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Competition, Contracts and Privatization: Globalization and Public Administration in Developing Countries

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Preface

This paper builds on a presentation to the Institute on Globalization and the Human Condition by Professor Ahmed Shafiqul Huque in November 2003. Professor Huque was a visiting professor at the Institute from the City University of Hong Kong during the 2003-2004 academic year. In this paper, Professor Huque reviews some of the thinking and of the evolution of 'New Public Management'. In the field of Public Administration, NPM became an area of high emphasis, particularly under neo-liberal governments during the 1980s and 1990s. The idea behind this approach was that public bureaucracies had become inefficient, unresponsive and bloated. These deficiencies could be addressed by introducing 'market forces' more systematically into the 'delivery' of public services, whether through privatization, replacing unionized public sector workers with private sector firms working on contract, or 'partnerships' between governments and the more lean and efficient companies in the private sector. The results of this approach in the wealthier OECD countries have been decidedly mixed.

Professor Huque observes that these ideas associated with 'New Public Management' were themselves globalized over the same period. Global institutions like the World Bank and the International Monetary Fund, working on mandates to encourage 'structural adjustment' in developing countries, encouraged these countries to consider privatizations, contracting out to private sector firms rather than using unionized public sector workers, and 'partnerships' with the private sector. Similar to earlier ideas like 'development' and 'modernization' imposed on developing countries, these new public management approaches did not fit very well the circumstances and the needs of developing countries. If anything, they made bad situations even worse according to Professor Huque. He builds this argument drawing on his extensive knowledge of public administration practices and theories in developing countries.

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Introduction

Public administration actors, institutions and processes came under severe criticism in most states, as they seemed to be increasingly inappropriate for performing the tasks expected of them. Western developed nations moved to alleviate the problems by introducing reforms in the public sector. Initially, the reforms aimed at cutting cost in the provision of public services and reducing the size of the bureaucracy. Subsequently, the reforms also attempted to usher in changes in the approach and attitude, and more radical solutions were considered, including the overhaul of public sector organizations and the introduction of market principles.

Most developing countries have opted for reform principles and strategies that had been tried in the developed world for several reasons. The first and foremost reason is that the developed countries serve as models, and similar systems and structures were expected to contribute to development. An associated factor was the relationship of dependence generated both as an historical legacy (as the colonial powers were able to impose their view of development) as well as contemporary geo-political and commercial factors. This is the area where the role and influence of international organizations come into play. Conditional loans and assistance from the World Bank and International Monetary Fund, on which many developing countries are dependent, often require the adoption of neo-liberal policies in promoting development. Other agencies such as Human Rights Watch, the United Nations and Transparency International push for changes in specific areas such as human rights, environmental protection and anti-corruption measures.

The decision to adopt neo-liberal solutions, in spite of their unsuitability for developing countries, may be attributed to other reasons as well. A study on structural adjustment suggests three possible reasons: (a) failure to make structural adjustments will result in an increase in the tax burden; (b) governments hope to obtain future political gains by effecting improvements in the system; and (c) they are forced to change by lenders, who realize that the deficits are unsustainable and refuse to provide new funds unless the prescribed reforms are undertaken (Haggard, Lafay and Morrisson 1995, p. 27). Additionally, vested interests in the government and business sectors seek to take advantage of the reforms and profit from the processes of divestment and privatization of public assets. Haque (2001), however, has pointed out that the "reform initiatives have more to do with the influence and pressure of external forces (such as international agencies and transnational corporations) than the choices of internal power blocs (the ruling party, the military, and bureaucracy) associated with the state".

This paper argues that public administration encompasses a wide range of activities and not all of those are amenable to the market mechanism. The core functions of government could face severe difficulties and disruptions if exposed to market forces. There are risks of ignoring the basic values that guide the activities of governments. In fact, the creation of a market environment in public administration reduces the choices and power of the consumers as they become increasingly dependent on the providers with little control over the quality of, and accessibility to, services. Even in the developed world, attempts at reforms have not always been successful, as is evident from political reaction to proposals to privatize health care in Canada and disputes over the determination of tuition fees in educational institutions in the public sector. Nevertheless, many governments in developing countries have adopted such solutions - voluntarily or involuntarily – under pressure from international players and without considering their full consequences.

These solutions have additional implications due to the characteristics of developing countries, and there are several undesirable side effects of public administration reforms. Neo-liberal policies are underpinned by values and assumptions consistent with the concept of development. Transparency, accountability, efficiency, and consumer orientation have positive implications, and the process of development is facilitated when these values are properly upheld in the appropriate framework of governance. In exploring the issue, the causes behind the growth of government will be reviewed to identify the problem areas. The strategies adopted by the developed countries will be assessed, followed by a discussion of the circumstances in developing countries to demonstrate the additional problems that are generated by their adoption. The objective is to argue that the imposition of reforms based on the experience of developed countries may have worse consequences for developing countries. It is impossible to develop global solutions to deal with problems across the world.

Globalization

The term "globalization" became popular as a convenient tool for describing activities transcending national borders, and it has been interpreted in different ways. Newell, Rai and Scott noted contrasting claims in the literature on globalization, and stated, "the language of globalization is a useful device for neo-liberals to advance the process they claim merely to describe" (2002, p. 2). Globalization has resulted in major shifts of emphasis in public administration, along with its impact on the economic and political activities in states. Global authorities, strategies and actions are increasingly influencing local issues, problems and solutions. These influences have implications for the role of states and governments, as well as grassroots and international organizations. An immediate outcome of globalization has been an emphasis on the opening up of societies, standardization of rules of governance, and improvement of living conditions in societies around the world.

