FROM SMALLER TO BETTER GOVERNMENT: THE CHALLENGE OF THE SECOND AND THIRD GENERATIONS OF STATE REFORM

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ABSTRACT

This article contends that the contents and scope of “second generation” state reforms in Latin America show a high degree of heterogeneity according to the national contexts and the depth of the changes produced by the first reform. The “third” generation of reform is rejected as a valid category. There is no clear distinction between premises or values, roles and instruments of reform. The first generation of reforms constituted the “easy phase” of the state transformation. In the second phase, the difficulties are similar to the ones that the Latin American countries faced during 70 years of reformist attempts that constituted the prehistory of this process and that mostly ended in failure. By means of a critical analysis of the paradigm of the “re-invention of government”, the instrumental challenges implicit in its eventual materialization are reviewed. As an emblematic case, the Argentine experience is used to illustrate the main propositions of this article.

INTRODUCTION

The field of state transformation is full of references to “second” and even “third” generations of state reform. Implicitly, they acknowledge the existence of a previous stage -the “first generation reforms”- of which they either could be correlates, continuation or culmination. The reference
also divides up a historical period in which, it would appear, no change existed before the “first
reform” nor any more changes may be necessary after the “third” is completed.
Is this a fair interpretation of scholarly assumptions and/or actual reform paths? Have we really
reached the last stage of state reform? What lies beyond, aside from simultaneous,
contemporary predictions on the “end of the nation state”?¹ Shall we conclude that this kind of
reasoning assumes an inevitable sequence, based upon a sort of historical determinism,
whereby the logic of the process of state transformation would follow a linear, predetermined
course?
These observations should not be interpreted as a mere play of words nor as purely semantic
statements. Rather, they purport to highlight (and to question) certain premises shared by those
for whom the idea of moments, stages or “generations” of state reform is most appealing. The
first premise assumes that concern about reform only appeared in the 1980s, when the policies
introduced by Margaret Thatcher and Ronald Reagan paved the way for similar attempts in
other nations where those policies gained rapid acceptance. A second premise suggests that
the sequence “first-second-third” generations of reforms represents a model to be followed-as
its predominance in world experience would ratify its intrinsic legitimacy. And a third premise
would lead us to believe that, if successfully completed, the state would have acquired
institutional capacities that would turn it into a genuine exponent of the oft cited “necessary
state” or “good government.”
In the first part of this article I will examine the extent to which these premises are sustainable in
the light of some state reform processes implemented in Latin America during the past two
decades. Next, I will try to conceptualize the meaning and contents of the first, second and third
generations of reform. The subject will be illustrated with references to the Argentine case,
which has been paradigmatic as a model of sequential reforms, as well as to other Latin
American experiences, albeit in a less systematic manner. Finally, attention will be paid to the
challenges implicit in pushing forward the reforms pending in the region, whatever the stage or
“generation” they may belong to.

PREHISTORY AND “FIRST GENERATION” REFORMS

The history of the 20th century has recorded innumerable attempts at large scale state reforms,
i.e. massive and systematic efforts to transform certain characteristics of the organization and
functioning of the state apparatus, in order to achieve -as it is traditionally said- greater
efficiency and effectiveness. During most of the century they were known as “administrative
reforms”, a much more precise expression to refer to the kind of changes that were advocated.

Periodic announcements of massive reforms may be regarded as milestones or landmarks, as
moments of condensation and acceleration, along a mostly slow and incremental process of
change. However, the rhetorical and symbolic value of these reformist endeavors should also
be considered, beyond their impacts and immediate consequences, insofar as they express a
determination to transform government. In this respect, after analyzing the history of administrative reforms conducted in the United States during most of the past century, March & Olsen (1983) came to the conclusion that the record is not very favorable or, at least, that actual changes were far below the initial expectations of every single experiment. In any case, the authors argue that the manifest intention and the message itself constitute values that citizens appreciate, adding that a nation’s President may be criticized more for what he does not say than for what he does not do on this issue.

This brief reference to the last century shows that recurrent attempts at implementing administrative reforms existed well before these reforms began to be ordered and numbered in a generational sequence. In my opinion, however, “pre-historical” reforms shared two features that appear to clearly differentiate them from the initiatives of the 80’s and, particularly, the 90’s.

First, the ideological climate in which those processes were generated reserved for the state a fundamental role as an articulating instance of social relations and, therefore, its intervention in this respect was not seriously questioned. Broadly speaking, state structures and civil service personnel had reached their maximum expansion during the 60’s and 70’s. Along with its increasing role as an employer, the growth of the state also implied a stronger presence as an entrepreneur, a regulator and a provider of subsidies. This situation would openly contrast with the shift in orientation that would take place as from the following decade—a process which years later would lead to what it is being known today as the “first generation” of state reforms.

Second, in the final balance, the previous reformist initiatives had met with little success. At most, their results only in other parts of the world—particularly in Latin America—came to represent a minimal fraction of their initial expectations, as it also occurred in the American experience. Instead, the reforms initiated in many of those same countries, beginning in the second half of the 80’s and, especially, during the 90’s, met with considerably greater success.

To wonder about the different outcomes of the previous reforms vis a vis with the more recent ones is quite legitimate. A first explanation is rooted in the diverse nature of the changes pursued in each case—a factor that, to a certain extent, may invalidate the comparative exercise. Indeed, first generation reforms had as a central goal to shrink the state, not necessarily to improve its performance. Less state did not amount, simply, to reducing its structure and personnel following a rationalization drive. In the new ideological climate of the 90s it meant giving up functions and activities that came to be considered illegitimate. Indeed, reforming the organizational and functional rationality of the state was postponed to a second stage. The main objective was to get rid of entire institutional segments, be it through their complete elimination or their transfer to other actors or jurisdictional levels. Instead, the pre-80s reforms tended more to strengthening the state apparatus and increasing its efficiency, as it seemingly has been (and still appears to be) the goal of second (and third?) generation reforms.

