

# BUILDING CAPACITIES FOR GOVERNANCE IN ARGENTINA

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## **Introduction**

Argentina has been regarded as a paradigmatic example of successful transformation of state-society relationships. The changes that took place during President Menem's two terms in office (1989-1999) have been impressive, widely exceeding the confines of what are commonly considered "state reforms." The mentors of these reforms have often been invited by the World Bank to present the Argentine experience at international fora, sharing the floor with distinguished representatives from Great Britain, New Zealand and other cases of swift and thorough transformations.

From the time perspective provided by a decade of reforms, some basic questions of central concern to this conference may be raised: (i) what are the criteria of success that make the Argentine case "successful"? (ii) To what extent has governance capacity been built and at what state level? (iii) Is there evidence that state reform has improved capacity for sustainable human development? What is the relevance of this analysis for the study and transfer of "best practices"? These questions will be addressed in the successive sections of the present paper.

## **Trends of state reform in Latin America**

Broadly speaking, recent experiences of state reform have tended to emphasize: (a) the need for *less* state, rather than a *better* state, even though a reduced state may be a necessary condition of a better one; (b) the changes occurred at the *national* level, instead of the processes that took place at the *subnational* one; (c) the *functional* dimension of reform, while paying lesser attention to the consequences upon its *governance* and *equity* dimensions; and (d) the apparent *autonomy* of the state -especially of the Executive- in adopting reform measures, without due consideration to its strong *dependence* upon both, domestic and international constraints. These relative emphases coincided with what has come to be known as the "first" phase, stage or "generation" of state reform, as distinguished from a "second generation" exhibiting different characteristics.

In terms of implementation, the first stage of reform in Argentina and other Latin American countries was quite successful and relatively easy. Introduced with speed and ruthlessness, this "surgical" stage was featured by an apparent autonomy of the Presidency to draw new functional boundaries with society and to reduce the size and intervention of the national state.

The "difficult" stage, namely post-surgery "rehabilitation," is still pending in most national experiences. It implies achieving a better state (not only a smaller one), technologically and culturally advanced, able to strengthen those institutions and programs that promote new equilibria in income distribution and political power and, at the same time, it involves fostering

badly needed changes at the subnational level (i.e. provinces and municipalities), including new mechanisms of citizen participation.

Obviously, the reductionist imperative that characterized the first generation of reforms had a close relationship with external opening and liberalization of the economy, as well as with the adoption of orthodox adjustment policies. These processes were compulsively promoted in countries with widely different political and ideological orientations. Even in extreme cases, like in China, state reform was conceived of as a central piece of the transition towards a market economy which, while preserving the ideological postulates of socialism, was based on what they called the "three fixes" or the "triple decision principle": reduce the contents and scope of state intervention; cut down the number of organizational units; and contract the size of the civil service.

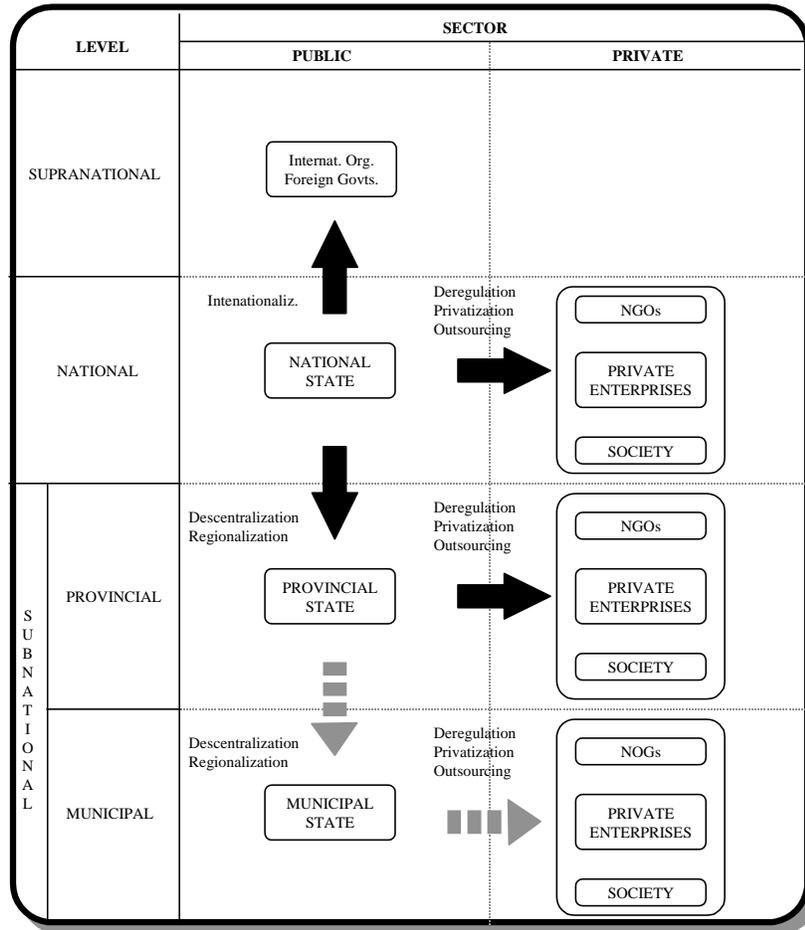
In making this observation I am stressing two aspects that seem to characterize the present state reform programs and distinguish them from previous experiences. First, the difficulty to draw a clear-cut line between economic and state reforms; second, the relative independence of state reform vis-a-vis the nature of the existing social and political organization and, to some extent, the constraints posed by the fiscal crisis.