Globalization has elicited mixed reactions among scholars, ranging from the extremely positive to the negative. The optimists note many advantages in globalization. Naisbitt (1994) saw the potential for spreading global capitalism through transnational corporations, while Ohmae (1990) and Fukuyama (1992) were extremely optimistic that the borderless world would foster interdependence, peace, harmony, market and democracy. These studies propagate the virtues of the liberal values and argue, "the Western liberal world is the only future that we can 'rationally' look forward to if we wish to live civilized, non-violent and democratic lives" (Rai 1998, p. 2).

Another set of reactions seeks to deny the strong impact of globalization that could affect the capability of states to function as sovereign entities. Krasner (1993) found further strengthening of state sovereignty, and Hirst and Thompson (1996) detected a stronger role of states in domestic and international arenas. Governments are vocal in stating that they are pursuing national goals, and that all concessions and compromises with the forces of globalization are made in the national interest. Thus, reforms in public administration are often planned and implemented under the guidance and supervision of global institutions, while they are presented as national programs to the citizens of developing countries.

Some studies are critical of globalization, and point out the negative consequences for national economies, human values, and national sovereignty, particularly for developing countries. Cox (1993) and Mele (1996) raise the issue of potential erosion of community power, while Kregel (1998) expressed concern about the problem of dependence and financial crisis in developing countries that could result from globalization. Economic dependence and loss of political freedom led to the imposition of strategies for administrative reform that can have devastating impact on these countries.

Other studies take a more realistic approach and agree that globalization has had a significant impact on the nature and character of governments across the world. The changing global economic structure has had a strong impact on national economies, democratic governance, and public administration, and that they have been both positive and negative in nature. Accordingly, governments in developing countries have been forced to adjust to global corporate power restructuring in making policy choices. Elaborate programs for reforms are formulated with little regard to critical historical and cultural factors that render irrelevant to particular developing countries.

Neo-liberal ideas have also influenced assumptions of globalization that emphasize “the importance of the individual, or the private sector, in the development of economic prosperity and in the distribution of resources” (Dannreuther 2002, p. 116). Fukuyama (1992) and other scholars were impressed by prosperity and peace in the developed world after the conclusion of the Second World War, and the eventual collapse of socialist states encouraged thinking along these lines.

There have been corresponding changes in the internal environment of states, and governments were compelled to reconsider structures and strategies of public administration. It was recognized that established practices and procedures had to be changed, priorities revised, and the value of outcomes and efforts undertaken in managing the public sector be reassessed. It shifted the focus from public bureaucracy and public sector values to a role-based (instead of rule-based) and emphasized “organizational techniques such as competition, cost efficiency, and orientation towards performance and results” (Hansen, Salkov-Iversen and Bislev (2002:107-08).

An even more significant impact of globalization has been a serious rethinking on the assumptions and values of public administration and their application. The concept of a seamless world in which constant interaction and exchanges will contribute to an effective and equitable pattern of public administration has gained popularity as accounts of disparity, discrimination, injustice and unfair treatment of citizens in various parts of the world become known. An integrated world system could help reduce may of the complications involved in understanding, utilizing and providing services across nations. Prominent international agencies such as the World Bank, International Monetary Fund and the United Nations as well as major international donor countries appear to be convinced that concerted changes aimed at similar goals are essential for dealing with the problems faced by many developing nations. This thinking puts tremendous pressure on the aid recipients to conform, and Dunleavy (1994), Kettl (1997) and Massey (1997) have documented changes taking place along those lines.

Issues in Public Administration

Over three decades, governments across the globe have grappled with the problem of escalating cost and diminishing quality of public services, made complicated by the ever-expanding jurisdiction of state activities with severe limitations on the incentive structure. The continuous growth of governments during good economic times allowed the inclusion of new and previously excluded activities in the public sector. As worldwide economic growth started to go into decline, the cost of maintaining big government was identified as a huge burden for many countries. Calls for economy, efficiency and effectiveness led to the introduction of various measures to deal with the problem of big and expensive governments. Public services were considered inefficient and the causes of the problems were to be found in the nature, mode of operation and the management of bureaucracies. Governments were criticized for monopolizing the delivery of public services and becoming involved in too many areas of activity. Critics said it was simply impossible to continue performing at the same level both in terms of productivity and cost.

The public sector was attacked on several grounds relating to the large scale of operations, continuously expanding scope of activities, and the adoption of inefficient methods. Governments were too large and consumed too many scarce resources, involved themselves in too many activities that could be done through alternative means, and the bureaucracy used to provide services was mediocre and inefficient (Hughes 1998: 8-9). Fiscal stress, overload of government, and maladministration led to strong support for the privatization of state-owned enterprises (Peters 1996).

A citizenry becoming increasingly conscious about their rights and entitlements decried unavailability and poor quality of public services. Dissatisfaction with public services had to be responded to, and governments tried a number of strategies. Although these explanations are based on the experience of developed countries, they may also be applicable to the developing world. However, the circumstances prevailing in the developing countries make them much more complex.

