, control or modulation of normal market forces, subsidization, cross subsidization, partial or even total control of banking/lending, heavy government oversight of enterprise performance, and the “politics” of state control. It is now increasingly apparent that the track record is one of disappointment in validity of the ISI concept and in the performance of SOEs: chronic losses, inability to avoid import reliance, the high cost of sheltering both industries and labor, and a growing realization of the foolish failure to capitalize on export development potentials. But in many cases, these countries have been frozen by oppressive political protectiveness into their policies despite the wide recognition of clear failures or lost opportunities. Said another way, the risks of government mismanagement are greatest when the forces of the government are perverted and not balanced by real leverage in the hands of the public in their roles as consumers, and also by a private sector that is strong enough to protect its own interests and provide competition to keep the public sector “honest.” Yet these are exactly the kinds of outcomes that many regimes say they want to achieve.

The centrist use of state enterprises requires heavy commitments to enforcement of the government’s policies. This cost of enforcement is both monetary and fiscal, and societal, and if the policies are wrong, then enforcement is also wrong. There is a lot of evidence that these elites have been too short-sighted, inflexible, self serving, and inclined to let the “politics” of the economy override economic

reality. Time and again, great internalized power without effective check or balance has proved to be an overwhelming inducement to corruption and incompetence.

In recent years, some of the most dedicated “ISI” countries such as India, China, and Russia have been forced to abandon these failures. As nations back off from state controlled economies toward more market based economies, the role of the government has also finally tended to shift toward a policy of using the government to promote exportation. Limitations on exports have virtually disappeared and limitations on imports have been eliminated or modified to be more encouraging. Governments have realized that, in order to expand their domestic economies, imports of needed technology and the highest quality of goods at the lowest price is the key to domestic industrial development. Government money that used to be wasted in propping up inefficient local producers is now more available for domestic social services. More countries now help their companies to sell overseas by using their foreign embassies or by setting up special trade offices in countries with high potential for sales. Trade policy is now aimed at upgrading the mix, quality and value of manufactured goods so that they are more attractive or more profitable.

In every country, there is an urgent need for attraction of money to finance capital investment, especially in capital intensive manufacturing. Few developing countries are capable of generating this development money internally through the savings of their citizens, corporations, or state enterprises. Most developing countries must redesign industrial policies that will attract foreign investors, or that will justify loans from international lending organizations. Thus, when a regime is corrupt, oppressive and untrustworthy it scares off the very investment that could save its economy. Some regimes don’t get it. Others don’t care as long as there is plenty left to loot.

Reform of Financial Policies

Structural adjustment almost always demands the existence of a strong central bank that is committed to the stability of the currency, the availability of adequate lending resources, the liquidity of money, and the safety/security of banks throughout the country. Banking regulation is a growing part of structural adjustment programs. This means that sound, honest banking practices must be insured by bank oversight and auditing; standards defining lending limits and the maintenance of adequate reserves against loans; standards devising lending criteria to prevent loan default; insurance to protect depositors, borrowers and investors against bank failure.

The existence of a viable stock exchange is also crucial since it broadens the means by which small investors can participate and gives businesses a more powerful way to accumulate investment money. Stock markets also represent a way to “evaluate” companies since it represents a collective judgment as to the best places to invest.

Laws are required that provide for limiting the liabilities of investors to actual investments and not to total personal resources, and protection of investors from false or misleading reports about the strength of individual companies. In more sophisticated economies, regulations must be extended to non-bank lending through institutions such as savings and loan institutions, insurance companies, special lending companies.

Governments are also being pushed to clean up their policy act. This must certainly start with repudiation of past anti-private sector biases and adoption of a new willingness to take initiatives to help the private sector rather than hinder it and letting the opportunities be defined by the market rather than stubborn retention of centrist policy control. This is in fact one of the crucial shifts taking place all over the world in both Less Developed Countries (LDC) and socialist states. The final step must then be the elimination of a whole range of government policies designed to control the

economy in general and in specific elements of the economy such as energy, banking, communications and transport. At the same time, structures of price controls must be eliminated along with regulatory barriers, especially against things critical to local industry development, especially raw materials, manufacturing equipment.

As governments are able to reallocate and redirect public funds away from economic development, which would be left increasingly to the private sector, they can concentrate their funds and attention toward meeting the huge backlog of needs for social services and public infrastructure. If there are the political guts to do so, this may result in reexamining marginal public programs (outside of the real social safety net) with the intent of elimination or serious cutback of the less useful programs and those which are obsolete, ineffective or excessively expensive. Often, this means the need to trim bloated public employee numbers and to retrench inflated wages or benefits. Fixed costs such as building operations or maintenance and repair that have long been neglected may require a lot of new and urgent attention. And finally, politicians must face up to reform of their national tax systems to eliminate favoritism, raise tax levels, or find new sources of revenue that can be exploited. Interestingly, governments that lack themselves the courage to seek higher taxes can “hide behind” the demands of external lenders. This trap has been especially serious in socialist countries where governments have spent decades and countless amounts of money propping up failed state owned enterprises forcing banks to close out their bad debts with dependent corporations and making them face up to economic reality.

