

## *Chapter I*

# **Current and Future Public Governance Challenges**

## Introduction

Governments have been concerned for quite some time with their institutional and human capacity to improve the livelihoods of citizens, the competitiveness or viability of business, the delivery of basic public services, and trust in regulatory institutions. As part of broad reform and change agendas, many OECD member countries have been developing and revising their governance institutions, frameworks and tools. The current global financial, economic, social and environmental challenges highlight the unique role of government in serving the public interest. They also direct renewed attention towards the institutions, policies and tools that help government deliver what citizens and businesses need and expect, highlighting areas where further changes may be needed, or where additional consideration may be required on how best to realise reform efforts. Not only are the regulatory rules, oversight systems and procedures for the financial services sector at the forefront of proposed actions by government, but the fiscal crisis has also put the role of governments, the scope of their activities and their effectiveness in advancing the public good at centre stage. In particular, governments are looking at how they can improve their capacity to anticipate and manage risks, and react quickly to complex problems in changing environments. Due to the global nature of these challenges, it is no longer enough to act at the national level. International co-operation and co-ordination is proving to be a critical element of any credible and effective policy response.

Drawing as much as possible on the indicators presented in Chapters II through X, this chapter examines selected public governance issues that are important to governments' capacity to address the long-term effects of the recent financial and economic crises, and raises some fundamental questions facing governments as they re-assess their roles, capabilities and vulnerabilities.

## Selected public governance implications of the global financial and economic crises

As countries emerge from the financial and economic crises, governments cannot afford to resume business as usual. The crises have highlighted the need for governments to develop the capacity to foresee, prevent and respond to complicated, dynamic challenges. Examining the factors contributing to the crises has identified weaknesses in governance systems that may need to be strengthened. In addition, governments may need to address the long-term consequences of their responses to the crises in their exit strategies.

The following sections feature four governance issues whose importance has been highlighted by the recent crises: evidence-based policy making, integrity in the public sector, co-ordination of policies and programmes across levels of government and fiscal sustainability. OECD member countries were grappling with these issues prior to the crises, and many had begun to develop tools that are becoming particularly relevant in the current situation.

In crises and dynamic environments, there is an imperative on governments to act. While resulting policies have clear immediate objectives, they may also have profound and long-lasting consequences. Tools such as regulatory impact analysis can help governments base policy decisions on evidence and assess their actual impacts and consequences. The expanded role of the government in the economy – exemplified by increased public investment activities – requires governments to be especially vigilant that the principles and practices of integrity are upheld. In order to ensure that scarce resources are spent in ways that generate the most benefits, central and sub-central governments need to co-ordinate policies and programmes. In addition, increased spending and reduced revenues are putting pressure on budgets already strained by demographic change and current obligations. To improve the long-term sustainability of programmes and policies, governments may use long-term fiscal projections more frequently and systematically.

### ***Achieving evidence-based policy making***

Evidence-based policy making can help governments chart their return to a sustainable growth path. Coherent policies and, *de facto*, more effective policies and regulations require governments to take account of all pertinent information for more informed decisions. In particular, this implies that governments assess the benefits of policy proposals in relation to the future costs, and the interactions among structural reform policies. Through a coherent design, the return of each specific reform can be maximised. In addition, effective policy implementation requires effective governance: the capability to manage risks, manage procurement and contracts, obtain and allocate the right type and quantity of resources, provide oversight of processes and procedures, and review the impact and effectiveness of decisions and actions once undertaken.

The recent crises have placed additional emphasis on decision makers to give appropriate consideration to how regulation is implemented, enforced and overseen, particularly in the financial area. The indicators in Chapter VIII consider the extent to which regulatory management systems meet overall quality standards, such as those reflected in the *Guiding Principles for Regulatory Quality and Performance* endorsed by the OECD in 2005. They provide a tool to analyse regulatory governance systems as a whole and to help countries identify potential reforms.

As shown in Figure 22.1, the majority of OECD member countries are implementing regulatory impact analysis (RIA). RIA looks at how policies will be implemented, enforced, reviewed and complied with. It can help to ensure that all potential impacts of a policy are considered in advance, and that the regulation decided on by government is the optimal approach to take. Over the last decade, RIA systems have become more comprehensive across nearly all countries (Figure 22.3). An increasing number of countries have adopted formal requirements to undertake RIA for draft primary laws and subordinate regulations, as well as requirements to identify impacts (including costs and benefits of new regulations – see Figure 22.2). For example, over two-thirds of countries now require RIA to demonstrate that the benefits of new regulation justify the costs. However, the depth of RIA systems still differs across countries. In addition, the failure of regulatory oversight systems in the recent global financial crisis has clearly illustrated that the existence of such tools does not necessarily imply that they are being appropriately utilised, or are achieving the results and outcomes that were intended.

RIA has been seen by some administrations to be an obstacle to decision-making or legislative work due to the time needed to conduct assessments. When RIA is undertaken

in the early stages of the decision-making process, it does not appear to slow the process down. Undertaken as part of the deliberative policy making process, RIA has also contributed to improving governmental coherence and intra-ministerial communication. However, resistance to carrying out RIA can be strong in a crisis, when there is a necessity to act quickly, and resulting regulation can be ill-conceived and may have unintended consequences. In these situations, governments can still take steps to conduct *ex post* assessments of long-term impacts in order to enable them to correct course.

The scope of usage of policy-making tools remains patchy and exemptions are often broad. RIA, for example, is rarely used at regional or local levels.<sup>1</sup> Uneven coverage of such programmes can seriously reduce the coherence and effectiveness of policy-making processes. In addition, in many situations, RIA is applied to a single regulation, rather than regulatory regimes as a whole. As a result, it can only provide a very broad estimate of cumulative impacts. Finally, RIA has mostly been designed for command and control regulations. It may not be as applicable to performance-oriented regulations and regulatory alternatives, which are increasingly used.

The capacity to carry out and best utilise policy-making tools and regulatory models such as RIA needs to be built up over time. In particular, if it is to become a routine part of policy development, RIA has to be integrated into the policy-making process and not be seen as a “legal” issue. However, integration is a long-term process, which often leads to significant cultural change within the public administration and among the political leadership. The challenge is ensuring that sufficient systems, checks and balances are in place to ensure that RIA does not become a “tick-box” exercise, or becomes a way of justifying pre-determined actions. The recent OECD publication *Regulatory Impact Analysis: A Tool for Policy Coherence* (OECD, 2009h) provides practical guidance on how to improve the performance of RIA systems to promote economic welfare through better quality regulation.

### **Fostering Integrity**

Insufficient safeguards for integrity – particularly those that govern the intersection of the public and private sectors – were a contributing factor to the recent financial crisis. At the same time, the size, scale and speed of government responses to the economic crisis have increased the risks and opportunities for waste, fraud and corruption. As governments act to bolster the economy, strong integrity systems are more important than ever. The effectiveness of government actions also depends on its credibility and on the public’s trust in government. Credibility stems from integrity – the ability of government to act in the public interest and to minimise waste, fraud and corruption.

As a result, many countries are reviewing their integrity frameworks. An integrity framework includes the instruments (*e.g.* ethics codes, conflict-of-interest policies, whistle-blowing arrangements), processes and structures for fostering integrity and preventing corruption in public organisations, while considering the contextual factors and conditions that influence their efficacy. Conflict-of-interest disclosures and procedures to report misconduct are two aspects of the OECD integrity framework discussed in Chapter IX. Countries can use these indicators to identify potential steps to strengthen their integrity systems. In addition, the OECD has developed a more comprehensive “checklist” for diagnosing the elements of the integrity framework. It is a practical tool for policy makers and managers to help them review and update existing integrity management solutions.