Neo-liberal belief in the forces of the market led to the emergence of "new public management" as an alternative to the traditional approach to public administration. It pointed to the solution of the problems through the introduction of market principles in the public services. The idea was based on the premise that exposure to open competition and imposing charges on the users of public services could reduce the cost and enhance the level of efficiency and effectiveness. Privatization and the use of contracts with clear and specific terms and conditions can also reduce the burden on public bureaucracies and contribute towards increased efficiency in service provision. The developed countries were responding to the fiscal pressure and increasing demands from the citizens through these strategies, and the developing countries had to follow suit.

Globalization, a concurrent development, highlighted the increasing interaction between actors and organizations across national borders and made an impact on numerous communities across the world. Free movement of ideas, people, commodities and capital has also set the scene for similarity in outlook, particularly in anticipating and understanding problems and responding to them. These factors have contributed to a convergence of ideas in many areas including public administration, and there is increasing evidence of the imposition of similar solutions to problems encountered in various settings across the globe.

However, strong anti-globalization protests across the world reflect growing dissatisfaction not only with the expanding trend, but the fallouts of public administration reforms as well. There is a need to examine the debate on the use of market principles for improving the performance of governments in developing and changing societies. Although these ideas were derived from the experience of, and literature emanating from, developed countries, the problem appeared to be more acute for developing countries. The behaviour of bureaucrats, the complex structure of public organizations, the ever-widening scope of activities undertaken by governments, and the pursuit of self-interest by public officials resulted in inefficiency and low productivity. These problems called for the need to install a strict regime of control and an appropriate incentive structure for officials to perform in public organizations.

Many analysts have drawn inspiration from the operation of the market and suggested that the exposure to competition could help governments reduce their size and cost, streamline operation, and withdraw from activities that could be performed, perhaps more efficiently, by the private sector. The market would work as the regulator on the basis of demand and supply for public services, and these forces would determine a fair price to be paid by the consumers. It could boost efficiency and productivity, as tangible rewards would be provided. In short, the introduction of market principles and mechanisms could help resolve most of the problems faced in conducting public administration across the world.

The Problems

Major changes took place across societies following the conclusion of the Second World War, and one of the most noticeable outcomes was the rapid growth of governments and public bureaucracies. Efforts to recover productivity lost during the war, reconstruction, and the advancements in science and technology were accompanied by major social and political innovations. Decolonization opened up new opportunities for a large number of countries in Asia and Africa. The spread of democratic ideals brought new and diverse responsibilities to governments, and the scope of their activities expanded at an unprecedented rate.

There are various methods for determining the extent of growth of governments. This can be established by calculating the ratio of officials to citizens, counting the number of public agencies that operate in a country, estimating the level of public expenditure, or considering the number of people employed in the public sector. Harris believes that "Organizations have a definite propensity to grow, sometimes for necessary and understandably rational explanations and sometimes for less worthy reasons" (1990: 23). His explanation includes horizontal (by combining with other organizations already in existence), vertical (proliferation of processes), lateral (by extending outputs into other fields), and territorial (by establishment of new branches of the same operation in new areas) growth (Harris 1990: 23-4).

Inflation, rise in population, emergence of the service economy and income elasticity of demand, urbanization, as well as the growth of responsive government could be attributed to the continuous and rapid increase in the volume and expenditure of states (Buchanan 1977: 7-11). Economic and political development and the increased capacity for undertaking additional activities have made governments big. Wildavsky (1986) did not accept the explanations related to growing wealth and industrialization, and sought to explain it on the basis of cultural theory.

Downs explained the growth of government offices with reference to the self-interest of bureaucrats "even when acting in a purely official capacity" (1967: 262). His analysis of the pattern of behaviour of public officials and their efforts to rationalize the continued expansion of organizations highlights another angle of the issue. "Instead of being motivated by the public interest, bureaucrats, like anyone else, are assumed to be motivated by their own selfish interest. ….bureaucrats are only regarded as trying to maximise their own utility at the cost of their agency; maximising their own welfare and not any public interest" (Hughes 1998: 11). Among other explanations of the growth of government are the self-exciting nature of the "political market", electoral wishes or social requirements, "special opportunities available to powerful interest groups, politicians and bureaucrats for pursuing their private advantage", or even "the requirements of capitalism" (Self 1993: 262-4).

A combination of several factors made the continuous growth of bureaucracy untenable for all states. The huge size of the bureaucracy loomed as a threat to the other public institutions, particularly in developing countries with weak political institutions. A growing awareness of the selfish motives of the bureaucracy made it politically unacceptable to most leaders. The huge size and selfish motives inevitably led to declining performance, with massive wastage of public resources.

In addition, the nature of political activities in developing countries also adds to the size of the government bureaucracy. Weak coalition governments in many such countries have to find ways of sharing the spoils and contribute to excessive bureaucracy by creating unnecessary ministries. In other cases, authoritarian governments seek to achieve a high degree of control by expanding agencies involved in maintaining law and order. Besides, military rulers find comfort in undertaking massive defence expenditure to appease the armed forces, critical for their continuation in power.

The Proposed Solution

The rise of neo-liberal ideas gained support as marketization of public services was considered a potential solution for some of the weaknesses and problems in the traditional bureaucracy. The strategy was rooted in the benefit of exposing public sector organizations to the market and direct competition with profit-seeking private organizations. Olson (1982) identified the entrenched interests in huge public bureaucracies as the main barrier to economic growth, and argued for changes to reduce the role of the government and expose public organizations to competition. The use of market forces to determine the quality, quantity and price of services was expected to provide the most optimum outcome. A parallel reduction in the role of government appeared to be the best response under the circumstances.