**THE SECOND GENERATION OF WHAT?**
It is difficult to analyze the “second reform types” without a previous reference to the “first” one. Essentially, in that earlier stage the decision was to follow a sequence which started with a redefinition of the role of the state, continued with the restructuring of its institutional apparatus resulting from that redefinition, and ended with the downsizing of personnel, consistently with the two previous decisions. The neoconservative reconversion of the 70s and 80s was based on a diagnosis that attributed the economic crisis experienced at the time by most Latin American countries to the failure of a model of social organization grounded in a state-centered matrix which had led to excessive state interventionism, the assumption of non-relevant roles and the predatory behavior of those in control of its apparatus. In line with this interpretation, the solution consisted, inevitably, in moving the frontiers, substituting market for state, establishing a new scheme of social division of labor and deregulating economic activity.

Thus, decentralization became the mechanism for transferring managerial responsibilities to the sub-national governments; privatization, that put in the hands of private enterprises (and often, of transnational state enterprises), the provision of most public services; deregulation, a policy that emptied or eliminated numerous public entities that regulated socioeconomic activities and were viewed as superfluous or negative for development; and outsourcing, a new procurement practice which led a great majority of public agencies to obtain in the market certain goods and services previously provided by their own operational units. The ranks of the civil service were also extensively trimmed.2

In spite of its unusualness, the first generation reforms only represented the “easy stage” of the state reform process. They demanded an active leadership from the Executive, which in several cases availed itself of ample powers to administer the reform process by decree, while practically avoiding any political debate in Congress. In addition, this was made easier by the weakening or loss of legitimacy of other actors (i.e., labor unionists, military) who, under different circumstances would have played a challenging and obstructing role (Naim, 1995). This explanation, based on the climate of public opinion and the particular constellation of political forces shaped during the hardest period of structural adjustment and economic stabilization, does not however exhaust the spectrum of causal factors that converged to ensure the “success” of the first reform. The “facility” of this initial stage did not depend only on favorable political-ideological conditions, but also on the relative “simplicity” of the very reforms. It was not a matter of introducing changes -as it happened in the decades of the reformist prehistory, but of extracting areas from the state jurisdiction, of giving away functional domains. The intention was not to improve management but to reduce its scope.

Paradoxically, these explanations would cast somber doubts on the prospects of a second reform, because its goals (although not necessarily its instruments) coincide, to a great extent, with those that were frustrated during the extended period prior to the 80s. That is, this new generation of reforms would reinstate the need to finally approve the tasks still pending after decades of unfinished administrative reform.
However, certain important differences should be noted. State reform turned out to become a condition for multilateral funding and this operated as a highly determining factor for its permanence in the state agenda. Not only as an exigency of fiscal discipline and compliance with reform targets, but also as an almost excluding source of available resources to carry on the changes. Moreover, public opinion has become more responsive to the reform discourse, and at present this discourse has become more uniform, thus reducing the debate to the nature of the reform instruments to be employed, rather than to the need of change itself. In sum, there is greater coincidence in the diagnosis and several exemplary experiences (such as those of Great Britain, Australia, New Zealand and, even, Argentina) are now available, having become models to be imitated in all other countries.\(^3\)

Despite these coincidences, there seems to be little consensus regarding the contents and scope of the second generation reforms. This happened with the first reform wave as well and I am afraid that the same is true of alleged third generation reforms. Both the legislation adopted by the governments and the public declarations of their representatives introduce a high degree of ambiguity on this matter. Part of the difficulty derives from the fact that, in a certain sense, state reform may be viewed as an aspect of a more encompassing process of social transformation. Also, it is difficult to separate the reform of the state from certain economic reforms aimed at structural adjustment and control of the fiscal deficit.

The contribution of Naim (1995) can be viewed as a systematic attempt at specifying the challenges of second generation reforms and, at the same time, at differentiating them from the first generation. According to this author’s view, the typical instruments of this stage include the reform of labor legislation and practice; the reform of the civil service; the restructuring of government, especially of ministries dealing with social issues; the restructuring of the judicial system; the upgrading of regulatory capacities; the conversion and restructuring of sectors; the implementation of “complex” privatizations; the development of the country’s capacity for the promotion of exports; and the restructuring of relationships between the local and central levels of the federal government.

However, experience reveals that the goals and contents of second wave reforms differ from one context to another, often depending upon the scope of the first generation reforms. Contents are not specific and conceptual frameworks are confusing. For example, there is no attempt to differentiate the principles or values of the reform, from the implicit roles or the instruments of change. The classic decalogue proposed by Gaebler and Osborne (1992), which has often been used as a standard enunciation of second generation reforms, are fundamentally referred to principles and values that should guide the “reinvention of government,” without any reference to stages. Although the majority of these principles contain instrumental assumptions, they do not demarcate the role of the state nor lead unequivocally to an action program.

According to their enunciation and to the orientation adopted by a great number of countries, the “reinvention” of government implies the search for greater effectiveness in state activity, which for this vision it entails exhibiting the following conditions:
A mission statement should guide organizational action;
Management should be results oriented;
Earning should substitute spending (entrepreneurial orientation)
Capacity to anticipate is critical;
Decentralization should be the rule;
Government activity should be market orientated;
Service to the client is a priority;
Government should play a “catalyst” role.

This enunciation does not distinguish between first and second generation of reforms. If these principles were followed strictly, governments should:

1. Design a strategy of state modernization on the basis of a vision of a desirable society and, consequently, of a mission aimed at its materialization.