Besides strengthening their integrity frameworks, countries may need to take targeted action to address particular threats to integrity. Increased government intervention in the economy in response to the financial and economic crises has aggravated risks in three major areas: public procurement, lobbying and conflict of interest in the “revolving door” of post-public employment.

### **Public procurement**

Public procurement has greatly increased over the past 18 months due to the large investments in infrastructure that are a part of fiscal stimulus packages in many countries. As shown in Figure 27.2, public procurement accounted for between 10% and 15% of most OECD member countries’ GDP before the crisis. The fiscal stimulus plan in the United States, for example, includes an estimated USD 110 billion (almost 1% of GDP) just for infrastructure projects that support energy efficiency and long-term environmental sustainability.

Procurement is particularly vulnerable to waste, fraud and corruption due to the volume of transactions, financial interests at stake, and the close interaction between the public and private sectors. As shown in Figure 27.1, public procurement was considered to be the government activity most vulnerable to bribery before the crisis. As governments disburse billions of extra dollars to stimulate demand, they have to pay particular attention to the risks of fraud and corruption in the competition for contracts. A survey by Ernst and Young in May 2009 of 2 200 business employees in 21 European countries showed an alarmingly high tolerance of unethical business behaviour amongst European companies. Even after the onset of the crises, one in four respondents judged that making cash payments to win new business was acceptable and 47% of respondents were ready to accept other types of unethical behaviour. Hinting at wasteful business practices, 55% of the respondents expected corporate fraud to increase over the next few years.

Preventing corruption in the public procurement market is crucial to ensure a level playing field and to promote fair competition. With its member countries, the OECD has developed *Principles for Enhancing Integrity in Public Procurement*. These ten Principles draw on examples of good practices at all points in the whole procurement cycle – from the definition of needs to bidding, contract management and payment – to provide a blueprint for enhanced transparency, good management, the prevention of misconduct, and accountability and control. To help countries implement the Principles, the OECD is developing a toolbox to provide generic solutions based on good practices.

### **Lobbying**

Private interests seeking to influence government decisions, legislation or the award of contracts are part of the policy making process in modern democracies. Lobbying can improve government decisions by providing valuable insight and data, but it can also lead to unfair advantages for vocal vested interests if the process is opaque and standards are lax. The public interest is at risk when negotiations are carried out behind closed doors.

Lobbying has become an industry with considerable resources: for example, a record USD 3.28 billion was spent on lobbying at the federal level in the United States in 2008, employing almost 15 000 registered lobbyists. In Canada, the number of lobbyists at the federal level exceeded 5 000. In Europe, the voluntary register of the European Commission, launched in 2008, received over 1 800 lobbyist registrations within the first year alone.

The stakes of lobbying are high, especially in the context of the current financial and economic crises, when actors are seeking to influence government bail outs of selected private firms, to manage massive stimulus packages and to rewrite regulations. For example, the financial services sector in the United States spent USD 3.4 billion lobbying the federal government between 1998 and 2008, principally promoting the deregulation of the financial sector.

In view of the risks of lobbying and the impressive mobilisation of private resources, public pressure is rising worldwide to put lobbying regulations on the political agenda. So far, actual experiences are limited and setting standards and rules for lobbying that are fair, adequately address major concerns and enforceable is proving to be difficult. For example, OECD survey findings show that only six member countries have established rules requiring reporting on lobbying contacts. The publication *Lobbyists, Government and Public Trust: Increasing Transparency through Legislation* (OECD, 2009c) reviews current approaches, models and trends that could help countries in efforts to make lobbying more transparent.

### ***Conflict of interest in the “Revolving Door”***

Conflict of interest is a major risk area in both the public and private sectors. The movement of employees between the public and private sectors (the “revolving door” phenomenon) has received particular attention in the context of the financial crisis. In addition to revolving doors at the individual level, the financial crisis has brought attention to emerging conflict-of-interest situations at the institutional level when government agencies became both owner and regulator due to bail outs and nationalisations.

The vast majority of OECD member countries have set general prohibitions and restrictions for post-public employment that are applicable across the whole public service, albeit less tailored to risk areas. However, there are much fewer mechanisms to put these rules into practice, enforce restrictions and impose sanctions in a timely, consistent and equitable manner. Current prohibitions and restrictions predominantly focus on officials leaving public office. Very few countries impose restrictions in the criminal code for the potential or new employer of former public officials. Principally, prohibitions relate to accepting future employment or appointment (*e.g.* to a board of directors, advisory or supervisory bodies) and misusing “insider information”. Few countries apply specific restrictions for “switching sides” and lobbying back to government. However, several countries have developed specific standards that focus on the most senior level of officials, including policy makers and top civil/public servants. For example, while assets and liabilities remain the primary focus of conflict-of-interest disclosure requirements for leaders in the legislature and executive, the number of countries requiring information on previous and future employment more than doubled between 2000 and 2009 (Indicator 25).

To help countries improve their systems to handle these issues, the OECD has issued *Guidelines for Managing Conflict of Interest in the Public Service* (OECD, 2003), and has developed a set of principles and a good practice framework for post-public employment systems (OECD, 2009g).

### ***Better co-ordination between levels of government***

Managing the relations between levels of government is a key issue in public governance, since almost all countries are decentralised to one degree or another. Central

governments depend on the co-operation of sub-central levels to achieve many of their policy objectives. At the same time, in order to carry out their responsibilities, the sub-central levels are often dependent on the collaboration or consent of higher levels. The fiscal crisis reinforces the search for public spending efficiency at all levels of government, which has directly motivated improved co-ordination between central and sub-central governments.

### ***Impact of the crisis on sub-central levels of government***

The global economic crisis has increased sub-central government budget deficits and debt due to a “scissors” effect: tax revenues are falling sharply due to decreasing economic activity, while expenditures are rising due to a higher demand for welfare services. The fiscal situation of sub-central governments is important for two reasons. First, their financial difficulties might affect the delivery of public services and public goods and lead to a decrease in long-term potential growth due to cuts in investment. On average, sub-central governments are responsible for 56% of public investment in OECD member countries. In addition, sub-central governments are responsible for welfare services and transfers, which represent about 16% of sub-central expenditures. Second, the measures they take to balance their budgets might be in contradiction to central fiscal stimulus plans.<sup>2</sup> For example, in the United States, sub-central government spending represents 20% of GDP; spending reductions to balance budgets (as most states have implemented) hamper central government efforts to stimulate the economy. In a recent article, Joseph Stiglitz notes that “[...] about half of [the US] recovery plan is annihilated by what happens at local level.” (Stiglitz, 2009). This is less important in countries like Switzerland where sub-central governments are driving most of the stimulus projects.

Central governments are aware of the financial difficulties that sub-central governments face, and have introduced new mechanisms to facilitate co-ordination. These discretionary, transitory measures comprise a wide variety of instruments, ranging from general purpose and earmarked grants (mainly for capital expenditures) to less conventional instruments such as: incentive mechanisms (such as the French early VAT refund to sub-central governments that commit to not reduce investment); accelerating the roll-out of already existing infrastructure projects; simplifying procedures and regulatory measures; facilitating sub-central governments’ borrowing; and temporarily easing budget constraints.<sup>3</sup> Many of these innovative instruments are inspired by regional development policy arrangements, which constitute a way to prioritize public investment in regions through co-funding arrangements.<sup>4</sup>

### ***Key challenges for multi-level governance***

Effective management of government relationships horizontally (across ministries) and vertically (across levels) requires narrowing a series of gaps (see Box 1). These gaps result from the fact that one level of government will depend on another for information, skills or resources. Minding these gaps represents one of the primary challenges of multi-level governance. Countries may experience each gap to a greater or lesser degree, but given the mutual dependence that arises from decentralised contexts, and the network-like dynamic of multi-level governance relations, countries are likely to face them simultaneously.