If one accepts the dominant diagnosis, that observes state hypertrophy as the main cause of mismanagement of public sector finances, then the association between fiscal crisis and state reform becomes obvious: structural adjustment programmes appear as the technically rational response to recover macroeconomic equilibria.

However, the demolition or redefinition of the state edifice is not merely a solution for fiscal disequilibria, however chronic it may appear to policy makers. After all, past wars and economic crises have given way to *more*, not less state, as illustrated by Keynesian policies adopted after the Great Depression or the higher and inflexible *plateaux* of public expenses reached by belligerent states after a war, as Peacock and Wiseman demonstrated long ago. Moreover, many of present state reforms take place within prosperous economic systems, where the fiscal crisis does not appear to be a problem nor orthodox adjustment a policy to be applied inevitably. In countries as disparate as New Zealand, Mongolia or Chile, the main forces behind reform seem to spring, much more strongly, from the needs of a successful insertion within a new, globalized, capitalist system. In these cases, state reform appears as an indispensable piece of a wider transformation at the level of the overall social and economic organization, which seems to be much more significant for understanding the forces underlying this process.

To provide a systematic view of the directions taken by these transformations, Figure 1 distinguishes various levels of state organization (national, provincial, municipal) and their interactions with the private sector and the supranational level. Present trends show, on the one hand, a transfer of responsibilities and competences for the production of goods and the provision of services, from national to subnational (provincial and municipal) states, mainly through decentralization and regionalization. In turn, national states are increasingly delegating part of their capacity for autonomous decision making towards supranational instances (i.e. international financial organizations, regional integration agreements), evidencing a true internationalization of the state. Finally, at each level of state organization, there has been a massive transfer of functions and responsibilities for the production of goods and services to other social and institutional actors (i.e private enterprises, NGOs or

**Figure I**  
**STATE - SOCIETY TRANSFORMATIONS**  
 TRENDS BY LEVELS AND SECTORS



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the civil society at large) through privatization, deregulation and outsourcing of services.<sup>1</sup>

Probably the most striking feature of these processes is the new role played by supranational actors as natural participants of the countries' domestic scene. Today, the World Bank and the IMF -among others- have become more influential in determining the contents and orientation of public policies than the strongest parliamentary coalition. A globalized narcotraffic enthrone or turns down democratic governments. An economic crisis in one country creates domino effects upon other countries exhibiting apparently solid economies. Governmental pressures from first world countries lead, in dependent ones, to the passing of legislation that tends to favor the former's economic interests.

Besides causing other consequences upon state-society relationships, the internationalization of the state affects the configurations that may be used to characterize civil service systems holistically, insofar as it introduces homogeneizing factors -like imposed reform formulas- that tend to soften the acute contrasts of otherwise different systems.

<sup>1</sup> Full arrows in Figure I indicate the direction of these transformations while broken lines at the local or municipal level illustrate processes which are still incipient.

## State reform in Argentina: a success story?

The transformation of the state apparatus conducted under the Menem administration entailed, at the same time, a massive response to the existing economic crisis and a disciplined compliance with the policies and conditionalities set by the IMF, the World Bank and foreign creditors. State reform in Argentina, as in most other countries, has simultaneously tried to reconcile governance, developmental and equity constraints, starting with an overall redefinition of the rules governing state-society relations at the level of social division of labor.

Privatization, decentralization, demonopolization, deregulation and outsourcing became the main instruments of reform. All of them implied **less** state but not necessarily a **better** (more rational, efficient or effective) state. Changes aimed mainly at disengaging the state from certain service, production, or regulatory functions, thus enlarging the scope of private sector activities and drawing new borders with the state at the functional level. But the "remaining" state apparatus was not subject to comparable transformations, except for further streamlining and shrinking decisions, some fragmentary policies involving civil service rules, and the introduction of a few novel management technologies.

In the midst of the political and economic turmoil surrounding the resignation of President Alfonsín, shortly before termination of his mandate, and the incoming of the Peronist government, two pieces of legislation -the Economic Emergency Law and the State Reform Law- were passed only twenty days after President Menem took office, setting the overall normative framework upon which most reform measures would be based in subsequent years. These laws provided the Executive with exceptional powers to legislate by decree--a faculty which was used much more extensively than in any other previous government.<sup>2</sup>

Law 23696, known as the State Reform or Administrative Emergency Act included the following principal measures:

- The National Public Administration was declared in a state of emergency.
- All national public entities -both centralized and decentralized, except the national universities- were intervened.
- Public enterprises were subject to privatization or participation of private capital.
- Mechanisms for the functioning of "ownership sharing programs" were established in those enterprises subject to privatization to allow for employees' participation in the future integration of capital.
- Measures for the protection of workers were adopted.
- Emergency contracting and new mechanisms for managing government contracts in force were introduced.
- The effects of judicial sentences against the state were suspended.
- An emergency employment plan was approved.

In turn, Law 23697, known as the Economic Emergency Act, included as its main decisions:

- State emergency powers on a variety of subjects.
- Suspension of subsidies and subventions.
- Reform of the Central Bank's charter.