2. Institute norms and mechanisms that gradually substitute evaluation of results for control of processes. This implies that resource allocation should be guided by concerted and verifiable objectives, outputs and targets, rather than by the automatic routine of expenses earmarked through routine budget reproduction. The practical application of this principle gave way to the so-called performance-based agreements.

3. Selectively introduce certain market oriented practices, such as institutional marketing, the recovery of service costs (as far as it is compatible with the social role of the state), or the outsourcing of other services, without resigning its essential public and not-for-profit role.

4. Develop and disseminate information systems that provide inputs for the decisions circuits and increase the government’s capacity to anticipate through planning, monitoring and management control processes. This demands a substantial effort as regards design, development and implementation of information systems in the various areas of state activity.

5. Intensify the processes of decentralization already initiated, bolstering institution building at subnational levels and in executing agencies. This may require, among other things, training actions, introduction of management technologies or promotion of productive projects at regional and municipal levels.

6. Formulate integrated policies that encourage the productive activity of the private sector, particularly agribusiness and mining, the promotion of medium and small business and of microenterprises, or the development of markets at a local, national and international level.

7. Improve client’s services, in their various circumstances as users, beneficiaries, taxpayers or subjects of regulation, by means of actions of restructuring, de-bureaucratization, reengineering of processes, training of civil servants and introduction of quality techniques and computerized information systems.
8. Act as a catalyst, i.e. not to depend only on its own resources but to also act as a facilitator, activator and independent factor in joint ventures with private companies or NGOs, other states and transnational organizations, without resigning its distinctive identity and its specific targets.

As it may be appreciated, the range of instrumental options associated with each of the principles of “reinventing government” is ample, at the same time admitting different scopes as regards the appropriate role of the state.

In the following section I will use the Argentine case to illustrate some of the problems in the conceptualization and application of second generation reforms, as well as to evaluate their likelihood of success in this and other contexts.

ARGENTINA: A MODEL TO IMITATE?

The World Bank's 1997 Report centered its concern on the challenge of the reconstruction of the state. Many wondered why it had become necessary to reconstruct something that years earlier the same Bank had recommended be reduced to its minimum expression. The answer is simple: because it was becoming evident that together with the dismantling of the state, the public arena had been emptied and the social fabric torn, compromising social peace and democratic governance.

Argentina had been one of the most faithful and diligent executors of first generation reforms. While in 1950 the federal government had three times more public employees than the provinces, in 1997 the relation had been inverted and the provinces employed five times more personnel than the federal government. The 900,000 civil servants employed by the national government in 1990, became less than 300,000 seven years later. The magnitude of the redundancies was by no means of the size that the numbers suggest, neither have the people evaporated. A significant number of personnel, employed mainly in education and health services, was transferred to the provinces and municipalities. With the massive privatization of public enterprises and public utilities, another lot changed employer. Lastly, a by no means insignificant number attempted -mostly with little success- to join the new legions of self-employed created by the voluntary early retirements and the involuntary dismissals that accompanied these processes.

In this way, the once majestic and all-powerful federal government embarked on a road of downsizing, with no turnaround envisioned in the foreseeable future. On the contrary, encouraged by powerful business groups that control many of its accesses and often resisted by the provincial states that never resigned themselves to taking over new functional responsibilities without an adequate matching of resources, the federal government did not only sell “the grandmother's jewels” but also disposed of hospitals, schools and less attractive gems, which were transferred to municipal and provincial jurisdictions. Besides, in many areas it no longer continued to carry out roles of developer, regulator, employer, subsidizer and the like, that had characterized its long interventionist phase.
For these and other reasons, the first phase of state reform meant a reform of society as well. More precisely, it implied a change in the power relations between one sphere and the other, as well as a significant shift in their borders. The privatization, the decentralization, the deregulation and the outsourcing of services reduced the state apparatus, but at the same time increased the responsibility of the market and of the civil society in the satisfaction of social needs, thoroughly changing the scheme of social division of labor. The provincial governments began to take on a much more prominent role as the central axis of the State-Citizenry link, while the most concentrated sector of capital became the main supplier of public goods and services.

In general, the areas transferred to the sub-national states and the market, were not “downsized” before the corresponding decisions were made. This was done “ex-post” by the enterprises benefiting from the privatization or concession of public utilities, which in most cases proceeded to gradually carry out substantial cutbacks in personnel as they re-equipped and modernized their operating technologies. On the other hand, due to privatization, household budgets suffered stiff adjustments as they endured, at once, the elimination of subsidized social pricing in the provision of public utilities, the curtailment of “free riding” and high overpricing due to lack of control by newly created, weak, regulatory bodies.

In the cases of education, health or highway administration, transferred to the sub-national jurisdictions, these governments generally maintained (or even increased) the number of personnel transferred from the federal government. As for the public agencies that previously carried out regulatory functions (on prices, markets, currencies, foreign investment, and the like), they were simply eliminated and, in certain cases, part of their personnel was distributed among other existing public agencies. Finally, the voluntary resignations or early retirements that led to reductions in staff, tended to produce a growing distortion in the composition and profile of the state workforce, since the indiscriminate application of those policies affected the technical rationality implicit in the state’s production function.

The hasty dismantling of the federal government led to serious consequences: a) By not planning the changes or predicting their effects, there was simply a switch from hyper-trophy to deformity of the state; b) By privatizing public enterprises with the minimum safeguards, the state’s regulatory capacity was compromised, in fact it was substituted by a really private State; c) By decentralizing services almost blindly, the capacity to manage them was affected because the provincial governments did not have sufficient financial and management resources; d) By demobilizing and/or excluding actors and fundamental mechanisms of the democracy (Congress, parties, NGOs, oversight organs, public audiences) from the reform process, the frailty to face the new economic powers tended to increase; and e) By applying the recipes suggested by the multilateral financial agencies (IMF, World Bank) in an orthodox and inflexible way, the inertia of the reforms complicated the eventual corrections in the direction that these same agencies periodically recommended.