In general terms, " marketization" relates to the creation and enforcement of the legal preconditions of the market and the transfer of enterprise from government controls to the market process (Foldvary 1999: 291), but it cannot be practiced in public administration in its pure form. Therefore, most governments adopt a graduated strategy in testing the market on limited scale before implementing the idea. The biggest challenge was to be found in exposing the services expected of a welfare state to the market. These include "principally social security, health, education and to some extent housing and transport – which should be made available to all citizens" (Self 1993: 113). As these social services were considered to be expenditures without providing equivalent tangible returns, welfare services were constantly facing criticism.

Several factors contributed to the support for such strategies across the globe. Greene pointed out "better efficiency comes from competition rather than from the privateness or publicness of organizations" (2002, 49). A related issue is the size and nature of public sector organizations. Traditional bureaucracy was viewed as mechanical, inflexible, corrupt, self-serving and captured by vested interests. It was believed that if the power and facilities for providing public services would be taken away from these outdated and incompetent agencies and placed in the hands of competitive private agencies, the situation would improve. The roles of the government and state were to be seen as the providers of service, with an emphasis on efficiency and good quality. Citizens were to be viewed as clients, users or customers. Olson described this model as the "supermarket state" (1988: 241-2). However, Nagel found that such a state considers primarily economic values and norms, and this approach makes the supermarket state model one-dimensional since other values and considerations are ignored (1997: 354).

Several issues must be noted in the adoption of market practices and competition in public management. The concept is based on transactions of various kinds, and it needs to be ensured that the costs of transaction do not exceed the gains obtained by the citizens, government and the society. This idea gives rise to a myriad of issues in operationalizing the concept of marketization in public administration. As early as 1937, Coase pointed out that there are "costs of negotiating and concluding a separate contract for each exchange transaction which takes place in a market" (1937: 389), and these lead to transaction costs. Besides, "voluntary market mechanisms are not sufficient to provide for the enforcement of contracts, the prevention of anarchy, and the provision of other public goods; the coercive power of government is also necessary" (Olson and Kahkonen 2000: 4-5). This argument suggests the importance of preparing elaborate plans before market forces can be introduced in the provision and delivery of public goods and services. This point is extremely important for developing countries where the rules and regulations may be easily disregarded or misused to provide unfair advantage to powerful and well-connected participants in the process. In examining the transition of industries of Central and Eastern Europe, Johnson has highlighted the issues of "transaction cost' and 'transaction modes" (1995: 10-11). These elements are significant in transforming public sector organizations and introducing market elements.

The introduction of the market principle in government has enhanced the cost in many ways. Two obvious flaws of the market theory are related to the elusiveness of the equilibrium position " which will ensure that all available resources are deployed in their most profitable use", and the concept of individual "utility" (Self 1993: 205). Market failures can take place and the consequences could be more disastrous than the impact of the poor performance of governments.

The merits of a market system must, nevertheless, be recognized. Market mechanisms, or more broadly the introduction of private sector principles and practices, could serve to alleviate several of the problems generally found in the operation of traditional government agencies. Society has to look toward the government to deal with the problem of market failures, or at times of other crises. Government regulation, thus, occupies a place of great importance in all societies. Government intervention in the economy has been justified on many grounds, particularly with reference to the protection of the disadvantaged, regulation of undesired behaviour, or to cater to people with special needs. The United Nations Human Rights Convention, 1948 requires governments to deliver certain basic services including health and education. But many developing countries have not yet been able to achieve that aim and the quality remains unsatisfactory in the limited facilities available.

" Gradually the idea grew that government had a responsibility for such goals as protecting and improving the health of the population; widening opportunities for recreation and culture; developing a good education system for all; reducing inequalities of wealth; helping depressed areas; improving the housing and environment of the poor; guaranteeing a basic income; combating unemployment; and guiding the development and conservation of basic resources" (Self 1993: 214). In other words, the active involvement of the government was considered essential in order to maintain a fair and impartial environment in which various groups and interests could interact to reach equilibrium to minimise the negative consequences.

Self identified two more causes behind the push for marketization of public services. He pointed out that "individuals can choose the services they require from the market, subject to their income, whereas government provision of services is the result of a complex collective process which leaves them with little or no choice". Self found that "governments have become overloaded and public expenditures inflated by the claims of numerous organized interests". He reported drastic reductions in the number and security of employment of full-time public servants, devolution from central agencies to line departments and further down to executive agencies, introduction of financial incentives, and increased politicization of the public service through recruitment of political advisers and technocrats (2000: 101-5).

Some of these objectives have been achieved through privatization of public organizations, contracting-out of public services to the best bidders from the private sector, and using fixed-term appointments of officials on contract with an emphasis on performance. Although the efforts are aimed at eliminating the problems associated with traditional bureaucratic organizations, a large number of associated problems have emerged in defining the aims and objectives of the public services, performance measurement and the limitations imposed by transferring control over to private organizations.