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<sup>2</sup> Between July 1989 and December 1992, almost 1,000 norms (including laws, decrees and resolutions directly or indirectly related with state reform) were approved; some 800 of them were executive decrees (Blutman, 1994).

- Suspension of the system of industrial and mining promotion and reduction to 50% of the benefits provided to promoted enterprises.
- Assimilation in the treatment of foreign investment to that given to domestic investors.
- Suspension of the "Compre Nacional" system (which used to promote the purchase of domestic manufactures).
- Suspension of contracts and recruitment of new employees within the central administration, public enterprises and other state units.
- Increase in penalties for tax and social security evasion; financial restructuring of trade union social services; sale of state owned unessential buildings, etc.

Coverage was broad enough as to embrace all four categories of reform proposed by Ingraham (1996): (i) budgetary and financial, (ii) structural, (iii) procedural and technical, and (iv) relational reforms. I will briefly describe the main changes introduced under each of these categories.

### *Budgetary and financial reforms*

A wide range of measures were adopted to bring about economic stabilization and reduction of public expenditures:

- Changes in fiscal policy and administration aimed at fighting evasion, broadening the tax base, simplifying the tax system, eliminating emergency levies, unifying collection of taxes and social security contributions, and seeking permanence and stability in the fiscal normative framework, were introduced at several points in time.
- Short term financial certificates held by local investors were compulsorily exchanged for long term government bonds, in order to help abating hyperinflation. This measure caused strong income and wealth redistributions but proved a highly effective anti-inflationary tool.
- A convertibility plan was introduced in 1991 to stabilize the economy through equating dollar reserves at the Central Bank with the circulation of the Argentine peso, establishing a 1 to 1 parity. Since then, the value of the peso has remained at one dollar and the inflation rate has consistently been lower than that of the USA—a circumstance that has led to an appreciation of the peso and a consequent loss of competitiveness of the economy.
- Standby agreements with the IMF and a successful negotiation under the Brady Plan helped reducing the burden of the foreign debt. The initial effects were counteracted by increasing indebtedness, used thereafter as one of the mechanisms for covering a permanent fiscal deficit (the other important source being the proceeds from the sale of state enterprises).
- A new financial management integrated system was approved by law, establishing new rules and procedures for public sector budgeting, accounting, treasury and audit. A new computerized system was implemented to support financial administration, providing better information and greater transparency. Beginning in the mid-90s, and for the first time in decades, the budget was submitted to Congress before the deadline established by the Constitution, while budget execution reports began to be considered and approved by the Legislature on a routine basis.

## *Structural reforms*

Various initiatives were adopted under this heading, including:

- Privatization of all public enterprises, starting with the national telecommunications and airline companies and following with dozens of other enterprises in public hands. As a result, the national state almost ceased to be a direct producer of goods and services. No other country has gone so far in totally divesting the national state of its productive and service enterprises. By 1997, a total of 15 billion dollars in cash and bonds had been obtained from the sale, concession or transfer of these companies.
- Partial demonopolization of certain economic activities, such as in the oil sector, although re-monopolization or creation of private monopolies occurred in other areas (i.e., telephones, electricity, water and sanitation).
- Deregulation of the economy, by reducing state interference in private business; promoting market self-regulatory mechanisms; and eliminating most controls in the fields of price setting, foreign exchange, capital flows, etc. In most cases, deregulation implied the elimination of state agencies in charge of regulatory functions (i.e. National Boards in the areas of grains, meat, wine, tobacco, *yerba mate*), and the transfer or retrenchment of several thousands civil servants.
- Decentralization through transfer of health, education, road maintenance and other public services to subnational state levels (provinces and municipalities). Transfers had began during the last military regime (1976-1983) and were completed under the present government. As a result of these transfers, subnational states suffered an extraordinary increase in their service bureaucracies, which in most cases amounted to about two times their previous size.<sup>3</sup>
- New regulatory bodies were created in the fields of water and sanitation, energy, telecommunications, railroads and other public services, following the privatization of the formerly public enterprises. Many bodies were set up after the contracts were signed but before the regulatory frameworks were approved. Only in a couple of cases the technically correct sequence –regulatory framework ⇒ regulatory body ⇒ privatization contract- was followed.
- The structure of government suffered several changes which successively increased or decreased the total number of departmental units (ministries remaining unchanged), but the total number of public sector personnel was reduced to less than one-third of the 900,000 employed in the late 80's.<sup>4</sup>

## *Procedural and technical reforms*

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<sup>3</sup> In most provinces, civil servants employed in the educational sector account for at least 50% of the total number of employees.

<sup>4</sup> In 1984, there were 8 ministries, 32 state secretariats, and 62 undersecretariats. Downsizing in the early 90s brought that number down to about 70 units, but a few years later, the total reached almost 200. With the announcement of the second generation of reforms, in 1996, the number of secretariats and undersecretariats was reduced, once more, to about 125. Along the process, however, two thirds of the national state apparatus had “withered away” due to the combined effects of privatization, decentralization, deregulation, retrenchment, and outsourcing—a fact that should have had reduced, rather than increase, the total number of governmental units.