In 1996 the Menem Administration, backed by approved legislation, announced with great fanfare the launching of the Second State Reform. It was not an original proposal: in all Latin America there were announcements proclaiming the initiation of what could be called the inside
reform of the state, i.e., institution building: a lighter and more rational structure, less paperwork, more training, effective implementation of a civil service career, digital government.

But this time, it was likely that the chosen procedure - conferring super-powers to the Chief of Cabinet to approve in all the projects under way or to be initiated at provincial and national level- was not going to produce the forceful and drastic results of the first phase. Soon it would be evident that improving the state is far less easier than making it smaller.

Law 24629 and its regulatory decrees 558/96 and 660/96 established the orientation of the second generation reforms. The explicit objectives of the law differed very little from the ones that inspired the U.S. program for “re-inventing government”: citizen orientation; responsibility for results; contracts according to goals and targets; definition of standards (benchmarks); performance-related incentives; ongoing training and greater transparency in public management.

Nevertheless, the goals, decisions and actual results achieved in the framework of the second reforms, had little bearing with those ambitious objectives. A better part of the planned reforms (restructuring, downsizing of workforce, introduction of technologies, professionalization of the civil service, cultural change, de-bureaucratization) are still pending issues. A smaller state did not necessarily mean a better state; and the social legitimacy of the new roles was not constructed at the same pace at which the legitimacy of the previous roles was destroyed. The use of major surgery in that first phase was not accompanied by an adequate post-surgical treatment. The "outward" reform, which had diminished the functional control of the State and shifted its border with society, did not instigate a true "inward" reform of the state apparatus.

Bozzo and others (1997) have analyzed in detail the consequences of the implementation of the second reform program. From the assessment made by these authors, I have selected the following conclusions:

- The federal government kept structures and institutional mechanisms of social control, to deal with the destabilizing effects of an economic model that led to a growing concentration of economic power and to a greater imbalance in the distribution of income and wealth. This reinforced the political apparatus of the federal government in order to consolidate strategic alliances, to maintain welfare programs and to carry out policies strongly tinged by patronage.

- The political organization of the State suffered few modifications despite the constitutional reform of 1994. It failed to establish a new equilibrium between the three branches of government that would curb the power accumulated by the Executive, and it failed to limit the presidentialist bias of the government's structure.

- The institutional reforms introduced by legislation that established the second reforms turned out to be of a distinctly fiscal nature and did not bring about any measures of re-functionalization aimed at greater efficiency and transparency in state management. “The functional analysis of the current configuration of the state apparatus leads to conclude that the dysfunctional features which existed prior to the Reform, continue to appear in more than 80% of the issues related to deficient structuring” (Bozzo and others, 1997).
The oft-mentioned "second reform" ended up generating more expectations than facts, recreated mechanisms similar to the ones it eliminated\(^\text{10}\) and demanded from the state bureaucracy, in peremptory tones, the fulfillment of tasks and timeframes that were not matched by a real capacity to deliver. URME, the Unit for Reform and Modernization of the State, was created by Executive Decree, with certain faculties and duties that implied its decisive intervention in virtually all areas subjected to state reform and modernization: organizational restructuring; pending privatizations, decentralization and deregulations; ongoing or planned institution building; assistance to provinces in the process of administrative reform; monitoring of progress in the improvement of management of each area; development of new legal and technological instruments; new schemes for business expenses and purchases, etc. Almost all the existing government organizations were obliged by this legislation to urgently report to URME, any action, project or initiative already underway or to be undertaken in these areas. Had these requirements been entirely met, in a few days an avalanche of paperwork would have covered URME’s office, in search of directives for each case. Considering the scope of the job at hand, it is hard to believe that the Chief of Cabinet would have the institutional capacity necessary to really monitor, analyze and evaluate all reform activities being carried out or planned at national and provincial levels.

Essentially, the second generation of state reform was merely declarative, rhetoric --a fact which is not intrinsically questionable. What raised serious doubts was the actual resolve and available capacity to deliver the announced transformations, from a state that was increasingly absent. It appears that the "second reform" was inspired more by budgetary and fiscal urgencies, than by a legitimate belief in the need to preserve for the national state a vital role in the orientation and development of the economy or in alleviating social inequalities, both objectives of a genuine transformation of the state, which cannot be surrendered.

The Argentine experience also illustrates the heterogeneity that characterizes the contents and scope of second generation reforms. In April of 1997, the president of the World Bank submitted its biennial report on Country Assistance Strategy to the Argentine Government, in which it proposed to focus its actions on: 1) improvement of social development, including poverty relief and the development of human resources; 2) improvement of institutional capacity and the performance of the governments, particularly the provincial ones, in administering key services in the social, infrastructure and environmental areas\(^\text{11}\); 3) consolidation of the successful structural reforms, including reforms in public finances, the labor market and the financial sector, as a way of ensuring the successful implementation of the program and a better governance through institution building.

With this document as background, at the end of 1997 the World Bank produced a Preliminary Report called “Argentina –Second Generation Reforms”, which proposes “extensive institutional reforms and in the field of public policies, that might help Argentina to face the challenges of sustaining high long-term economic growth and to reduce poverty”. For this purpose, it proposes five components: 1) investment in quality in human capital; 2) efficient financial markets; 3) improved regulatory framework; 4) quality in the public sector and good government; and 5) fiscal strengthening.
It is evident that there is no clear demarcation between first and second generation state reforms. The initial objective of structural adjustment and the elimination of the fiscal deficit continues to have priority in the programs, although currently the actions focus especially on the sub-national level. The reforms in tax administration continue to be the target of the second reform, as they were in the first one. And the quality of public management is still a priority, although there is a lack of significant progress in the definition of the measures that would help to achieve it.12

CAN THE SECOND PHASE BE GOOD?