**Box 1. Five dominant gaps that challenge multi-level governance**

*Information gap*: characterized by information asymmetries between levels of government when designing, implementing and delivering public policy.

*Capacity gap*: arises when there is a lack of human, knowledge (skill-based and “know-how”) or infrastructural resources available to carry out tasks, regardless of the level of government.

*Fiscal gap*: reflects the difference between sub-central revenues and the expenditures needed to meet their responsibilities. It indicates a direct dependence on higher levels of government for funding in order to meet obligations.

*Administrative gap*: arises when administrative borders do not correspond to functional economic areas at the sub-central level.

*Policy gap*: results when line ministries take purely vertical approaches to cross-sectoral policy (e.g. energy, water or youth).

***Bridging the gaps through co-ordination and capacity building***

OECD member and non-member countries are developing and using a broad set of mechanisms to help bridge these gaps, improve the coherence of multi-level policy making, and smooth the disparities that can arise from the allocation of tasks and resources. The set of tools is extensive and ranges from binding mechanisms, such as laws and municipal mergers, to “softer” techniques, such as *ad hoc* meetings and harnessing the work of co-ordinating bodies. *Legal mechanisms* can address the gaps in capacity and fiscal resources and can improve co-ordination by clearly identifying responsibilities. *Contracts* are based on mutual agreement and can help bridge all five gaps; in particular, they can be an effective means to manage vertical interdependences. *Quasi-integration mechanisms* include mergers and various methods of municipal co-operation, thereby affecting co-ordination vertically and horizontally and providing a means to address multiple gaps, including those of capacity. In the case of human resource management, for example, municipal co-operation can lead to pooling resources which may positively affect the capacity of local governments to deliver services in a more effective manner with lower cost. At the “soft” end of the spectrum are *co-ordinating bodies*, such as regional agencies, thematic working groups and task forces, which provide a forum to build capacity and share good practices, and *ad hoc and informal meetings*, which provide an opportunity to build communication, dialogue and networks that are horizontal, vertical and cross-disciplinary. Indicators-based *performance measurement* and *experimentation* in policy design and implementation are also mechanisms to bridge gaps. The main impact of performance indicators is their ability to reinforce linkages among policy stakeholders at different levels of government, and their contribution to learning and capacity building. In addition, systematic gathering of performance information can help identify and evaluate sources of effective and innovative governance practices. Experimentation can synthesise many of the mechanisms explored, can be an effective way for countries to work past resistance to reform, and offers a high possibility of identifying lessons and good practices.

***Contributing to fiscal sustainability: the role of fiscal projections***

The recent economic crisis has weakened the fiscal health of many countries around the world. Most of these same countries are also facing other severe long-term challenges



– such as demographic change, global climate change and government contingent liabilities – that also have the potential to threaten their fiscal sustainability. In the United States, near-term deficits of 10% to 13% of GDP may appear gigantic, but they are small relative to long-term projections of debt. According to the US Office of Management and Budget, debt will grow from around 60% of GDP in 2010 to nearly 120% in 2040 and 275% in 2080 in the absence of fundamental changes to health programs and other actions. Thus, governments may need to begin thinking of an “exit strategy” to reduce debt and deficits and move on a path towards fiscal sustainability.

Fiscal sustainability incorporates an assessment of four dimensions: *solvency* – the capacity of government to finance existing and probable future liabilities and obligations; *stable economic growth* – the ability of government to sustain economic growth over an extended period; *stable taxes* – the ability of government to finance future obligations without increasing the tax burden; and *intergenerational fairness* – the capacity of government to provide net financial benefits to future generations that are not less than the net benefits provided to current generations. Fiscal sustainability is therefore a concept to evaluate the social, political and financial implications of current and future policies.

In facing these challenges and trying to become better prepared for their fiscal futures, OECD member countries have experimented with several institutional budget reforms, including: the introduction of fiscal rules, especially spending rules; the use of performance information to encourage better value for money and entitlement spending reforms; and, more recently, the preparation of long-term fiscal projections. Indicators in Chapter VII describe how these reforms have been implemented across OECD member countries. For example, all but five OECD member countries use fiscal rules of some kind – most often rules concerning debt and balanced budget (Table 17.2). As part of its exit strategy, Germany has recently passed a new constitutional rule that will take effect in fiscal year 2011. The fiscal rule requires the Federation and *Länder* to generally balance budgets in terms of revenues and expenditures without net borrowing. It is hoped that this reform of the constitutional budget rules will make an important, credible contribution to resolving the crisis by hedging the current increases in spending to stimulate demand against losses in confidence that would arise from permanently higher general government debt. In addition, lawmakers hope that it will adjust the political incentives to increase spending that existed under the prior fiscal rule, which allowed for net borrowing up to the amount of gross investment.

Fiscal projections provide a means to assess fiscal sustainability based on the assumptions of current policies, stable taxes, and other key demographic and micro- and macroeconomic parameters. Fiscal projections offer invaluable signposts for where and when to act on fiscal pressures to avoid obstacles to growth and promote a cleaner and fairer economy. In doing so, they can also help position future governments to better manage unforeseen or less predictable fiscal pressures if and when they arrive. Moreover, long-term projections of the government’s fiscal position can help decision makers prepare reforms once economies have resumed sustained growth.

While projections are one way of promoting fiscal sustainability, it is important to remember that they are projections and not predictions. Nor do they automatically restore or strengthen the government’s fiscal position. Projections should complement – and themselves be complemented by – the government’s short-term fiscal position and structural content of fiscal policies. Effective communication and the linkage of projections

to decision-making practices and procedures and subsequent political action are important to manage the short-term political incentives shaping government spending.

Over the last decade, fiscal projections have become increasingly common within OECD member countries. In the mid 1990s, projections were published in only a handful of countries, namely New Zealand, Norway, the United Kingdom and the United States. In 2009, 27 member countries published them – two more than in 2007. As illustrated in Table 17.1, the time horizon of projections varies among countries, from 25 years in Korea to approximately 100 years in the Netherlands, though for most countries it is 41-50 years. Over half of all OECD member countries prepare fiscal projections on an annual basis, five countries prepare them on a regular periodic basis (every three to five years) and two prepare them on an *ad hoc* basis.

Many European Union countries annually report fiscal projections as part of their stability or convergence programme reports, as required by the EU Stability and Growth Pact. European Commission guidelines establish a minimum reporting requirement, a template and a deadline for reporting. Reports include projected budget aggregates in a standardised table along with “all the necessary additional information, both of qualitative and quantitative nature, so as to enable the Commission and the [Economic Policy] Council to assess the sustainability of Member States of public finances based on current policies” (European Commission, 2005). While EU member countries may publish fiscal projections solely for the Commission’s reporting requirements, some also do so for domestic procedures. An overview of long-term fiscal projection reports for 12 OECD member countries surveyed is provided in Table 1, on page 31.