This kind of reforms have also been introduced in several areas, but results are still lagging behind expectations:

- Changes in civil service legislation and procedures have introduced uniform and simplified rules for recruitment, evaluation, promotion and pay. At the same time, other special personnel systems were adopted. The initial hopes placed on these reforms deserve a more detailed description. Argentina is probably the only country in Latin America to have adopted four different systems to upgrade the quality of its civil service: (i) a small number of key positions; (ii) an élite corps; (iii) a service wide career; and (iv) an internationally funded, parallel consultants' network (Oszlak, 1993). In addition, it still maintains a large number of special *escalafones* (or grading systems) applying to different groups of personnel (diplomatic, military, health, educational, etc.).

Very succinctly, the first system sought to improve performance in public management by relying on the critical role played by small strata of public managers -usually not exceeding 5% of the total central administration staff-, assigned to key technical-cum-managerial positions (policy design, steering, and coordinating positions, highly specialized functional or sectoral posts, etc.). In a way, the system approved is akin to the "Senior Executive Service" created in the U.S. under President Carter, although it admits several variants in different countries (i.e. the 600 posts originally proposed in Bolivia under the *Key Positions System*; or the 465 *Executive Functions System* created in Argentina, and later increased to over 1,000 positions).

The élite corps approach, patterned after France's ENA model, has -to my knowledge- only been adopted in Argentina. Members of this corps (the so-called *Administradores Gubernamentales* or AGs) are recruited through a very strict, competitive system, following a complex selection process and a specialized training program. Upon entering the Corps, AGs are destined to various staff, consulting, and managerial positions within the public service, while maintaining a double dependency with both, the Secretariat of the Public Service and the official in charge of the unit to which the AG has been assigned. Only over 200 AGs have been recruited altogether and the system has been frozen.

A public sector wide, career civil service, is much more costly and difficult to implement. It requires a radical shrinking in the size of personnel and complex management tools to deal with the new rules and procedures established under a meritocratic system. Argentina introduced such a system in 1991--the so-called *SINAPA* (National System for the Administrative Profession).<sup>5</sup> It is a sophisticated grading system, with several related subsystems dealing with training, performance evaluation, salary grids, competitive examinations, etc.

Some 35,000 civil servants have been reclassified under this system at the National Central Administration. They are classified into six levels (*A* being the highest and *F* the lowest), each of which are duly defined, and up to five grades (from 0 to 4) which in 1993 were increased to 10. Originally, the system created two classes or groupings: a **general** group, comprising all administrative, technical, professional and service jobs; and a **scientific-technical** group, covering all personnel involved in the generation, improvement, diffusion and application of scientific knowledge, research and technological development, training of specialized human resources and activities associated to scientific institutions. A large majority of the civil service was included in the

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<sup>5</sup> It was created by the Decrees 993 and 994, and modified in 1993.

general group although in 1994, a third group -the **specialized** class- was created to include those civil servants in charge of advisory tasks.

Under this system, both selection for recruitment and promotion are subject to competitive examinations. SINAPA has established a direct relationship between cumulative training credits, evaluation scores and automatic grade (or step) promotion, thus aiming at staff development and a merit based career path.

Salaries are established on the basis of the posts' functional requirements at each level and grade. Additional compensations are offered to employees with distinctive scores in the performance evaluations conducted on a periodic basis.

Finally, the fourth system, consisting of the employment of medium and top level specialists (even in high managerial positions), through parallel contracting by international donor or financial agencies, has become a major source for recruiting qualified human resources in times of fiscal crisis and vacancy freeze. As their number grew in significance,<sup>6</sup> these positions began to create problems of equity, discrimination, double loyalty, and sometimes serious disruption of day-to-day activities, leading to the search of more permanent solutions.<sup>7</sup> However, this mechanism continues to be used extensively.

- A more integrated and sustained effort in the field of training of civil servants is noticeable but a clearer identification of training needs is still pending. SINAPA has created a permanent training subsystem whereby civil servants must obtain a certain number of credits (one credit for each hour of training) to either stay in their posts or as a requisite for promotion. There are certain basic modules that serve to expose trainees to a general view of the state institutions, the processes of administrative reform or the analysis of public policies, before proceeding with more specialized subjects. An Upper Management Course has been established for all employees classified at the *A* and *B* levels; a High Level Training Course for those at the *C* level; and a basic Job Training Program for civil servants at levels *D*, *E* and *F*.
- Certain improvements have been registered in service delivery, simplification of norms and procedures. For instance, a policy was adopted for stimulating the introduction of innovating experiences in the public sector geared towards satisfying clients' needs, reduce costs and achieve a continuous improvement of processes. A National Quality Prize was instituted in recognition of those public organizations that adopted the most outstanding TQM techniques.
- In 1991, a reform of administration procedures was approved by decree. A single General Secretariat at each Ministry was created to carry out the reengineering of all bureaucratic processes. It was established that the civil servant intervening at any given stage in a process would be held personally responsible for the transmittal of all paperwork and for guaranteeing the intervention of all necessary jurisdictions. In turn, ministers, state secretaries and undersecretaries were instructed to delegate all administrative minutiae to lower level officers.

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<sup>6</sup> Present estimates for Argentina set the number of consultants at over 5,000.

<sup>7</sup> For instance, Decree 92/95 established a new personnel system for this kind of consultants who, from a formal point of view, began to be considered civil servants, notwithstanding their special status and conditions of employment.

- Some progress was made in developing and applying computerized technologies, particularly those supporting "horizontal" management systems (such as integrated financial administration, organization and human resources management, procurement, and the like). Several agencies have bought or developed new management information systems, renewed computer equipment and installed modern networks for linking dispersed applications. Tax collection administration, cadastral surveys and data banks, budget formulation and control, and payroll systems are especially worth mentioning.