With or without anesthesia, the surgical phase of the state reform in Argentina was brief and radical. It reduced the obesity of the "patient", but also removed vital organs and increased its vulnerability. Then, the second state reforms had to confront a much more demanding challenge: to "fortify" the remains and to incorporate new functions that would try to re-establish the lost social and political equilibria, while maintaining the macroeconomic equilibrium which appeared, at the time, to have already been achieved.

However, state reform in other Latin American countries followed somewhat different paths. While no other single country went so far in privatizing all public utilities, as Argentina did, a quite variegated list would range from extensive sales or concessions (as in Chile, Bolivia and Mexico) to the maintenance of firm monopolies in state hands, as is still the case of Uruguay. Greater similarities are found in second generation reform efforts, following a shared libretto imposed by international experts and multilateral financial institutions. A veritable supermarket of models of a "desirable state" was readily available to all countries willing to reform their state apparatuses. While the labels differed, the nature of the products offered were mostly the same. In its shelves the brands would vary from, among others, the "necessary", "smart", "athletic", "minimum", "sensible", "modest", "reinvented" or "catalyst" state. In their common view, states must be small but strong, anticipatory but proactive, independent but able to delegate, resourceful but not spendthrift, oriented to the client but not inclined to patronage or cronyism. Besides, I would add, it ought to be ethical, transparent, flexible, informed, professional and technologically updated. Who would disagree with these proposals? It amounts to saying that it is better to be rich and healthy than poor and sick.

In any case, by referring to a necessary state there is an allusion, by opposition, to an unnecessary state which, ultimately, becomes the target of most reform efforts. In order to implement these pending changes, a number of guidelines and orientations in public management should be abandoned.

First, the maintenance within the state domain of money-losing state enterprises, activities or projects, that require government subsidies or transfers and are not justified for strategic reasons or urgent social needs that cannot be addressed by other means. For example, railroad companies, atomic energy plants, oil monopolies, are usually preserved as part of government assets mainly for strategic considerations. In turn, although the field of social security has been
opened in several countries to business firms (i.e., Argentina, Chile and, prospectively, the United States), they may be good equity related reasons to keep these institutions in state hands.

Second, the maintenance of regulations that are unnecessary or that negatively affect market operations and the behavior of social and economic agents. Very often, as has been eloquently described by Hernando de Soto (1989) for Peru, state intervention in the regulatory field may entail heavy costs for business enterprises in terms of permit requests, senseless reporting, heavy red tape, useless legal formalities and other similar constraints, constituting entry barriers for the conduct of business within the formal economy. Their elimination obviously entails doing away with the organizations or units in charge of their enforcement.

Third, the excessive centralization of certain activities that could be carried out more efficiently at a sub-national level, and, conversely, the re-centralization of other activities that could have resulted in excess resources at a regional or local level. In Argentina, for instance, the creation of Regional Districts at the Federal Tax Bureau or at the National Institute of Agricultural Technology, was instrumental for better resource allocation schemes meeting district needs, for a more fluid decision making mechanism and for overall performance. Re-centralization may take place, for example, when the delivery of educational or health services has been decentralized to sub-national units and the sector ministries begin to assume prime responsibility for the overall systems’ strategic planning, monitoring, control and evaluation activities—as has been the case of most Latin American countries undergoing full decentralization of these services.

Fourth, the upkeep of certain services (e.g. day care, printing, laundries, cleaning, maintenance, repair workshops) within state organizations, services that the market can supply at cheaper prices. As a matter of fact, contracting out these services has become the rule in countries like Brazil, Chile and Argentina, since the costs of maintaining an idle infrastructure and underutilized personnel are far more higher than those offered by private contractors. However, the record shows that as this kind of policy began to be adopted by subnational states, a new market was often created for small enterprises created by former civil servants who were given, in addition to costly indemnity bonuses, a number of privileges such as long term market reserves for their services as government suppliers.

Fifth, the existence of organizational structures designed without using reasonable technical criteria, with too many units and inadequate job descriptions, originating over- or under-staffing according to the nature of the functions. Even though the majority of the region’s civil service systems have established specialized unit that must technically and formally approve the government’s organizational charts, most institutions disregard in actual practice this requirement and some obtain presidential approval of their structures without previous intervention of those instances. In a study conducted in four Argentine provinces at the central units of their education ministries, it was found in all of them that understaffing of key, professional personnel was more than offset by overstaffing of low level personnel—with a net excess of over 30% when the staff composition was compared with a specially built model.
Sixth, the adoption of decisions under conditions of high uncertainty and without the help of accurate and timely information. Although Latin America, as a region, is not lagging well behind in the e-government race, there are several countries in which the use of computerized data systems for record keeping and statistical information is still at its initial stage. Brasil, Mexico, Argentina, Uruguay and Chile rank relatively high, but the rest of the countries are distributed among three other lower categories. However, even a high ranking does not ensure that information will be used, in effect, in the decision making process. Four decades ago, Albert Hirschman (1965) characterized the Latin American decision-making style as one in which motivation outruns understanding, meaning that information is not applied in support of the technical or political rationale that should guide a proper decision. Hence, what should be abandoned are not the instruments for data collection and information supply but the culture that dispises their value and application.