Governments all over the world, when faced with the disasters following greedy lending make the initial (political) decision to bail out economically inefficient enterprises. If they do so in some major way, they have made two mistakes: poor reallocation of lending funds; and poor diversion of fiscal resources.

Private borrowers have a vested interest in cheap credit and inflation -- which helps them pay off loans in cheapened money. For governments, cheap credit may be inflationary, which the government is expected to prevent; and it forces tax increases which either raises the cost of public programs or reduces their impact. Rather than subsidize companies, governments should promote enlargement of, and competition among lending institutions. A popular new development is the formation of special development banks, for such concerns as agricultural lending, urban development, regional infrastructure development, or small business assistance. Development banks are a good idea, but whether they succeed is contingent on the nature of government in the first place. That is, if governments create improper subsidies, then development banks will simply be a more targeted way to subsidize. If governments are corrupt, so too will be their development banks. If governments are honest and stay out of reallocation games, development banks can be useful.

But even if the government stays neutral, many such banks are effectively captured by their clientele. State owned “policy” banks can become very politically skewed and simply divert funds from private markets. Many government restructuring efforts are in reality bailouts of irresponsible banks and other lending institutions. In many cases, governments, through ownership of SOEs or pressure on private banks, force them to make very bad loans in the name of bad politics. In many cases, banks then persuade the government to absorb their bad loans or to permit them to be converted into equity or long term loans, which simply enriches the bad banks. Where short term loans are converted into long term loans this simply ties up money in the bad loans for a longer period of time. In addition, in the effort to create competition, governments often allow lending by such institutions as insurance companies, non bank financial intermediaries with lower levels of oversight. In the end, direct and selective in-

tervention by the government in the allocation of financial resources tended to generate more difficult problems for both big business and the banks. The whole arena of “strategic industry” building also skewed the allocation of lending -- to defense industries for example, or to “commanding heights” industries controlled and subsidized by governments. Policy loans severely constrained the independence and freedom of action of central banks. Their inability to adjust the pace of money flow then weakened their ability to impact inflation. In many places, the concentration of financial resources on big companies meant the choking off of funds available for smaller companies or for the private sector in favor of the public sector. This hurt the economy in the long run. Also, the greed of these large companies egged on and protected by the government leads to overextension and contributes to massive failures during recessions. The perversion of banking systems has been one of the major tools of oppressive and corrupt regimes.

Curbing Management Corruption

Given the will, there are many ways in which management corruption can be prevented or mitigated. Some involve broad government-wide management policies which can be mandated in law or implemented through individual agency adoption. Perhaps the most important is the use of maximum feasible competition in all government activities that allocate resources – systems such as awards of contracts, grants, loans, or the use of public lands or facilities. This may also include careful control of licenses for valuable assets such as broadcasting wavelengths or the allocation of access to airport gates.

It is also vitally important to require internal transparency of agency operations. The processes by which agencies carry out their programs should be clearly defined, made as simple and understandable as possible, and widely published for all employees who can then know what is acceptable and what is not. This transparency must also extend to the out-

side through published summaries of agency authority and operating procedures. This can and should be accompanied by some form of public review and comment before important divisions are made, or key processes changed. Special emphasis, often neglected, should be placed on making visible which officials make key decisions and why.

No public official, including political leadership should be authorized to have what are generally known as “slush funds”; that is, funds that are available without controls or justifications or audits. Somewhat more problematically, it may be vital to develop some forms of protection for career officials from the unwarranted intervention of political leadership into decisions that should rest on merit or competition. Obviously, political leadership is necessary but what should be restricted is the tendency of politicians to meddle in management decisions such as contract awards. It is axiomatic: bad politics makes bad management.

In addition to these broad policies, there are many measures to increase the likelihood of detection and prevention of corrupt practices. Inspectors General or some equivalent should be legislatively mandated in every public agency, with strong independent powers of investigation and discovery. Either independently or as a part of an Office of Inspector General, a skilled corps of auditors should be authorized to insist on the examination of all agency records and actions. Every program manager should be charged with the responsibility of assuring that each program is free of corruption or mismanagement even before the auditors arrive.

There is an old axiom for auditors and inspectors: “follow the money”. Special attention should be given to the creation and enforcement of close controls over financial flows from initial collection of revenue by the government to the authorization by legislatures of funds for expenditure by the agencies. Within each agency, authority should be limited as to the numbers of officials who can authorize the

commitment of expenditures – the fewer the better. A second internal control should be maintained through the use of separate officials who can approve the actual disbursement of funds. Then, there should be management reviews and post-audits of whether the funds were actually used properly and for the purposes for which they were authorized.

Experience shows that perhaps the best “auditors” of agency actions are not necessarily official auditors, but the general public and sometimes employees of an agency who have inside knowledge of what is happening. Good confidential methods should be available for the public to lodge complaints or report corruption. The best intelligence about government corruption often comes from its victims. Those agencies that operate hotlines are often amazed and gratified by the numbers and sharpness of public responses. Internal agency whistleblowers may also be remarkably valuable but this often is punished by agency officials who have something to conceal, even if it is only their own mismanagement. Whistle blowing is a term coined to highlight the fact that agency employees who witness corrupt practices are motivated to try and stop them. The key problem is for the employee or a member of the public to have a safe place to go with this kind of knowledge, and the sense that there will be some institutional response to justify the risk.