### *Relational reforms*

They refer to the rules governing the relationships between the government and other relevant actors. Several changes in these interactions may be pointed out:

- There has been a deliberate effort at reducing the power of trade unions, both in the public and private sectors, through cooptation, greater control of their social welfare services, more flexible labor policies, and other initiatives of this sort. As compared with the thirteen general strikes conducted by the labor movement under the Alfonsín presidency, the Peronist government was much more successful at neutralizing labor conflicts. Except for the more beligerant public sector workers -teachers and a few other unions, operating mainly at the subnational state levels- the federal government was able to coopt the National Civil Service Union (formerly a stronghold of labor opposition within the public sector), as a partner of the broad reform effort.
- A fiscal pact signed between the federal and the provincial governments gave the former the upper-hand in concentrating resource extraction and allocation functions, while the provinces were forced to assume direct responsibility for the provision of basic social services under strict policy and management constraints from both the national state and the international financial banks.
- The Executive gained a decisive control over the Judiciary, particularly regarding Supreme Court decisions favoring the policies and positions held by the Presidency. A comfortable majority in both Houses became another strong political lever at the time of passing legislation or bypassing Congress altogether through "government by decree."
- Most earmarked taxes and contributions were eliminated and budgetary controls became more stringent, thus weakening the power of the decentralized agencies and cabinet departments as resource allocation capacity at the central level of government was further concentrated.
- Finally, the top business sector provided a strong support to the reform effort, especially in the early years of this process. A partnership between the Government and the *Consejo Empresario* (the Business Council, a stronghold of the biggest domestic and international enterprises of Argentina), with the participation of the friendly National Civil Servants Union and of three big consulting firms (Arthur Andersen, McKinsey and Egon Sender), was informally established at a newly created State Reform Foundation.<sup>8</sup>

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<sup>8</sup> The foundation was very active between 1990-1993. Backed by some 15 initial members, it attracted a total of about 300 enterprises, which raised between 3 to 4 million dollars to conduct studies and finance consulting projects.

## Placing “success” in a proper perspective

The precedent description would lead the unadvised reader to consider the first generation of state reform in Argentina as highly successful, especially if results are weighed on the basis of comparison with other countries. But, was it really a *state reform* or a structural adjustment of the economy coupled with a wholesale dismantling of the state apparatus? The answer depends on the observer’s perspective. If one adopts a widely encompassing definition of state reform, then its boundaries with structural economic transformations would become diffuse but the results obtained in the Argentine experience would be judged as impressive. If, on the contrary, we observe results from the point of view of assessing improvements of **management capacities**, the answer would certainly be different.

It is quite possible to carry on a deep restructuring of the public sector without producing the most minimum change in its management capacity. As a matter of fact, other social actors must acquire this capacity insofar as they assume the management of sectors, institutions or problems, be they subnational governments, private sector providers of privatized public services or the market agents themselves. The mere renouncement of the state to continue playing certain roles or the turning over of chunks of its bureaucratic apparatus do not generate, in themselves, any additional capacity in those areas remaining in state hands nor, even worse, in the ones that should necessarily be assumed as a result of the change in roles (i.e. from service provider to regulator of provision).

Conversely, many negative consequences may derive from structural adjustment-cum-state reform policies. Few would argue against the view that economic stabilization and growth have been the successful side of these processes. However, the Argentine experience shows that these positive outcomes have not automatically produced more favorable conditions for governance and equity; on the contrary, the primacy of structural adjustment strategies have left governance and equity issues unsolved, if not worsened.

Governance involves the configuration of the space of political representation and social participation which, in turn, rests upon the existing power relationships among different sectors and actors of society. It also implies the capacity to govern and the legitimacy derived from putting this capacity to work. On the other hand, when dealing with equity we refer to the contribution of each sector to the sustainment of the state, as well as to the existing patterns of income and wealth redistribution.

*Delegative democracy*<sup>9</sup>, an expression coined by O’Donnell (1997), captures a critical trend that reflects the relative voidance of the democratic system that took place in Argentina (and other countries as well) hand in hand with the application of structural adjustment policies. A weakened institutionalized power undermined the guarantees of juridical order, the needed transparency in the management of government affairs and the maintenance of public security, which in turn deteriorated the government’s legitimacy and tax extractive capabilities.

Speed and depth probably have been the most conspicuous features of state reform in Argentina. These characteristics have been pointed out by the protagonists themselves as evidence of their strong political commitment. But “governing by decree,” the mirror-image of this “virtue”, expressed the extent to which Congress lost almost any intervention in the reform

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<sup>9</sup> The author uses the term "delegative" to refer to a conception and practice whereby, through the polls, citizens delegate to the Executive the right to do whatever it considers fit for the country. O’Donnell opposes "delegative" to "institutionalized", "consolidated", "established" or "representative" democracy.

policy decisions.<sup>10</sup> The subordination to the Executive of a large number of judges, including the majority of the members of the Supreme Court of Justice who consistently favored the positions held by the Executive, is a further demonstration of the fragile foundations of democratic governance.