Seventh, budget allocations without a counterpart feedback of expected results and goals and of a description of shortcomings in institutional capacity yet unresolved. What it means is that between the blind approval of annual budgets based entirely upon historical criteria of allocation (as it has been the case for many years in the Dominican Republic, for instance), and the elaboration of budgets on the basis of highly sophisticated tools, which consider solving institutional capacity deficit as a conditionality, there is an ample terrain for improvement. Most public budgetary systems in Latin America have adopted a common approach towards integrated financial systems tied to strategic and operational planning. Few, however, have managed to establish actual performance systems, as process management responsibilities began to be replaced by results oriented management. Therefore, there still is lack of computer-based planning, follow up and evaluation systems, and of adequate output or outcome indicators for monitoring performance. My initial statement on this issue should be taken as a warning that in this new age of public management and continuous fiscal crises, budgetary systems can no longer operate on the fragile, uncertain bases that have been in place for decades.

Eighth, the absence of accountability regarding outcomes, procurement and maintenance of goods and the use of resources. Formally, all countries in the region have passed legislation and established specialized independent units in charge of auditing public agencies, ensuring transparency, fighting corruption and requiring accountability for results and the use of public monies. Yet, accountability is weak, corruption is widespread and management is blurred from citizens’ view. Even when corrupt practices are identified, the systems are so pervaded by political clout that sanctions seldom are applied. What is more, accountability is not simply a matter of system design; it is, above all, a cultural predisposition that individuals should assimilate in order not just to respond when being held accountable but to be accountable as a result of a moral imperative assumed when taking up a responsibility.

Nineth, the existence of an administrative career with no due process in recruitment, programmed training, periodic evaluation of performance and salaries that make civil service attractive. Once again, the distance between formal legislation and actual practice shows a very deep gap in this respect. In a study based on responses from 19 Latin American and Caribbean
countries to a thorough questionnaire (Oszlak, 2001), it was found that if put in a scale of degree of professionalization of the civil service, most would fall below 50 per cent of an ideal model and only a few would present certain features reminiscent of a professional service.

Finally, the lack of ownership and commitment in implementation of organizational and management reforms receiving technical assistance from external consultants. Public sector strengthening programs in the region have often been carried out not as a result of a felt need for change expressed by the agencies concerned, but rather as the result of conditionalities tied to multilateral funding. Usually, consultants are resisted or tolerated, hardly endorsed: actual involvement and collaboration on the part of the agency and its personnel tends to be the exception, not the rule. Hence, when the time of de-linking of the external consultants arrives, sustainability of whatever progress has been made decays or disappears altogether.

The eradication of the preceding guidelines, practices and orientations that form the backbone of an unnecessary state apparatus, requires a thorough and consistent program of reforms that is still pending. In this programmatic exam, I will continue the “dialogue” with the principles of the “re-inventing government”, in order to maintain the consistency of the analysis. Again, ten points will be stressed:

1. It is considered “Good government” if there is competition between suppliers of services, but the practical interpretation of this precept has resulted in the creation of private monopolies through privatizations. Though this issue does not form part of second generation reforms, the fact that the privatizing process has not been completed in many countries keeps open the debate about its need, opportunity, scope and means of implementation.

2. It is often stated that power resides in the citizens, who should exercise the control of the state activities. To date many mechanisms of participation and of social control of public management have been put into practice, with some successes and numerous failures. As a great social laboratory, the field continues to be open to experimentation, but it is not easy to extract formulas of proven efficacy to be used in other contexts.

3. It is considered desirable to assess actions by government agencies according to results, and to this end sometimes instruments such as the construction of indicators and the signing of program contracts between principals and agents are proposed. The challenge is threefold: to acquire the capacity to translate institutional objectives into measurable goals; to build information systems that provide backup to the design of indicators of results; and, above all, to transform an administrative culture that, at best, only accepts that management be evaluated according to the compliance of the established procedures.

4. The orientation by objectives (and not by rules or regulations) is, likewise, a value that is understood, but not an instrument of action. This principle, closely linked to the previous one, assumes several things: a concerted vision on the role of the state; a clear demarcation of responsibilities (competencies and results) of each government institution; a precise definition of the recipients and services to be supplied. In other words, conditions in which sectorial power and interests weigh a great deal more than the technical rationality of management instruments.
5. The redefinition of the users as customers also requires the creation of conditions and the availability of instruments of difficult application. For example, to introduce total quality mechanisms, to improve customer service, to establish citizens’ charters, in short, a true revolution in the interaction between citizenry and government. A few isolated pilot experiences in a handful of countries, based mainly upon the First Steps policies in Great Britain, show good intentions and few sustainable impacts.

6. To prioritize prevention over treatment and solution of the problems as they appear, implies the re-discovery of the old principle that is better to prevent that to cure. For this purpose, the main instrument is information but the availability of systems for obtaining, processing and recovery data does not yet ensure that the potential users will employ it in the processes of consultation and decision making. The cultural remnants of a decision-making style based on blind and uninformed compulsion to action, complicate the routine incorporation of prevention as an alternative style.

7. To establish user charges for compensating for the cost of public services requires that the citizenry accept a new form of economic relation with the state. Citizens in Latin America are not ready to either support this new state policy orientation or bear the financial burden of the services. Besides, the practical implementation of this viewpoint is not limited to the simple merchandizing of such services. It implies, on the contrary, the use of sophisticated tools for predicting possible negative impacts on other welfare policies, mainly from the point of view of distributive justice.14

8. To decentralize just because it is prescribed as a best practice of management not always meets the instrumental demands of its effective implementation. It is worth remembering, in this respect, that decentralization forms part of a continuum in which it contrasts with centralizing requirements of a different nature. Besides, it is not limited solely to a functional shift in the responsibilities of management, but also includes fiscal decisions and changes in the power relations. Therefore, the decision to decentralize cannot be based only on value judgments but on case by case analyses of objective circumstances.