Fiscal projections raise the profile of fiscal sustainability, provide a framework to discuss the sustainability of current policies and the possible fiscal impact of reforms, and centralise responsibility for long-term policy analysis. Fiscal projections have been identified as good practice by the OECD since the late 1990s.<sup>5</sup> A recent paper by Anderson and Sheppard (2009) examines the analytical and institutional dimensions of fiscal projections in 12 OECD member countries. Based on their assessment, the authors suggest that fiscal projections should:

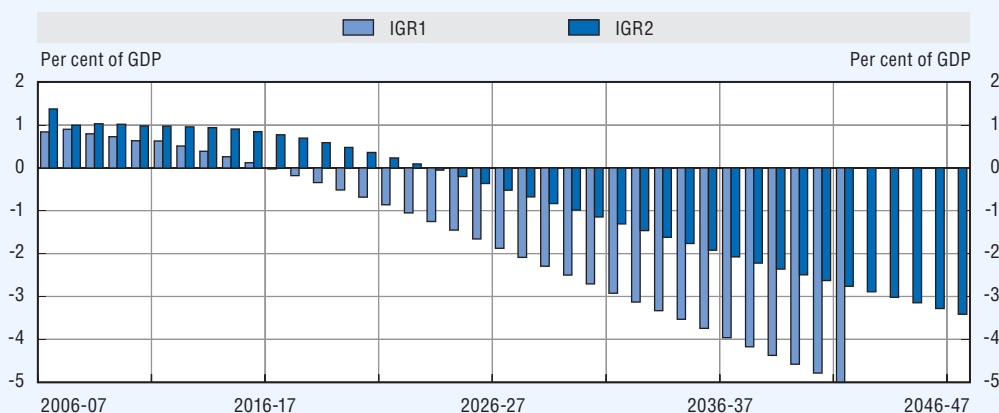
- be prepared on an annual basis to draw attention to the long-term fiscal consequences of current policies and to eliminate discretion over when projections are produced;
- incorporate comparisons with past government assessments to highlight whether the government’s fiscal position has improved or deteriorated;
- include sensitivity analysis (or “alternative scenarios”) for changes in demographic and macro- and microeconomic assumptions to illustrate the exposure to fiscal risks and the general direction of the impact of this exposure;
- clearly present changes in the methodology, key assumptions and data sources to provide an assurance of their credibility and quality. Projections are uncertain by their very nature and are sensitive to the assumptions underlying them. Disclosure and justification of changes in the underlying assumptions are one means to provide assurance about the quality of projections and a basis for an independent review of a country’s fiscal future;
- be used by countries to illustrate the fiscal consequences of past reforms or general policy options. This has the potential to demonstrate to policy makers that while improvements in the country’s long-term fiscal position are possible, they may not eliminate the long-term fiscal challenges altogether. However, when creating

### Box 2. Australian approach to fiscal sustainability


Australia has given consideration to the issue of long-term fiscal sustainability, and has implemented many best practices for budget transparency (OECD, 2002). Projections of government spending per capita, the primary balance (the difference between revenues and expenditures, not including interest payments on debt) and net government debt are prepared by the Treasurer and presented to the House of Representatives in the Intergenerational Report (IGR). These data are complemented by a measure of the fiscal gap at the end of the projection period. Projections span 40 years and are updated at least every 5 years as required under the Charter of Budget Honesty Act 1998. However, the government has recently agreed to produce the IGR more frequently, updating projections every three years. Two projections have been prepared to date, in 2002/03 (IGR1) and 2007/08 (IGR2).

The 2007/08 report compared its projections of government spending per capita and the primary balance with those in the 2002/03 report. Figure 1 compares the projections of the primary balance between the two reports, illustrating that the projected fiscal position improved.

Figure 1. **Australian Intergenerational Report (IGR) 2007: Comparison of projections of primary balances**



Source: *Intergenerational Report 2007*. Copyright Commonwealth of Australia. Reproduced by permission.

StatLink  <http://dx.doi.org/10.1787/723233818633>

The report analyses the sensitivity of specific projected expenditure categories – but not the projected primary balance, projected net debt or adjusted primary balance – to different Treasury demographic and macroeconomic assumptions. Policy options are also presented for gradual reductions in government spending. The report presents the methodology and key assumptions behind the projections and the sensitivity analysis, which are substantiated by textual discussion. There is not, however, a single high-level summary of key assumptions.

The Commonwealth government considers the intergenerational reports to have been influential in framing public debate on economic policy and focusing attention on the long-term consequences of current policies. The reports are widely used by the executive, ministers and cabinet to inform debates on a range of public policy areas including health, education, family benefits, welfare, superannuation and pensions. Moreover, in addition to the work of the Treasury's Budget Policy Division to prepare the IGR, issues of fiscal sustainability are now considered by a number of other units within the Treasury and the Department of Finance and Deregulation.

The reports have also generated changes to regular budget practices and procedures. Long-term fiscal projections have been embedded into the annual budget document through the inclusion of a 15-20 year (extended medium-term) projection of the underlying cash balance as part of the medium-term fiscal outlook for the federal budget.

projections, it is necessary to carefully review the types of forward-looking simulations used to ensure that policy options are not presented as prescriptions or means of circumventing political consultation about the types of reforms;

- be directly tied to the annual budget process and linked to other budget practices and procedures to ensure that adequate attention is given to the fiscal consequences of current policies. One method could be to link the results of fiscal projections to fiscal rules, such as medium-term expenditure ceilings, or to entitlement benefit formulas through either hard or soft budget triggers.

While sensitivity analysis of fiscal projections for changes in demographic and macroeconomic assumptions are common in the 12 countries examined by the authors, comparisons against the results of sensitivity analysis of past projections are far less so. Although OECD member countries may prepare fiscal projections, the linking of projections to other budget practices and procedures remains weak in many countries. Fiscal projections risk being considered as solely an analytical exercise by economists, far beyond the policy-making realm. In addition, projections are only presented together with the budget in a small number of the countries surveyed. Australia stands out as having implemented many of the OECD suggestions for fiscal projections (see Box 2 above).

## What are governance challenges for the future?

### ***A world in flux: Challenges for public governance***

Current demographic, financial and environmental challenges have increased the urgency for rethinking the role of government and the capacities it needs to govern. The quality, flexibility and effectiveness of public governance systems are central to countries' capability to address future issues.

In particular, governments are devising new policy instruments or reshaping old ones in radically new ways in efforts to support economic activity, spur new growth and strengthen the framework for well-functioning markets. Governments have bought out financial institutions and bailed out selected private companies, are redesigning regulations and have increased public investment. It is difficult to foresee the potential implications that these measures will have over the longer term; interactions between governments, citizens, businesses and civil society may well function differently in the near term and perhaps far into the future. Moreover, both climate change and the financial crisis have illustrated the importance of global governance systems, now that actions in one or several countries can have world-wide ramifications. As worlds become more interconnected, governments need to be agile to respond quickly in dynamic environments.