Pai believes that market-driven agencies would be able to provide better services at lower prices and respond to their needs, leading to a higher level of satisfaction (1994, 159-60). The allocation of goods and services are also expected to be more efficient (Hamilton 1989). A combined effect of all these assumptions is that the problem of program overload on the government will be resolved, and improved public services will be provided by more efficient agencies that would be concerned about the needs of the citizens. Such outcomes are likely to be achieved in the developed world. Bailey (1986) found that deregulation in the United States allowed industries to strive for more competitive pay scales and led to higher productivity. In the developing countries, however, the growth of the private sector is affected through strict government regulation as well as state support for the inefficient public enterprises (Kikeri, Nellis and Shirley, 1994), and it very difficult to achieve the benefits even after introducing market principles.

Developing Countries

Public administration in developed countries has evolved over a relatively long period of time, thus allowing the values, traditions and practices to be tested and refined. Developing countries face a new set of challenges, and are seldom in the ideal position to attempt drastic reforms. Development implies a transition from an agrarian to industrial society, and subsequently to a post-industrial level. Heady highlighted the core of this concept by suggesting the increasing role of technology and theoretical knowledge, pre-eminence of the professional and technical class, and a rise in levels of education and affluence. The absence of these features makes development a challenging task. Heady also noted that less developed countries witnessed negative political development, "preventing numerous countries from changing their political systems to conform with requirements for them to be considered developed" (2001: 136). This problem is a major one because the concept of development is defined from different points of view, and leaders of developing countries are often unsure about the route and destination in achieving development.

Some factors that have an impact on reform attempts in developing countries can be identified in terms of political, social and economic constraints. These countries often suffer from political instability and unusual arrangements and practices. The concept of state undergoes a dramatic change in developing countries in embracing the market-oriented approach. Elections are not held regularly and may not be free and fair when held. Change of regimes may be preceded or followed by a breakdown of order and escalation of violence. The rules of political engagement may be disregarded, and the government hardly gets support and cooperation from the opposition. Ideological confusion among competing groups is not unusual. As the new states achieved independence and attempted nation building, the traditional values clashed with the modern, and governments faced difficulties in reconciling the two. Such circumstances are not conducive for the formulation and introduction of reform attempts.

At another level, considerations relating to factionalism, ethnicity and other factors creep in. A study of privatization efforts in South East Asia revealed diverse impacts. Marketization could lead to the emergence of strong conglomerates which could be owned by a single ethnic group and facilitate the emergence of entrepreneurs and even "rent seekers" (Milne 1992, 27). The study found that such reforms may also be aimed at enriching the coffers of ruling political parties, extending a patronage network, enhancing the power of leaders (Malaysia), rewarding supporters of the ruling leaders (Indonesia), and confirming rule by the political elite (Singapore).

The social conditions in developing countries also have an impact. Uneven distribution of power and control over resources by a privileged few lead to extreme inequalities. Diverse groups take a confrontational approach as the scarcity of resources compels participants to view developmental activities as a zero-sum game. While the poor section of the society is unable to pay for public services, corruption rears its ugly head in most areas. Illegal and unethical transactions take place. Such problems exacerbate the existing inequalities, and reforms become meaningless. Such conditions provide a fertile ground for corruption that has infested the process of public administration in many developing countries.

Finally, the developing countries face an extremely tough challenge in the area of economic capability. While several of these countries are resource-poor, others suffer from gross mismanagement. Consequently, they are unable to afford the cost of planning and implementing changes for improvement. Severe political and social problems impose a heavy burden as productivity declines and the quality of public services suffers. A study has pointed out that privatization of state enterprises in many Latin American countries has not brought about increased market competition and reduced costs and prices, mainly due to the monopolistic privileges enjoyed by these entities even after privatization (Manzetti 1993, 449). Hong Kong's attempt to introduce market principles and competition through the designation of some government departments as "trading funds" confirms similar concern (Huque et al 1999). Even resource-rich Argentina's effort to become a "First World" country through privatization of public services has been unsuccessful (Khan 2003). The vicious cycle of political, social and economic constraints poses a formidable barrier on the way to improvement by introducing reforms.

The problems are compounded as developing nations struggle to build a modern administrative system without disturbing the traditional foundations. Due to faulty planning, organizational structures and relationships are not always clearly defined and this leads to more conflicts. The legitimacy of policy makers is challenged, people who back up their claim to legitimacy by coercion formulate rules, and the group in power manipulate rules (Huque 1987: 445). This is significant as the country finds it impossible to achieve effective reforms. "A vague goal of 'development' is pursued without defining the term clearly with reference to the needs and capacities of the society, and it taxes the administrative system tremendously" (Huque 1990: 12). Even the apparently simple task of implementation of existing rules can be a formidable challenge for weak governments in developing countries. Obviously, planning, implementing and monitoring market-oriented reforms in such countries pose an extremely difficult challenge.

Impacts of Reforms

Traditional and institutional forces play a major role in shaping the nature of public administration. Christiansen (1998) noted that provision of public services by the private sector has not increased in Denmark due to the existence of "strong institutions of traditional public sector governance". It is useful to reconsider the value of traditional public administration principles and practices before arriving at a conclusion on the success or otherwise of the market principles in this arena. This can be done by reviewing the strategies advocated to deal with the weaknesses of traditional public administration and the philosophy behind opting for the changes.