The redistributive role of the state, closely related to equity considerations and the achievement of sustainable human development, has been characterized by transfers of resources that tended to widen the gap in income and wealth distribution. Tax evasion and bureaucratic corruption rank high among the vehicles used for the illegitimate appropriation of resources by certain sectors of society, with the inevitable complicity of the state. According to the figures recently published by *Transparency International*, Argentina has come to occupy the 11<sup>th</sup> place among the countries with highest corruption rates in the world. Corrupt practices have flourished under the umbrella of the privatizations, concessions and other business opportunities opened by the government during the past eight years. The government has consistently argued that following privatization of public enterprises, the main source of corruption—namely that associated with procurement and public works by contractors and suppliers of goods and services—have been eradicated. The debate is useless because, on balance, the levels of corruption reached in this country during the past decade have surpassed every historical record.<sup>11</sup>

Urban insecurity, in turn, has acquired inedit proportions. Citizens and public opinion express increasing concern about the vertiginous growth of violence, against which the government and security forces find no permanent solution. Even the existing legal framework for the prevention and punishment of crime has been subject to social mistrust.

With regard to equity, the regressive nature of the tax structure appears as one of the most noticeable features of income distribution. Taxes on wealth and income constitute a minimum proportion of total revenue, as the tax structure is based mainly on consumption levies which strongly affect the lower income sectors of the population. Tax evasion, on the other hand, has reached scandalous levels.

Regressive transfers, derived from high tariffs approved by the government in its contracts with suppliers of privatized public services, can be signalled out as another form of negative redistribution. The original tariff levels have continued to grow insofar as the regulatory agencies created for each sector of public service failed to control the monopolistic or oligopolistic conditions under which most privatized firms conduct their operations. Tariffs have become unusually high either by international standards or historical relative prices. A recent study sponsored by the World Bank (Chisari et al., 1997) concludes that if regulations and controls functioned properly, privatized enterprises would have transferred to users one billion dollars—a figure representing a 16% “overprice” on the users’ average consumption and a 20% when estimates are made for users in the lower income groups.

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<sup>10</sup> Presidential decrees based on “need and urgency” allow the Executive to legislate without previous parliamentary intervention, whenever it finds it impossible to delay a decision. This instrument, reserved for extraordinary circumstances, has been extensively used by the President when congressmen, including those belonging to the governing party, were hesitant or opposed to approve bills sent by the Executive. Dr. Menem signed more decrees of this kind than all other previous presidents taken together.

<sup>11</sup> Needless to say, it is impossible to measure corruption and evasion levels. However, all responsible estimates put the levels of corruption and evasion above 20 billion dollars per year, an amount that represents almost 50% of the national budget. Other estimates raise these figures to about 40 billion dollars.

From a broader perspective, the 90's have witnessed a widening gap in income distribution and a growth of the levels of poverty. While in 1990 the 20% highest income group received 50.7% of total national income, its share in 1998 grew to 53.9%. The 20% lowest group, in turn, descended from 4.7% to 4%.<sup>12</sup> Within the poorer sector, 36.1% was below the poverty line and 8.8% was in extreme indigency. Policies designed to alleviate these conditions have been incapable to cope with its sheer magnitude. Several programs and projects, following focalization criteria to meet specific needs of the most vulnerable target groups, have been implemented over the past decade. Most of them receive technical and financial assistance from multilateral banks but as a rule, lack of coordination, high overhead costs, overlapping and waste, have limited the impact of these programs, covering a relatively small number of beneficiaries.

Turning our analysis to the question of management capacity, another set of impacts somehow attributable to civil service reform, can be enumerated:

- Efforts made at reducing the size of the civil service through decentralization, deregulation and privatization, greater flexibility of public employment and a clientelistic functional orientation, favored the more concentrated economic groups and those political appointees most closely associated with the incumbent government.
- As fundamental actors and mechanisms of democracy (i.e. Congress, parties, NGOs, auditing agencies, public hearings) were demobilized or excluded altogether from the reform process, their weakness vis-a-vis the new economic power groups was accentuated, damaging democratic governance.
- Public revenues became highly centralized, earmarked funds were abolished and resources disbursed on a discretionary basis, with the Office of the Budget retaining a strong veto power.
- Certain strata of the civil service have acquired a more professional status, but the larger majority of public servants does not enjoy the benefits of a real administrative career. According to most observers, the SINAPA system has lost much of its initial appeal, incentives are weak, performance evaluation is random, and promotion is being used as a redress mechanism rather than a sound career tool.
- Bureaucratic corruption has become widespread; a normative -as opposed to a service-orientation characterizes the relationship with clients; transparency and accountability are low; and deference to authority has increased in view of the precarious stability brought about by retrenchment and flexibilization of labor.
- Downsizing of the civil service aimed at reducing hypertrophy has given way to deformity in the composition and profile of personnel, as well as in the relationship between human resources, infrastructure and other operating costs, because the indiscriminate way in which this policy was applied affected the technical rationality implicit in the state production function.

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<sup>12</sup> **Página 12**, 4-5-99, quoting a World Bank Report *"Poverty and Income Distribution in Argentina, Patterns and Changes"* prepared by Norman Hicks in March, 1999. For a better interpretation of these figures, it should be observed that the initial figures were already affected by the acute inequity in income distribution caused by prevailing hyperinflation in the base year.