Citizens are turning to the state, seeking immediate solutions to complex problems and demanding high-quality public services to meet their changing circumstances and needs. In addition, continuing technological evolution has raised citizens' expectations from government for new ways to communicate and personalise services. Better educated and less deferential citizens are judging their governments both on their "democratic performance" – the degree to which government decision-making processes live up to democratic principles – and their "policy performance" – their ability to deliver positive outcomes for society (OECD, 2009a). While society's expectations of government are increasing, the resources available to meet these needs are becoming more limited. Now many countries are experiencing increased budget deficits, which will generate stronger pressure to reduce public spending. Under these circumstances, rethinking the role of

Table 1. **Overview of reports in the 12 OECD member countries surveyed (2009)<sup>1</sup>**

	Formal reporting obligations	Most recent report title	Responsibility for prepares and release	First/most recent release	Level of analysis/ reporting entity	Most recent time horizon	Frequency produced
Australia	Charter of Budget Honesty 1998	Intergenerational Report 2	Department of the Treasury	2002/2007	Central government	40 years	At least every three years <sup>2</sup>
Canada	n/a	Staff working papers	Department of Finance	2000/2002	General government	40 years	<i>Ad hoc</i>
Denmark	EU Stability and Growth Pact	Convergence Programme Report	Ministry of Finance	1997/2008	General government	Until 2070 (fixed) <sup>3</sup>	Annually
Germany	EU Stability and Growth Pact	Report on the Sustainability of Public Finance	Federal Finance Administration	2005/2008	General government	Until 2050 (fixed) <sup>3</sup>	At least every four years
Korea	n/a	Vision 2030	Joint Task Force Team <sup>4</sup>	2006/2006	Central government	25 years	<i>Ad hoc</i> basis
Netherlands	EU Stability and Growth Pact	Aging and the Sustainability of Dutch Public Finances	Central Planning Bureau	2000/2006	General government	Until 2100 <sup>5</sup>	<i>Ad hoc</i> basis
New Zealand	Public Finance Act (1989, as amended) <sup>6</sup>	New Zealand's Long-term Fiscal Position	New Zealand Treasury	1993/2006 <sup>7</sup>	Central government	40 years	At least every four years
Norway	n/a	Long-term Perspective for the Norwegian Economy	Ministry of Finance	1993/ 2009 <sup>8</sup>	General government	50 years	At least every four years
Sweden	EU Stability and Growth Pact	Sweden's Economy (Budget Bill)	Ministry of Finance	1999/2009	General government	Until 2060 (fixed) <sup>3</sup>	Annually
Switzerland	n/a	Long-term Sustainability of Public Finances in Switzerland	Federal Department of Finance	2008/2008	General government	50 years	At least every four years
United Kingdom	Code of Fiscal Stability 1998 <sup>9</sup>	Long-term Public Finance Report	HM Treasury	1999/2008	General government	50 years <sup>3</sup>	Annually
United States	n/a	Analytical Perspectives (Long-run budget outlook)	Office of Management and Budget	1997/2008 <sup>10</sup>	Central government	75 years	Annually
	n/a	The Long-term Budget Outlook	Congressional Budget Office	1991/2007	Central government	75 years	Approx. every two years
	n/a	Long-term Fiscal Outlook	Government Accountability Office	1992/2008	Central government	75 years	Three times per year

1. Data are current as of May 2009.

2. **Australia:** In December 2008, the government announced that it would produce the intergenerational report once every three years. Previously, the requirement was that an intergenerational report be produced at least once every five years.

3. **Denmark, Germany, Sweden and United Kingdom:** Fiscal projections also prepared for an infinite time period.

4. **Korea:** Joint Task Force Team consisting of government officials and other experts. Government officials were mainly from the Ministry of Finance and Economy, the Ministry of Planning and Budget, and the Ministry of Health and Welfare. Other experts were involved from the Korea Development Institute and the Korea Institute of Public Finance.

5. **Netherlands:** Time horizon spans until 2100 though the report also separately discusses policies until 2040.

6. **New Zealand:** Legal obligations were first required under the Public Finance Act, 1989, as amended in 2004.

7. **New Zealand:** In 1993 and 1996, as a pre-election report spanning approx. 50 years; since 2000, integrated in the budget for 10 years; since 2006, as a stand-alone report for 40 years.

8. **Norway:** Since 1954, the Cabinet's "Long-term Program" showed the Cabinet's policies for the next four years. Between 1954 and 1973, fiscal projections spanned four years. Between 1973 and 1993, projections spanned 20 years, but only focused on the development of government expenditure compared to projected GDP. From 1993, projections spanned 40-50 years and covered both government expenditure and income/net lending.

9. **United Kingdom:** While the Code does not explicitly mention the words LTPFR, the "Explanation to the Core" states that illustrative projections should be published covering a period of not less than 10 years by the government.

10. **United States (OMB):** The five-year budget projections prepared during the 1970s and 1980s were labelled "long-term" projections. These are considered as medium-term budget estimates in this report.

government and the scope of its activities, as well as improving public sector efficiency and effectiveness have become more urgent. An agenda of "more for less" seems here to stay.

### **Lessons from past reforms**

In the past 25 years, governments have made major changes to the way they manage the public sector. Like today, the impetus for change came from the social, economic and

technological developments. While in many countries fiscal stress and stagflation provided the trigger for reform, the underlying pressures for change also came from the fact the governments were increasingly out of step with a changing society which had new and different expectations. The public was more and more concerned about the quality of services they received and the choices available to them. Citizens were also increasingly resistant to government's growing share of the national economy.

Beginning in the 1980s and continuing into the 21st century, most countries aimed to modernise the public sector by introducing market-based mechanisms that would lead to greater cost-efficiency. "New Public Management" entailed a focus on performance (in terms of organisational efficiency and effectiveness), citizens as customers (rather than just constituents), and increased managerial autonomy and disaggregation of government functions. In many countries, these reforms involved a fundamental rethinking of the role and reach of government under the principle that government should "steer, but not row". The first question asked was what goods and services governments should provide, closely followed by whether these goods and services should be provided directly (i.e. by government employees) or indirectly (i.e. via contracts with private actors but paid from the public purse) and by what level of government. If the ultimate decision was to keep production of goods and services in-house, then leaders asked how performance could be improved and made more efficient and effective.

Public sector use of market-type mechanisms became more common across OECD member countries, due to their potential to produce significant efficiency gains by introducing competition. Privatisation, the move from direct service delivery to the creation and regulation of quasi-markets were popular reforms. Through privatisation, many governments not only removed themselves from several commercial enterprises (e.g. airlines), but also withdrew from ownership and provision of utilities such as energy, water and communications. Governments moved from direct provision of some services towards creating and regulating new markets. Some of these trends are illustrated by indicators in *Government at a Glance* on the use of outsourcing (Indicator 8) and the size of employment in government and public corporations (Indicator 9).

Another common reform was to restructure the organisation of government. This often involved separating policy making from service delivery and devolving more authority to state and local governments, dismantling existing organisations and creating new, more autonomous ones. In addition, managers were given more flexibility to make decisions regarding resource needs and use. Indicator 21 illustrates the flexibility granted to the executive to use budgeted funds for different purposes. Likewise, Indicator 13 shows that most countries have increased the role of line ministries in human resource decisions. Individualised employment policies became increasingly common; employment arrangements of public servants became more like those of the private sector by altering the legal status and employment conditions. In order to increase accountability in face of decentralised power, performance targets were established for ministries, agencies and programmes. In addition, performance assessments and performance-related pay were introduced for many employees (Indicator 15).