However, changes in the approach, circumstances and arrangements for financing and managing public services can result in the emergence of new problems. While such changes exert pressure on public organizations, which are unaccustomed to competing in the open market, their clients have to put up with uncertainty regarding the cost and quality of services. Self has challenged, among other things, the wisdom of emphasizing market-led economic growth and the cutting down of government functions, and exposed their adverse impacts. According to him, "…these dogmas represent a powerful thrust towards some loosely defined goal of minimum government which would work primarily as an auxiliary to the market system and would reflect the market's image", and that the "… political process involves many gross distortions of the individual preferences of citizens, which do not occur within a competitive market process" (Self 2000: 99-100).

Privatization failed to produce the desired effect. Many developing countries could not find buyers for public enterprises since they were already running at losses, and also due to the strong presence of labour unions that were responsible to a large extent for the losses. The Chairman of the Privatization Board in Bangladesh revealed that public enterprises were sold at abnormally low prices and the buyers were more interested in the value of land they could thus acquire, rather than the units (Ajker Kagoj 24 May 2003). The problem of under valuation of the units was also found in India. In Uganda, the privatization program faced resistance emanating from mistrust of the government. Kauzya reported that sales of public enterprises were affected "by such factors as the absence of a capital market through which funds can be mobilized, an undeveloped banking system, high interest rates which discourage borrowing from banks, low savings and the desire of most local entrepreneurs to invest in the more lucrative real estate and trade rather than in public enterprises" (1995, 130). Efforts to marketize schooling in Macau have led "to a lowering of standards of educational provision, organisation and achievement" (Tang and Morrison 1998: 259). Therefore, marketization of public services is unlikely to succeed in developing countries that do not have profitable public enterprises. An excessive number of employees adds to the cost of operating these units. In countries with high rates of unemployment, governments cannot command strong popular support for privatization and retrenchment.

Privatization came at a cost in the form of increased unemployment (especially among older workers) that put pressure on the welfare budget, human effects (in loss of pride and purpose among workers made redundant), and increased economic inequality (with a rise in profit and fall in wage in the privatized industries) (Self 2000: 112). Several governments in the developing world have faced difficulties in finding buyers for public enterprises, and corrupt practices have been alleged in cases where the assets have been sold at unusually low prices.

The contracting-out process is also open to corruption and mismanagement. A natural response to the overloading of government agencies has been to contract-out operations to private agencies which have experience in providing certain kinds of services. Starting with the specification of goods and services to be provided, the process becomes immensely complex and difficult to manage as the need for constant monitoring and supervision adds to the already heavy load of work and cost for the public agencies. These lead to diverse results in developing countries. While the cost for service provision could be reduced, the quality was also lower in India (Mills 1998, 38). Beracochea (1997) found poor results of contacting-out in Papua New Guinea due to inexperience of contractors, low wage paid to workers and poor management of the contracting process. Contracting-out in South Africa cost more than that of direct provision (Broomberg, Masobe and Mills 1997). There are ways for "providing incentives for contractors to improve performance in a best-efforts environment and to keep costs under control in a cost-reimbursement environment" (Kelman 2002: 295). But the rigid bureaucratic system in the developing countries is unable to make such adjustments. These problems offset some of the financial gain achieved by marketization for increased managerial responsibilities.

The introduction of fees and charges for the use of public services was advocated on the pretext of increasing efficiency and accountability. But it must be applied with utmost care. Some public services cannot and should not be financed through charges, while others can be improved if the public are made aware of the cost and can be persuaded to pay for using them. This step could facilitate competition with the private sector and result in a reduction of consumption. User fees are not recommended for core government services with broad social objectives.

The arguments against user fees are grounded on the principles of equity and ability to pay. In developing countries, this approach is likely to lead to higher cost of essential services that a large section of the impoverished population may be unable to afford. The consequence could be an exacerbation of the already existing inequities and intensified dissatisfaction and dissent among the citizenry. The price of consuming public services is likely to rise as the World Bank has been exerting pressure on several developing countries to increase tariffs and aspects of equity, equality and access as well as the quality of services. In the absence of a sound system of rule enforcement and a level playing field in developing countries, it becomes almost impossible to ensure fair competition. While the previous arrangements sought to uphold these public sector values, marketization replaces them with the three Es - economy, efficiency and effectiveness. Since governments in developing countries face various impediments in the way of achieving efficiency and effectiveness, both sets of values remain unachieved, and the citizens are worse off with the new pattern of service provision.

Public services have been distinct due to the characteristic of being accessible to all citizens without regard to their ability to pay. Traditionally, governments felt obliged to arrange for a number of basic services that could be consumed by the public, and no barrier was imposed in the form of fees and charges. In fact, the intention was to make such services available to the vulnerable groups in society and this constituted one of the most critical functions of the government. In developing countries with huge income disparities between groups and higher incidences of poverty, such arrangements have always been vital to the survival of the groups at the lowest income bracket. Marketization seeks to eliminate such distinctions between powerful and powerless groups, and makes service provision contingent upon the single factor of ability to pay the required fees and charges. Even with subsidies from the government, the strong emphasis on the three Es threatens the vulnerable groups with exclusion.