- Privatization decisions were made with minimal safeguards and insufficient consideration of alternatives, leading to two kinds of consequences: the regulatory capacity of the state was weakened and a true “*private state*” filled the vacuum left by an absentee *national state*.
- Educational and health services were decentralized almost blindly; hence, provincial governments were unable to develop sufficient financial and managerial capacities to take over these complex new responsibilities. The results have been poor delivery, lack of technological improvement, increase in employment caused by political nepotism and the crisis of the regional economies, and a growing fiscal deficit that led to an even harsher adjustment. Recent manifestations of social uprisings can partly be explained by this widespread deficit in policy implementation.
- As the provinces took over new functions, flocks of new employees entered the civil service, causing a notorious oversize of the local bureaucratic apparatus. As a last resort guarantor of fiscal stability at the subnational level, the national state came to the rescue of heavily indebted and largely expanded provincial governments, thus recreating at that level the monstrous Leviathan it tried to destroy at its own level.
- Finally, as orthodox and inflexible policies recommended by multilateral agencies were applied, the inertia of reform precluded the timely adoption of corrective action periodically proposed by those same organizations.

### **Concluding remarks**

With or without anesthesia, the surgical stage of state reform was brief and radical. It reduced overweight of the “patient”, but also removed vital organs and increased its vulnerability. Now, the second generation of reforms must face a greater challenge: to “strengthen” what remains and take up new functions aimed at reestablishing political and social equilibria, beyond maintaining the already achieved macroeconomic ones.

For this purpose, it now exists a showroom of “desirable state” models, where brands may change but the nature of the products offered is quite similar. One may choose among the “necessary,” “intelligent,” “athletic,” “minimal,” “commonsense,” “modest,” “reinvented,” or “catalytic” state-- what amounts to be small but strong, anticipatory but proactive, autonomous but delegative, winner but not wasteful, client oriented but not clientelistic. Furthermore, it must be ethical, transparent, debureaucratized, informed, professionalized and technologically updated. Who could disagree with these proposals? In a way, they recall the old truism that *it is always better to be rich and healthy than poor and sick!*

To refer to the necessary state implies, by opposition, to allude to the *unnecessary* state. In this respect, implementing pending reforms may require:

- To get rid of deficitary public enterprises, activities or projects requiring government subsidies or transfers, unless justified for strategic considerations or imperative social needs that cannot be solved otherwise.
- To eliminate regulations that are either unnecessary, detrimental to the functioning of markets or negatively influential upon the behavior of economic and social agents.

Naturally, the elimination of these regulations entails the suppression of the corresponding state regulatory agencies.

- To decentralize certain functions that may be performed more effectively at the subnational level, as well as, conversely, to recentralize other functions that may have oversized bureaucracies at the regional level.
- To outsource services (i.e. printing, cleaning, maintenance, transportation) that can be rendered by the market much more efficiently.
- To apply strict technical criteria in restructuring public organizations burdened with excessive units or inadequate personnel profiles.
- To make decisions under conditions of high uncertainty, without the assistance of timely and trustworthy sources of information.
- To allocate budgetary resources without a counterpart of estimated goals and targets, as well as a specification of institutional capacity deficit to be solved.
- To assign responsibility for the production of results, the acquisition and maintenance of goods and services or the allocation of resources, in the absence of accountability.
- To establish an administrative career without formal processes of selection, programmed training, periodic performance evaluation, and adequate remuneration for good delivery.
- To demand co-responsibility and commitment in the implementation of civil service reforms, when technical assistance is provided by outside consultants.

Advocates of “reinventing government” propose a number of principles whose conditions are quite difficult to meet in developing countries. For instance:

1. “Good government” requires competition among service providers, but the practical interpretation of this precept in Argentina has been to create private monopolies through privatization. Even though this policy does not belong to the second generation of reforms, the fact that the privatization process in many countries has not been completed (nor, in some cases, even initiated) maintains the discussion about its need, opportunity, scope and instruments, still open.
2. Power rests with the citizens, who must exert control upon state activities. To date, many participatory mechanisms of social control of public management have been tried. The record shows a few successes and numerous failures. As a huge social laboratory, the field is open to experimentation; yet, to derive tested formulas to be applied in other contexts remains a difficult task.
3. Government activity should be oriented by goals, not just by rules or procedures. This is a value-ridden principle, hardly an instrument for action. It takes for granted several things: the existence of consensus about the proper role of the state; a clear definition of responsibilities (i.e. competences and results) of each governmental agency; a precise identification of beneficiaries and services to be provided. But the practical application of the principle must meet conditions involving power relationships and

vested interests against which, more often than not, the most sophisticated management techniques prove helpless.