Due to a lack of data and numerous challenges in measuring outputs and outcomes, governments have a difficult time in determining whether the reforms have really resulted in efficiency gains. In addition, it has been difficult to evaluate not only the short-term effects of reform, but the long-term implications. In many cases, the changes made to

rules, structures and processes have not resulted in the intended changes in behaviour and culture. In some cases, reforms have produced unintended or perverse consequences, and have negatively affected underlying governance values. For example, the proliferation of autonomous, arms-length public bodies has made collective action and co-ordination difficult. New Public Management has exacerbated the traditional separation between politics and administration, between policy decisions and their implementation. Dismantling organisations also sometimes led to a loss of continuity, institutional memory and long-term capacity. The focus on contracting and reporting may have come at the expense of coherence of strategy, continuity of values and connecting public interest to individual motivation. In addition, many governments have not developed sufficient oversight capacity, increasing the threat of provider capture. Often, governments adopted reform instruments or ideas from the private sector or from other governments without regard for the country context and/or understanding the inherent limitations and weaknesses of these instruments.

### ***Is there a need for a new paradigm?***

While the challenges facing government are not necessarily new, they are stronger and more pressing than in the past. Moreover, additional challenges result from the unintended consequences of reforms undertaken in the past few decades. In light of all these new developments, OECD member countries may need to reassess what has worked well in past 25 years, what has not and why, what might be discarded from those reforms, what needs to be adjusted, what might be further built upon and what are the conditions for success. The sections below lay out three questions that the OECD and its member countries may need to ask as they search for solutions to continue to strengthen their governance capacity.

### ***How can countries achieve a better balance between government, markets and citizens?***

More than any other recent event, the advent of the global financial crisis has prompted many to ask: What is the role of government? Should the relationship between government, the private sector, and citizens be redefined? Other challenges facing governments – from demographic shifts to climate change – also suggest the importance of this question and suggest a renewed stewardship role for governments.

### ***The role of government***

The 2005 OECD Ministerial Meeting on “Strengthening Trust in Government: What Role for Government in the 21st Century?” concluded that “a responsible government ... works for the collective interest, and looks at the medium to long term to ensure that future generations are not short-changed.” This idea, this role for government is still valid. Governments seek to better the social welfare of their citizens. What governments may need to rethink is *how* they approach this role: *how* they protect the collective interest, *how* they ensure that short-term considerations do not short change long-term interests and *how* effective they are in improving social welfare. For some, the global financial crisis highlights the legitimate role of government and effective public governance systems in securing the public interest; the downside of fragmented institutional arrangements; and the fundamental role government action plays in attenuating and solving crises. Others may point to the contributions that previous governance reforms and public policies

played in generating the incentives that contributed to poor risk management and oversight. The way that governments approach their role to promote the collective interest affects required capacity and skills. In addition, their chosen approach affects the relationship between the public and private sectors.

### ***Government and the private sector***

As governments take stock of those areas in which they have responsibility, governments' relations with the private sector clearly deserve re-examination – particularly in the context of how to strengthen the framework for well-functioning markets. While the private sector's pursuit of profits and the government's pursuit of social welfare are not necessarily mutually exclusive, the crisis underscores the shortcomings of the past model of regulating markets to achieve socioeconomic goals. With governments facing unprecedented debt generated by the response to the financial crisis, efficiency gains will be at a premium. But new models to achieve efficiency gains are in order, ones that balance both short- and long-term interests. Market-based models that result in close co-operation with the private sector will continue to be of value, but in selecting and modifying them, governments must look at all relevant factors. For example, while market-based mechanisms have proven a useful tool for delivering public goods and services, assessment of the costs and benefits of relying on the private sector to deliver public services could reveal that short-term efficiency gains may – in some cases – be insufficient to offset long-term implications regarding equity, effectiveness and quality.

As public coffers shrink with the decline in revenue and as demands on the public sector increase, governments need to work with the private sector to enable a competitive business environment, while simultaneously evaluating and modifying the conditions that created the financial crisis. In the area of regulation, many OECD member countries have started to review their market regulations in order to stimulate increased competitiveness and growth. OECD countries who are also members of the EU have done so since 2000 as part of the broad-ranging Lisbon Strategy. While some markets have been deregulated and others have been targeted by improved regulatory regimes, scope exists to better consult and liaise with business on those areas of regulation that continue to stifle growth or competition. While most countries consult informally with selected groups, fewer than two-thirds publish public notices and calls for comments (Indicator 24). The challenge is achieving a balance. Limited regulation combined with deference to the market may have served the short-term well, but has proven highly problematic for companies and citizens alike over the longer-term. This is not to suggest more regulation is needed everywhere, but instead “smarter”, better regulation in which rules and oversight processes can be viewed positively for their long-term risk-reducing effect. A “smart” approach includes ongoing reviews of regulations to remove, repeal or amend outdated legislation, to codify regulations to improve comprehension and compliance, and to take better account of the likely impacts compliance requirements may have on business. While most countries apply regulatory impact analysis to some extent, the depths of the systems vary (Indicator 22). As shown in Indicator 23, a large number of countries were heavily engaged in administrative simplification strategies in 2008, and commitments to reducing unnecessary administrative burdens may likely need to continue.



### *Citizens and government*

Establishing and maintaining trust in government, delivering coherent high-quality public services efficiently and equitably, and ensuring responsiveness to societal needs and citizens' and businesses' demands must remain at the top of governments' agendas. Achieving these goals may well require new forms of e-government-supported service delivery, as well as increased choices for users of those services. OECD member countries exhibit a high capacity to implement e-government services (Indicator 29), but not all services may be available online (Indicator 30) and/or citizen usage rates of less than 50% suggest room for improvement (Indicator 31). Greater work may be needed on performance monitoring to better track the quality of services delivered and citizen satisfaction, as well as efficiency. These challenges may mean a growth in "co-design" of public services with citizens, an increase in public-private and public-non profit partnerships, better coordination of services across levels of government, or a continued shift in the role of government from service provider to service facilitator.<sup>6</sup>

In some cases, the dynamic between citizens and government may also need to change. The New Public Management approach brought a view of citizens as consumers, and OECD member countries have gone further to view citizens as partners for designing, delivering and evaluating services. Many countries see that innovation and greater productivity in service delivery in the next few years are likely to come from highly professional service providers forging stronger collaborative partnerships with citizens, as the co-production, integration and tailoring of services can save money, reduce unnecessary activity and harness untapped resources (user time, energy and motivation). Yet governments must ask: When and how should governments truly engage citizens?

Democracy and good governance is predicated on the fact that citizens have the right to be publicly engaged, to be consulted and to have their voices heard. Open and inclusive policy making requires that policy makers gather a wider range of views as input for evidence-based policy making and for defining the public interest. Successful practices for citizen engagement in service delivery have provided better information on available services, better access to more personalised services through multiple access points (on line and off line), and greater control of services including the possibility to commission one's own services. Challenges continue to exist, however, regarding consultation during the policy development phase. Notwithstanding efforts on the part of governments, some citizens may not be engaged. Some are "willing but unable" to participate for varying reasons, such as language barriers, geographic distance or disability. Others are "able but unwilling" to participate because they expect officials elected to represent them to do so, do not have time, are uninterested in politics or do not trust governments to make good use of their input. For the "willing but unable" governments may need to lower barriers to participation. This may require public officials to "think outside the box" and hold consultations outside of traditional office hours, including going to citizens, rather than inviting citizens to come to them. The new opportunities offered by Web 2.0 tools for citizens to take initiatives and self-organise open up a new scenario for government-citizen relations. Governments may increasingly move away from leading every public engagement initiative to facilitating and participating in them. For the unwilling, governments may need to examine the worthiness of their claims, reflect on the scope and mechanisms for engagement and, in some cases, make participation more attractive.