9. The prevalence of market mechanisms over bureaucratic solutions is even a more abstract statement than the previous ones and presupposes extremely complex cultural changes within the state apparatus admitting the introduction of technologies such as process re-engineering, de-bureaucratization of norms and administrative procedures, institutional marketing, result-oriented management practices, and the like.

10. Finally, the catalyzation of action among the public, private, and voluntary sectors is, again, a value-laden enunciation that is by no means easily translated into instrumental mechanisms. A case in point is the extremely low performance of most poverty alleviation programs, funded by multilateral banks and other donors, which have been conceived of as collaborative endeavors

IS THERE A THIRD GENERATION OF STATE REFORM?

At the best of my knowledge, what has been discussed so far belongs to a field of inquiry built around the first and second generation of reforms, despite blurred borders and overlaps
between the two. It is intriguing, however, that for some years now, scholars and international organizations have begun to discuss a third wave of state reform: the so-called “third generation”. What is the scope and meaning of this concept? Does it involve another (different) set of strategies and instruments of reform?

Probably the most consistent distinction among first, second and third generations of state reform is the typology provided by Barzelay, quoted in Perlman et al. (2004). According to this interpretation,

“(…) the first phase of comprehensive reform witnesses the articulation of a new policy and management goals. This is typically but not necessarily undertaken by a newly established government. The adoption of a new legal, regulatory, and fiscal basis for the reforms typically follows. Then, new policies and management approaches were implemented. The start of the implementation process often only marks the end of the first generation of reform. The second generation consists of following through – steering of continued implementation by the government that articulated and sponsored the reforms. The constituencies that are affected by reform, that is, the winners and losers in the reform process, often exert a dominant influence in this period. The third generation of reform begins when the original sponsors leave office, often but not always at the point of transition to another government. At this point it is up to a new government to decide, enact and then begin to implement modifications to the original reforms. This is the most critical decision point of most reforms. This is the point at which program continuity and other problems arise, where tough choices are necessary on policy priorities, spending, enforcement, responsibility sharing, etc. When national governments change, critical questions must be addressed regarding which policies should continue, which should be modified and how, which should be terminated.” (p.2)

The foregoing approach does not consider the different nature of the reforms but the degree of progress reached regarding their continuity and sustainability through time. It does not matter whether reforms imply simply the transfer of responsibilities from the state to other social agents or true internal changes within the institutional apparatus itself. Perhaps more clearly than in any other interpretation, this sequence ends right here, at the third generation, since it assumes that at this point change is institutionalized and it is only a matter of sustaining them. Of course, reversions may occur, but in those cases a return to the second generation, or even to the first, would be taking place.

Other authors, however, adopt different interpretations when referring to third generation reforms. And the picture that emerges from the conceptual treatment employed by each of them leaves a strong sense of confusion. One author indicates that these reforms are basically geared towards transformations in public administration (sic) while another believes that they are the consequence of the need to accompany the more “tangible” reforms (fiscal, energy) with an essential regeneration of the social, political and institutional fabric, that provide a meaning and make efforts in economic “orthodoxy” fructify. It would imply a series of actions to achieve key equilibria such as a greater compromise between public and private interests, between
politics and society, between growth and equitable development, the generation of physical capital and the promotion of human capital, the exploitation of resources and the management of the environment. In Peru, a specialized journal includes among third generation reforms the privatization of public services, concern with intellectual property, the environment and labor rights, whereas the Bolivian minister of economic development has just announced that in this third wave, reforms should point to microeconomic changes. In turn, a Mexican observer contends that these reforms should prepare and improve the country’s domestic environment for long term productive investment. Among others, they include the liberalization of the social and economic system, the establishment of a simple and transparent regulatory system, privatization of public utilities and the reform of the labor market.

A Chilean scholar believes that third generation reforms are those indispensable for the consolidation of the democratic process, as they better respond to citizens’ needs. They imply changes in the models of organization and in the way public administrations act, with greater emphasis on results and services for the citizens, clients and users. Finally, to add some more confusion, it has been expressed that a third generation of reforms should be centered on institutional development and on subjects that exceed market mechanisms. It is not simply a matter of norms, structures or technologies, nor of additional resources, but of new forms of state behavior and of the optimization in the quality of organizational processes. “The agenda of this third generation includes the building of capacities, the creation of new collaborative networks, the sinergies derived from complementarities, the stimulus to participation and social initiative. In addition, issues such as equality of opportunity, a better distribution of existing capacities, new mechanisms of social management, new public goods and the preservation of natural resources should also be considered” (Elissetche, 1999).

In my opinion, lack of agreement among authors and observers on the meaning that should be given to the third generation of state reforms shows not only the uselessness of the concept but, in addition, the weakness of the generational approach in capturing the essence of the reform process. In this respect, I keep thinking that the distinction between less state and better state continues to be a more acceptable paradigm, as it permits a better classification of reform actions between those geared to the reduction of areas and modes of state intervention (less state) and those aiming at the improvement of state management (better state). Having in mind that countries, in general, have attained different degrees of progress in each one of these types of reform, the pending task for scholarly work, that lies ahead, is to conceptualize the scope that theoretically could be produced in each of them, without forgetting that reformers in reality may continue to imagine new possible ways of transformation.

CONCLUDING REMARKS

In closing, I will return to my unfinished dialogue with the reinventing government literature. All in all, a catalyst government that steers instead of rowing; the routine evaluation of its efficiency and effectiveness; long-range strategic planning, open competition and equity constitute the
main proposals of this approach. Implicitly, two basic assertions can be drawn. First, that besides directing and executing, a government must plan and evaluate, thus recovering two time dimensions (future and past) that are almost nonexistent in routine bureaucratic practice of Latin American countries.\textsuperscript{16}

Secondly, to ensure stable conditions of governance –a fundamental problem for the reinvented government– it is necessary to act on the other two levels of the relation between the state and the citizenry, i.e., the organization of the economic system and the distribution of income and wealth. In the first case, by ensuring market conditions through vigorous competition. In the second case, through policies that promote equity.