In a corrupt or pathological organization, employees may become victims. They must be protected in some way from the arbitrary and capricious acts on the part of agency leadership, including unwarranted firings, transfers, or demotions. Most employees probably want to be honest, but they can't be if they are subject to threats, coercion and intimidation, or if they are ordered to carry out what are clearly illegal or improper orders. Often, it is actually bureaucracy that protects them. If policies and authorized procedures within an agency are clearly defined in some detail, the employee then has a basis for resisting or fending off an order is improper or illegal.

Finally, in truly scandalous governments, corruption is not just ignored, it is organized and encouraged. Even where the apparatus for controlling corruption exists, it may be ignored or circumvented. What the public deserves and wants to see is that the corruptors are caught and removed, and that corrupt acts receive serious punishment. For situations of entrenched corruption in agencies, it may be impossible for the organization to purge itself from the inside and the only alternative may be the creation of external anti-corruption campaigns mounted and enforced from outside of the agency. Thus, it is vital that there exist a forceful government-wide posture against corruption and a set of instruments by which this posture can be carried out. Most countries have various forms of oversight agencies: Inspectors General, government-wide auditing and evaluation agencies, a government-wide budget review organization, and often, a contract review and oversight board. There is a growing tendency too to create a special anti-corruption agency with strong independent powers.

But of critical importance is the participation of the national legislative body. It was argued earlier that the rule of law can become perverse if the laws themselves are pathological and this is a sin laid at the door of parliaments and congresses. The fact that such legislative bodies can be dominated and perverted by tyrants does not relieve them of the ultimate responsibility of maintaining the integrity of the base of national laws and fiscal appropriations. Part of this responsibility involves the oversight of the executive agencies of the government, and these agencies can be aided and abetted in preventing corruption if the laws themselves make it clear exactly what practices are defined as illegal or improper. Further, anti-corruption controls can be deliberately incorporated into laws and mandated in more detailed government regulations. Legislatures can and should maintain their own forms of transparency and openness to public comment, review, complaint and edu-

cation. Legislation can even be created that mitigates the worst forms of political patronage, both within the civil service and among top political appointments. It is even possible, if not likely, that the opportunities for corruption may be substantially reduced by the elimination of useless or wasteful public programs and activities. Every public official at senior levels should be required to disclose the state of their personal finances; however, a mistake often made is not to extend this requirement to politicians.

In an extreme environment of embedded and institutionalized corruption, some governments have turned to a promising new approach – popularly called a “watch dog agency”. These agencies are not designed for routine auditing or inspection but have the single purpose of mounting government-wide anti-corruption attacks. The record of watch dog agencies is mixed, with some such as that in Singapore cited as highly effective while others are all but useless. In assessing the track record of these agencies, certain characteristics have emerged as critical to their success:

1. Such agencies may be established at the government-wide level or placed in individual agencies of government but in either case, they must be independent and must report to the highest possible level. Most are created by special legislation that establishes the needed independence. Many such laws provide that the reports of the watch dog organization must be submitted either to an agency head or to the legislature. The staffs should be politically neutral and not beholden to any organization or persons other than those who appoint them.

2. The agency should be deliberately weighted to provide the maximum capacity to do operational field investigation – on-the-ground rooting out of corruption.

3. The authority of the agency should be powerful. It must be given the authority to investigate any situation, have open access to all government records, including the legal authority to subpoena such records. It should also have the right to interrogate any individ-

ual or to investigate the private records of persons where corruption is suspected.

4. Authority should extend beyond the government itself into the institutions that are engaged in government financed activities such as state owned enterprises, contractors, grantees, local governments to which government authorities have been delegated, or to those holding government licenses or charters.

5. In addition to the power to investigate, many watch dog agencies have also been granted “intelligence gathering” authority which opens up such tools as wire taps, surveillance, and clandestine ways to penetrate suspect groups or organizations.

6. There should also be the means by which secret access is provided to whistleblowers or the general public who want to report suspected corrupt practices without fear of retribution. This access should include reports against politicians, since one of the greatest inhibitors of anti-corruption criticism is the fear of political retaliation.

7. The independent capability to prepare cases for prosecution is vital, since one of the “choke points” that a regime can most effectively control is that of the actions of public prosecutors who are public employees, subject to direction from their political superiors.

But the creation of one or more anti-corruption agencies is no guarantee of an effective attack on the problem. For example, most countries in Southeast Asia have such agencies, but few function effectively, mostly because of lack of political support, or adequate response by agency management. In the Philippines, seven anti-graft laws enacted over a period of several years has yielded only spastic results because of lack of enforcement. Public prosecutors are notably reluctant to develop cases. Even those cases that are brought before a court may languish for months or years. The usual approach to muzzling these agencies lies in appointment powers of the president who may appoint either incompetents or loyalists to the regime whose primary role is to blunt any embarrassing initiatives.