There are limitations to citizen engagement which governments may need to recognise: participation of the “willing” may suffer from self-selection bias and can produce consultation fatigue. In some cases, citizens have insufficient information to properly assess the risks of policy options or the long-term implications of policy solutions targeted to today’s problems. Likewise, participation can add time to the policy making process. These considerations make choices regarding the scope and type of citizen participation particularly important.

### ***Choices and trade-offs***

The global financial crisis, along with the demanding challenges facing governments, is prompting a reassessment of the role of government and the relationship that governments have with markets and citizens. Confronted with the failures in both markets and public governance, citizens are right to demand change. But what will change look like? When might it come? How permanent should changes be? While the overarching role of government may remain the same, how countries approach good governance may shift. In choosing how to change, governments will likely confront trade-offs, such as:

- short-term stabilisation against intergenerational equity;
- competitiveness through deregulation against longer-term risks;
- private service provision against a smaller public sector, but with limited future capacity;
- citizen participation against consultation fatigue.

Ultimately, the traditions and cultural values inherent in any one country’s approach to policy design and public governance may not be fully compatible with the values, priorities and risk tolerance of other countries. While the overarching role of OECD governments may be similar, and while governments’ actions will likely expand the scope of their responsibilities in the wake of the current challenges, heterogeneity in how they approach that role and the tailoring of new approaches to domestic characteristics is of value. As there is no “optimal” model for public governance, OECD member countries will likely need to seek out good (context-dependent) practices which meet the challenges ahead and from which lessons can be drawn.

### ***What governance capacities or competencies are needed for dealing with global challenges?***

The global challenges facing governments bring into sharper focus the requirements for governments to think and act in the long-term, to co-ordinate internationally as well as within central governments, and to analyse and process diverse information due to their complex nature. To address these challenges, governments will need competent staff with the right skills. They will also need to foster collaboration and ensure that high quality information is available and used in decision making. Governments will likely need to develop new competencies, but also to continue to reflect upon current reforms: what has been effective? How do we foster the appropriate conditions for success?

### ***Ability to anticipate future challenges: Strategic planning and forecasting***

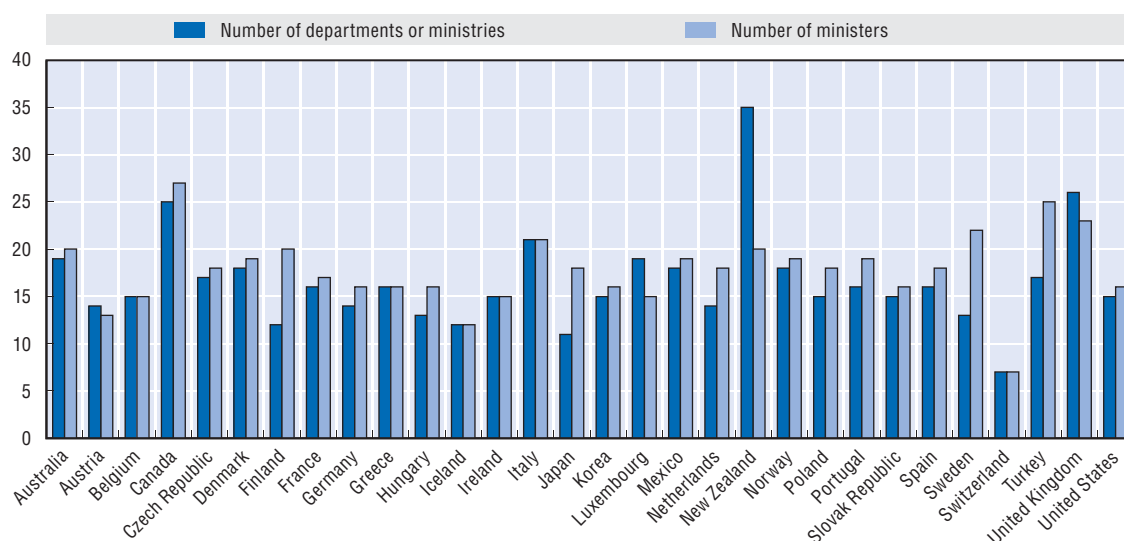
Climate change, ageing and pandemics are just several of the known challenges facing governments which will require co-ordination and long-term planning to address. These challenges underscore the importance and continued need for improved risk assessment and management in the formulation, pursuit and evaluation of policies designed to serve

the public interest. Due to short-term political and electoral imperatives, governments often find it difficult to appropriately predict and anticipate emerging areas of risk, or to adequately assess and anticipate governance challenges and opportunities. In addition, these same pressures can make it difficult to effectively develop and implement long-term responses that span multiple terms of office. Policy planning and forecasting within public administrations has tended to focus more on short- to medium- rather than long-term, with high level programmes of work or strategy statements largely linked to the electoral cycle. One exception has been in budgeting, where countries have adopted tools to incorporate a long- and medium-term perspective, including fiscal rules and projections (Indicator 17) and medium-term expenditure estimates and ceilings (Indicator 19). However, how can governments ensure that these tools are used effectively to inform decision making? How can governments develop the internal skills and capacity to undertake longer-term forecasting from an integrated, whole of government perspective? Developing this broader internal perspective may require greater horizontal co-operation across sectors and functions of government rather than “silo”-based thinking.

### Collaboration and co-ordination

Governance challenges are often horizontal in nature, affecting multiple aspects of government activity. Consequently, addressing these challenges often requires co-ordination across ministries. Figure 2 illustrates that central governments vary widely in the number of ministries, with New Zealand at one end with 35 and Switzerland at the other with 7 ministries. Unfortunately, current governance structures can make co-operation difficult. Smaller administrations with fewer, larger ministries may make co-operation easier and offer efficiency gains due to savings in overhead and fixed costs. There are drawbacks, however, in that overly large organisations may make it difficult for managers to pay sufficient attention to all key issues. Large ministries can also mask

Figure 2. **Number of departments or ministries and ministers at the central level of government (2008)**



Source: Member country government websites. Data current as of 31 December 2008.

Note: The data presented refer to the number of ministers that comprise the cabinet at the central level of government and exclude deputy ministers.

StatLink  <http://dx.doi.org/10.1787/723240588421>

internal schisms and breakdowns in information sharing and co-ordination. Traditional inter-ministerial or cross-departmental structures can be useful, but their effectiveness can be limited if actual front-line staff, service delivery agents and those involved in regulatory oversight or control are excluded from deliberations. They can also become formulaic rather than pro-active and innovative. Network approaches to working may offer new ways of improving co-ordination, particularly by facilitating discussion and co-operation across different levels of government, as well as with wider stakeholders. However, increasing co-operation may not just require structural adjustments, but also cultural changes to create an environment and incentives conducive to collaboration. High-level public service leadership may be integral to facilitating these changes, and some countries have taken steps to cultivate a separate group of senior managers (Indicator 16).

### ***Building the right skills: Attracting and retaining the right staff***

Under normal circumstances, governments are concerned with attracting and retaining a high calibre staff, and many countries have implemented reforms designed to improve their ability to do so, including delegating HRM decisions to line ministries (Indicator 13), opening recruitment to external candidates (Indicator 14), introducing performance assessments and performance-related pay (Indicator 15), and cultivating a separate senior management group (Indicator 16). Likewise, governments are addressing demographic shifts both internally (within the administration) and externally which can affect their capacity to provide goods and services. For example, central government workforces are ageing more rapidly than the wider labour market in many OECD member countries (Indicator 12) and women are increasingly participating in government employment, often at higher rates than in the wider labour force (Indicator 11).