Competition among providers seeking to provide the same services could tilt the balance in favour of the consumers. Ideally, the providers would seek to attain a larger share of the market by improving the quality and range of their services and make constant efforts to keep the price within the level of affordability of the consumers. These basic principles of the market system do not appear to have the desired impact in developing countries. In many cases, the competitors become allies in striving for winning the contracts, and cartels (often informal) are formed. The position of the government becomes weak as the powerful private enterprises gang up to wrest contracts at absurdly low prices and thereafter continue to disregard the rules and regulations intended to ensure the quality and price of services. As several governments in the developing world face chronic political and financial problems, they often become helpless and tend to accept the unfair conditions proposed by the private sector service providers.

Self dispelled the myth of impartiality in small governments by pointing out the inequality in resources and influence among interest groups and stated, “that the worst affected interests are those of the poor” (2000: 119-22). Governments in developing countries are often challenged on the grounds of legitimacy or of winning elections through unfair means. There is hardly any cooperation from the political parties in opposition. These factors make the governments extremely weak, and make it impossible for them to mediate in disputes between the vulnerable consumers and powerful providers of public services. In fact, they may be forced to follow the dictates of the providers in order to collect whatever amount of revenue that may be forthcoming from these private sector agencies.

The popular argument that the government is less efficient than the private sector in providing services to the citizens can be challenged. The criticism usually stems from the poor performance of public enterprises in terms of economy and profitability (Heracleous 2001: 70). Because of competition and the profit motive, market firms make more effective use of given resources than government agencies that lack similar incentives (Self 2000: 100-1). This argument holds for only a handful of private enterprises, and many market firms that go out of business due to inefficiency or bad business practices are not cited as examples. Although relatively small-scale problems and cases of inefficient practices in public agencies receive widespread publicity, many private agencies have escaped that kind of media exposure.

Marketization and competition have captured the imagination of analysts and governments. International agencies such as the World Bank, International Monetary Fund, and the Asian Development Bank have strongly advocated such reforms to help developing countries overcome some of the basic problems in governing. These agencies even attach conditions of structural reforms to the grants awarded for aid and assistance. At a cursory glance, it is possible to list a number of benefits that could be reaped from a move in the direction of marketization of public administration. But the markedly different circumstances in developing countries preclude the possibility of successfully introducing and implementing reforms, and most of the expected advantages remain unattained (See Caiden 1991). In fact the side effects of marketization can lead to more unfavourable outcome for developing countries and they may be worse off than before.

Increased Income Disparities

Disguised unemployment is a common feature in developing countries. Large numbers of employees are on the payroll of public enterprises, although their contribution to the performance of the organization is minimal. Frequent reports in the media about the lack of work and profit in public enterprises forced governments to seriously consider privatization. In several Asian countries, there has been strong resistance to privatization from the employees and the unions. Union resistance led to a shutdown as millions of state employees went on strike in India over the government's privatization plans (International Herald Tribune, 22 May 2003). In some countries, the unions are often controlled by labor fronts of political parties, and thus the opposition to change

Table 1

Problems of Public Service Marketization in Developing Countries

Strategy	Desired Result	Side Effects in Developing Countries
Privatization	**Roll back government** **Efficiency** **Competition** **Better Services**	**Lack of buyers for public enterprises** **Interest in assets, not enterprises** **Large-scale lay-off and unemployment** **Social cost of job loss** **Union resistance/Industrial problems** **Loss of industrial base** **Corruption**
Contracting Out	**Reduce burden on government** **Open Competition** **Fair Price**	**Added burden of regulatory arrangements** **Irregularities in tendering process** **Poor system of monitoring** **Cartels**
User Charges	**Reduce public expenditure** **Cost recovery** **Rational consumption pattern**	**Exclusion of the poor** **Unfair price-setting system** **Cost of collection** **Increased income disparities**

can be formidable. The social dimension of large-scale unemployment is also a factor. Governments in developing countries do not have the capacity to arrange alternative employment, nor do they have a sound system for providing social support. It bears the potential danger of loss of self-esteem for a large number of people along with the stigma of unemployment. Apprehension of social disturbance and mass resentment prevents governments from taking harsh decisions essential for effective marketization of public services.

With the advent of globalization, increased movement of ideas, talents and commodities have been taking place across the world. Such changes have added to the complexities of planning and implementing changes in the public sector without disruptions. Developing countries have long suffered from the impact of "brain drain" as trained and high calibre employees move out to other countries offering better opportunities and rewards. The quality of the public service suffers and gradually comes to be dominated by bureaucrats of mediocre calibre. This severely affects the chances of improving the quality of public services and undermines the guiding principles of public management reforms.

However, there has been limited success in the efforts to introduce market principles in the provision of public services in some developing countries and lessons can be drawn from them. Bhaskar and Khan found that a major public sector enterprise in Bangladesh had an excess number of white-collar workers, and privatization helped to reduce this problem (1995, 271-72). " Mexico has followed the strategy of privatizing smaller and less controversial enterprises first and use the experience gained to in the process to privatize larger, riskier and priority sector industries", and this seems to have succeeded (Doshi 2000, 674). Ecuador's experience suggests the establishment of a regulatory framework before privatizing (Anderson 2000). Other experiences point to the utility of adopting a longer time frame for marshalling the resources as well as political support for the privatization process, particularly to reassure the stakeholders (Molano 2000). However, Haque has pointed out the incompatibility of administrative systems in Third World countries with their economic, political and cultural contexts (1996a, 323-25). The same argument applies to the idea of replicating privatization and contractual arrangements in improving the delivery of public services in developing countries. Such changes can only be effective when applied in consistency with the social, political and economic realities that confront developing countries. Based on the current state of affairs in most developing countries, it can be said that the grounds are not yet ready for proceeding with marketization indiscriminately and it could generate unfavourable reactions from the stakeholders.