4. Performance of governmental agencies should be assessed on the basis of results. To this effect, instruments such as performance indicators and contracts are often recommended. The possible application of these techniques involves a triple challenge: (i) to acquire the capacity to translate institutional goals into quantifiable targets; (ii) to develop management information systems capable of supporting the design of indicators and the monitoring of results; and (iii) to transform a bureaucratic culture that, at best, accepts performance evaluation on the basis of compliance with formal administrative rules and procedures.
5. Redefining users or beneficiaries as clients is not simply a matter of names. It entails a fundamental philosophical change regarding the role of the state and it remains a highly controversial issue. Instruments such as total quality management, customer assistance improvement, citizens' charters and the like can be applied only under very special cultural conditions, as they involve a true revolution in the citizen-government interface.
6. Preventing rather than treating and solving problems as they arise, involves rediscovering an old principle of everyday life. Again, its application depends on a combination of technological and cultural constraints. Information is definitely its main instrument, but even the availability of computer systems for gathering, processing and recovering information does not ensure that potential users will employ it for consultation and decision making. The cultural remnants of a compulsory decision-making style, where motivation to act outruns understanding of the problems to be solved (Hirschman, 1964), obstruct the routine introduction of prevention as an alternative decision style.
7. Services provided by state agencies may well be compensated by fees or other charges on the part of citizens, but in many countries this takes a whole new form of economic relationship with the state. It is not simply a matter of mercantilizing services; it also implies the application of sophisticated tools to prevent negative impacts from the point of view of income distribution and equity.
8. Decentralization, too, is viewed from a preceptive standpoint not always compatible with the instrumental requirements of its effective implementation. It is worth remembering that decentralization is part of a process in which other decisions and actions are likely to be recentralized at the same time. Furthermore, the process is not limited to a functional displacement of management responsibilities; it also encompasses fiscal decisions and changes in power relationships. Hence, the decentralization decision should not be founded solely upon value considerations but on careful analyses on a case-to-case basis.
9. To suggest that market mechanisms should prevail over bureaucratic solutions involves, in practice, borrowing from private business a whole range of new management tools, such as process re-engineering, institutional marketing, normative flexibility, integrated financial administration, and other similar technologies. Sometimes, their adoption may trigger cultural changes throughout the public sector but more often, cultural constraints may preclude a successful implementation of those tools.

10. Finally, catalytic action by the state in creative partnerships with the private and voluntary sectors may certainly produce significant changes in the state-society interface, but it is far from creating tangible or lasting results in upgrading the welfare conditions of the poorest segments of society.

In synthesis, a catalyzing governments that navigates instead of rowing; evaluation of efficiency and effectiveness; long term strategic planning; competition and equity are the proposals for reinventing government (Abrucio, 1997). This means two basic things. First, that in addition to steer and execute, a government must plan and evaluate, thus recovering two temporal dimensions (future and past) almost inexistent in daily bureaucratic practice.<sup>13</sup> Second, to ensure stable conditions of governance –the fundamental problem of the reinvented state- action is needed at the two other instances of the state-citizen relationship, namely the organization of the economic system and the structure of income and wealth distribution. In the first case, by ensuring market rules through sound competition. In the second, through equity promoting policies.

These modest proposals can be summed up in the need to recover common sense in government activity. However, the mere acceptance of principles and values does not automatically define either the role that the state should play at each historical juncture nor the instruments it may employ to perform that role. This is what Abrucio (1997) seems to imply when observing that even though Osborne and Gaebler are able to enunciate an important combination of values for reinventing government, they fail to articulate a theoretical construct that explains and makes implementation of reforms in the public sector possible.

Definitely, redesigning the state is not only, nor mainly, a technical issue. Both, research and consultancy have already produced the models, normative and contractual frameworks, organizational designs, computerized technologies, process reengineering and incentives that would serve to build impeccable state organizations. Although institutional capacities are still weak, the problems to be solved have more political than technical connotations.

Therefore, **best practices** can only be considered as such when they have become rooted in the routine operation of the civil service and everybody feels that there is no way back. Obviously, for this to occur, political and cultural constraints should have been overcome. A natural corollary follows: best practices within a given milieu may be successfully transferred to a different one, insofar as the prevailing political and cultural stumbling blocks are previously or simultaneously removed.

To achieve those results takes much more than technical solutions. The challenging task of the national state is to preserve the necessary equilibrium among three intertwined issues that create a permanent state of tension in the public agenda: governance, development and equity. A strong political coalition is required to keep this tension under control and reverse the

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<sup>13</sup> If planning, execution, and control/evaluation are the basic functions of any complex organization, what happened in most Latin American countries is that the national government tried to transfer policy execution to subnational levels while maintaining the orientation, planning, control and evaluation functions. But so far, these role changes have not been fully assumed. Huge deficits remain in setting consensual and overarching policies, in programming activities, and in monitoring and controlling state management, especially at provincial and municipal levels.

negative consequences that the first generation of reforms created at each of those dimensions. The will to preserve an autonomous state presence, widen the public sphere by incorporating new actors mobilized through genuine participatory mechanisms, avoid undesirable transfers of income that deepen the social gap, promote ethical behavior, open the functioning of state organizations to public scrutiny, accept accountability as a rule of bureaucratic conduct, and sanction unobservance of the instituted rules of the game, can only be expressed by sustained and coherent attitudes on the part of government.

Generalized corruption, concentrated economic power, social exclusion, dismemberment and atomization of civil society –which have accompanied the institutional changes produced by state reform- are hindering the post-reform state and making that pending mission too difficult. Therefore, it is not solely a question of redefining the state's profile; what is at stake is also the reconstruction of the social fabric and the public scene.

No crystal ball can tell us what the unfolding of these processes will be. But one thing is for sure: in its permanent metamorphosis, civil service reform will continue to be a Sisyphus's task. The "stone" of the reform will have to be taken to the summit but, most likely, it will roll down to failure time and time again, so that new attempts will become part of an endless task. Modern Sisyphus "condemned" to this godly punishment may take consolation in the hope that, along this eternal journey, the "stone" may worn down, thus becoming lighter, or the slope of the hill may lose part of its steepness.

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