It is a matter of simple proposals, that can be summarized in terms of the need to restore common sense in government’s action. It is epitomized by the term \textit{Commonsense Government}, minted by Vice President Al Gore. Nevertheless, it is necessary to underscore the point that simple acceptance of principles and values does not automatically define either the role that the state should carry out in each historic juncture or the instruments that it must avail itself in order to comply with the assigned role. This is what Abrucio (1997) appears to refer to when he points out that although Gaebler and Osborne (1992) manage to enunciate an assemblage of important values to reinvent government, they fail to articulate a theoretical framework that explains and enables the implementation of reforms in the public sector.

Most definitely the redesign of the state is not only, nor mainly, a technical issue. Research and consultancy have already generated the models, the contractual and legal frameworks, the organizational designs, the data processing technology, the engineering of management processes and the incentives that allow the construction of impeccable state organizations. The unresolved problem is political rather than technical, even when the institutional capacities are still weak.

The great task of government everywhere is to preserve the necessary equilibrium between the three broad issues -governance, development and equity- that comprise its agenda and which are in permanent tension. To maintain this tension under control and to revert the undesirable consequences that resulted from the first reform in each of the three broad issues, strong political coalitions are required. Also needed are consistent and coherent attitudes that express the will to preserve an autonomous state presence, to expand the public scope by incorporating new actors mobilized by genuine participatory mechanisms, to avoid undesirable transfers of income and wealth that widen the social gap, to encourage ethical behavior, to open up institutions to public scrutiny, to be accountable and to punish non-compliance with the established rules of the game.

Generalized corruption, concentrated economic power, social exclusion, the dismemberment and fragmentation of civil society that have accompanied the institutional changes, weaken the post-reform state and turn this pending mission difficult. Therefore, it is not only about redefining the profile of the state; what is at stake is, also, the reconstruction of the social fabric and the public arena.
There is no crystal ball to provide any insight on how this process will wind up. But one thing is certain: the reform of the state, in its permanent metamorphosis, will continue being a task for Sisyphus. The “boulder” of reform must be rolled up to the top time and again. And it is very likely that time and again it will roll downhill to failure, and the labors must be renewed. If it is any consolation, the modern Sisyphuses “condemned” to this task can only hope that, in this eternal labor, the boulder will wear itself down and become lighter or the mountain slope will become, eventually, less steep.

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NOTES

1 Ohmae (1995) argues that today’s nation state has forfeited its role as a critical participant in the global economy, and that a new regional state is replacing it as its intervention becomes unnecessary.

2 During this first state reform, governments often applied unnecessary surgery. But cutting off entire areas of intervention was not equivalent to producing deep changes within the surviving bureaucracy.

3 In this sense, there exists a reformist copycat effect, especially among the “late-comers” to this process of transformation, as it is the case of the countries which belonged to the former Soviet block.

4 Term widely used in Argentina for the public enterprises that formed the bulk of state owned business assets, which in many cases were sold at low prices in spite of their profitability and their relatively efficient management.

5 For example, by stricter control of illegal hook-ups to the power grid or of railway passengers traveling without paying the fare.
6 According to a study financed by the World Bank, overpricing of tariffs was, overall, 16% above normal prices, and reached 20% in low-income sectors (Oszlak and Felder, 1998).

7 In the late 90s, several provincial governments carried out strong reductions in their workforce by suspending or eliminating certain wage items. They also encouraged the voluntary resignation or early retirement of employees, financing the process with substantial funding from international sources. In spite of these measures, the downsizing of personnel has not progressed significantly.

8 In Oszlak (1997) I use the term "discursive travestism" to refer to the frequent changes of focus in the recommendations issued by international financial organizations, in the face of the inertial effect of the actual reforms set in motion by the governments, which cannot be modified as easily as the discourse.

9 In line with the reductionist stance of first generation reforms, Decree 6660/96 established the downsizing, elimination, fusion or transformation of organizations and the new configuration which the Executive branch would assume once the Ministers had carried out the structural cutbacks as instructed.

10 URME, an agency created within the Chief of Cabinet's Office, merely replaced the dismantled "Comisión Ejecutiva de Contralor de la Reforma Administrativa" (CECRA), which previously operated in the Ministry of Economy and Public Works and Services.

11 There is a high degree of coincidence between this proposal and Tobelem's (1998), for whom the four great objectives of a re-invented state are: a) Equity and reduction of poverty; b) protection of the environment and of natural resources; c) rehabilitation and expansion of infrastructure; and d) regulation and justice.

12 As regards studies on the processes of bureaucratic and administrative reform, the modernization of management and the ways of measuring and/or evaluating administrative productivity in Argentina, Repetto (1998) coincidentally points out "the absence of substantive contents in proposals related to administrative technologies to be used in the public sector (...) Recent technical studies focus on the issue of human resources in the public sector."

13 Maybe Robert D. Behn (2005) is right in observing that no magical performance system exists and that only performance leadership can help in improving performance in public agencies.

15 In my search for different interpretations of third generation reforms, I have come across a great variety of authors, institutional reports, ministers' speeches, public declarations and newspapers' opinion notes. For the sake of the argument and easier reading, most references will be omitted.

16 If the functions of any organization are planning, executing and monitoring/evaluating, what occurred in a greater part of Latin America was that there was an attempt to transfer the executing functions of the federal government to sub-national levels, while maintaining the functions of orientation, planning, control and evaluation at federal level. But so far these changes in roles have not been fully assimilated. There are enormous shortfalls in defining concerted and encompassing policies, in programming actions and monitoring and evaluating public management, especially at sub-national levels.