Outcome and Consequences

With cutbacks and reduction of personnel, some governments in developing countries have been able to bring down the level of direct financial cost of providing some services. But the indirect costs – related to loss of jobs, social status and self-esteem, and more importantly, the tendency by agencies to cut corners to remain within the reduced budgetary limits - adversely affect the quality of management and the sense of well being in the society. With high rates of unemployment and social unrest, developing countries are compelled to replace the direct cost of providing public services with higher indirect costs.

One of the principal reasons for the sustenance of traditional public administration values and practices has been the monitoring and scrutiny by the legislature and other supervisory bodies that keep a close watch over public agencies. Once this safeguard is removed by transferring the task of providing public services at a charge by private agencies, consumers lose a considerable degree of confidence and control over the standard and range of services. Haque (1996b, 527) described the "gradual replacement of such public norms as representativeness, accountability, equality, and responsiveness with the market values of individualism, utility, competition and efficiency" as an intellectual crisis for public administration. The problem becomes much more complex as the inherent problems of developing countries escalate and affect the delivery of public services.

Thus, the process of marketization of the public sector in developing countries leads to several associated problems. First, the highly publicized gains in efficiency and reduction in public expenditure is often surpassed by the extremely high indirect costs and artificial enhancement of productivity. The high transaction costs are ignored and this produces a distorted view of the benefits of marketization of public services. Small savings in terms of money and manpower are attained at the expense of some of the fundamental principles of public service as well as the loss of confidence of the public in the competence of the government and its agencies. Developing countries cannot afford the high cost of introducing the principles of marketization and competition in reform attempts to cut cost and raise productivity.

Secondly, there is erosion in the power, credibility and legitimacy of the governments. Weak governments in developing countries have little bargaining power in their dealings with the resourceful, organized and highly competent service providers from the private sector as well as the influential international agencies and multinational corporations. These agencies are able to secure various kinds of unfair advantages by negotiating with the government and pledging their support in order to obtain autonomy in setting fees and standards of services. Strings attached to aid and revenue generated through the operation of multinational corporations erodes the bargaining capacity of governments in developing countries.

Thirdly, consumers of public services are already in a weak position in developing countries due to inadequate protection from the government and the existence of regulations tilted in favour of the service providers. As a consequence, the consumers emerge as the weakest party after the introduction of marketization in public administration. A parallel development of this trend is the gain in power by the private enterprises. They forge alliances with powerful groups in the government and are soon in a position to dictate terms and conditions in the transactions.

Taking into consideration the progress and potential pitfalls of marketization of public services, there are reasons to question the motives, principles and practices of such reforms in developing countries. These countries are yet to arrive at the stage of development where the provision of public services can be handed over to private providers without risk of major disruptions or threat to the interest of the consumers. The high incidence of poverty and wide gap between the income groups make the prospect of user charges counterproductive, as the wealthy receive a higher share of public services. Plans for privatization will not appeal to the citizens unless the costs and benefits are carefully calculated, and demonstrated to benefit them. Contracting out will continue to be a risky strategy without effective measures for enforcement and monitoring. Weak governments are unable to provide clear direction, as such transformations have not been on their plans and agenda for action as they prepared to govern developing countries. Finally, the marketization of public administration at the insistence of donor agencies has led to a host of undesirable outcomes. Instead of making governments more economical and efficient and consumers more powerful and conscious, marketization of public administration in developing countries has eroded the power of the consumers and the governments, while contributing to a stronger position for the private sector and international agencies.

Much of the fallout of recent public administration reforms can be attributed to the rapid wave of globalization. A uniform approach in terms of the key values in formulating rules and implementing them and delivering public services is commendable. However, these need not be extended to push for uniform political, social and economic systems, because the diversity of cultures and indigenous conditions will produce different outcomes in different locations. Uniqueness of cultures and countries will most likely produce different results between developed and developing countries. Globalization and associated changes are facilitated by the establishment of knowledge-based societies and a certain level of sophistication in information technology, but most developing countries lack the basic facilities for performing public administration functions. In spite of promises and pressures towards marketization, corporatization, privatization, customer orientation and development of the third sector, the results are far from satisfactory in the developing world. At the same time, the methods and mechanisms for establishing a system of democratic governance, characterized by accountability and transparency, are yet to be materialized. Moreover, many developing countries are driven by the desire to protect national interests, and are under pressure to deal with ethnic diversity and other problems that tend to be divisive in nature. Thus, conflict of traditional and modern values and a certain degree of bureaucratic intransigence affect the search for alternatives and hinder the successful implementation of reforms.

These arguments are not meant to suggest that market-oriented reforms are not suitable for improving public services in developing countries. Rather, the point is to emphasize the need for achieving reforms in basic social, political and economic activities that would prepare the grounds for the introduction of reforms to roll back the state, recover costs from users, and expose public service providers to the market forces in order to bring out the best of their efforts. Future research can be directed at identifying the infrastructure required for the successful implementation of market-based reforms and operating them in developing countries.

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To assist scholars at McMaster and elsewhere to clarify and refine their research on globalization in preparation for eventual publication.

"Competition, Contracts and Privatization: Globalization and Public Administration in Developing Countries"

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