However, addressing global challenges has both elevated these concerns and added new ones. As a result of the economic crisis, a number of governments are seeking to reduce spending by cutting the number of public service staff and limiting recruitment and promotion opportunities. While this may create opportunities to lose unproductive staff, how can administrations ensure that they are not losing the best of their staff to the private sector, or that they are not creating “generational gaps” or future skills shortages that can affect their capacity to address long-term challenges? Governments and public administrations are making choices now about the nature and shape of the public administrations they want moving into the future. Who within a public administration keeps an eye to future “global” public service needs (e.g. in ICT, procurement, project management) and how up-to-date is their information? Are their inputs sought in considering broader policy changes that could impact on service delivery? How have countries with large numbers of political appointees/advisors addressed challenges with building capacity and developing a corporate memory in the broader “permanent” public service?

### ***Supporting evidence-based policy-making: Data collection and assessment***

The challenges facing governments have long-term implications and solutions will impact a large part of the economy. As a result, there are many vested interests arguing for one policy option over another. To better provide empirical advice to governments, the public service must be able to readily access and analyse relevant, neutral information. Lobbyists/high-profile stakeholders often have access to alternative data and information sources which may or may not be impartial. On one hand, information has become easier to collect and store as it has become digitised. On the other, decentralisation and

fragmentation (including the use of different, incompatible ICT systems) within government have often made it difficult to ensure data coherence, hindering comparisons. To improve the breadth and quality of the data available, it can be important to build the capacity of national statistical offices. Likewise staff involved in policy formulation may need training in how to analyse and critically evaluate data sources. Greater linkages may need to be made between the policy cycle and the breadth and quality of information that is available to administrations. When possible, identification of data needs must be developed in tandem with the planning of service delivery so as to maximise the ability to use operational data. The costs and benefits of requests for additional reporting and/or information from ministries and the public need to be weighed to ensure that unnecessary burdens are not being created. Finally, governments could consider putting more data in the public realm to encourage analysis by think-tanks, academics and non-profits.

### ***Integrating policy making and implementation***

The separation of policy making from policy implementation was a common reform in many OECD member countries. However, policy making and implementation are two sides of the same coin and both are necessary for a policy or programme to be successful at attaining its goals. Unfortunately, the separation of policy making and implementation has often broken the information flow, sometimes resulting in both poorly planned policies (which can make effective implementation difficult) and incomplete or partial implementation. The policy cycle is such that challenges regarding enforcement, implementation and compliance of both existing and proposed policy changes need to be considered as early in the policy-making process as possible. As the stakes rise with the size and seriousness of many of the global challenges, it could be important to re-establish the link between planning and implementation.

### ***How can a continued focus on efficiency and effectiveness be reconciled with upholding other fundamental public service values?***

Performance – improving it and measuring it – has preoccupied governments for more than half a century. Most recently, governments have tended to define performance in terms of efficiency and effectiveness. This will likely continue in the future as servicing the mounting public debt could lead to less money available for the provision of public services, while governments will be under pressure to increase their level and quality. Consequently, increased emphasis will likely be placed on how well those public services are provided, whether they are targeted appropriately and how much those services cost; i.e. whether citizens and businesses get value for their money.

However, the current set of global challenges has also illustrated the importance of defining performance more broadly than just efficiency and effectiveness to include governments' ability to uphold core values such as accountability, transparency and equity. Performance "is not a unitary concept within an unambiguous meaning. Rather, it must be viewed as a set of information about achievements of varying significance to different stakeholders" (Boviard, 1996). Governments cannot provide goods and services efficiently and effectively without ensuring that the basic values of a properly functioning democratic state and economy, such as the rule of law, impartiality and integrity, are upheld. Capacity and performance are not just based on strictly technical aspects of management, but depend on how these aspects link to other fundamental public values. As a result, public management may be experiencing a shift from a more technocratic focus on optimizing

technical performance to a truly broader focus on public governance, which entails reincorporating basic public values such as integrity, transparency, accountability, equity and participation into the set of tools for improving efficiency and effectiveness.

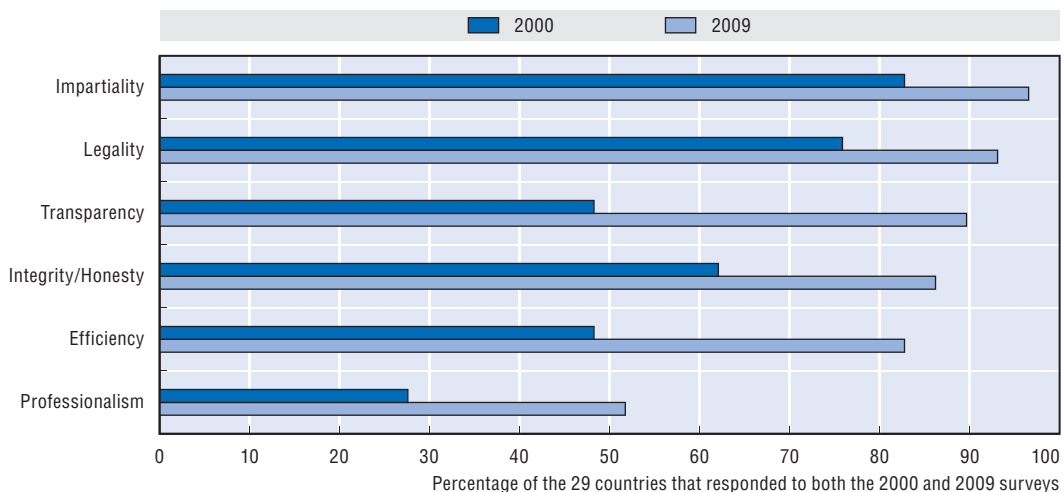
Values form the foundation of the public service. They are encoded in organisations' culture and manifested through attitudes, employee conduct and decision making. Values guide judgement about what is good and improper in serving the public interest. In addition, values stated in public documents shape citizens' expectations about the mission, vision and daily activities of public sector organisations. There is a growing recognition that public servants are not solely motivated by financial rewards for performance, and that public service values play a role in promoting the performance and integrity of government.

Countries are remarkably similar in their stated values despite differences in social, political and administrative contexts. As shown in Figure 3, impartiality and legality have remained the top public service values over the past decade in OECD member countries. They are distinct from the private sector, which emphasises profitability and innovation (van Der Wal and Huberts, 2008).

At the same time, there has been a significant shift in stated core public service values between 2000 and 2009. For example, the number of countries identifying transparency as a core public service value almost doubled in the past decade, while efficiency is also increasingly identified as a core value by member countries, reflecting their increased focus on performance. Over 85% of OECD member countries reviewed and revised the statement of core public service values in the past decade to meet the evolving expectations of society for good governance and for an increasingly results-based public service. Whereas public servants were involved in the update in the majority of OECD member countries, the engagement of the public was not as common; only ten countries consulted citizens in the revision process.


The emphasis on efficiency and effectiveness views government primarily as a service producing entity. However, it is an institutional system that serves a large number of other tasks, including regulation, control, oversight and enforcement. In these activities, values such

Figure 3. **Frequently stated core public service values (2000 and 2009)**



Note: Time series data are not available for the Slovak Republic.

Source: OECD Survey on Integrity (2000 and 2009). Annex D provides data for each country on how core values are communicated to central government employees.

StatLink  <http://dx.doi.org/10.1787/723362586341>

as legality, due process, impartiality and equal treatment are as important as efficiency and effectiveness. Furthermore, it is possible to argue that adherence to basic public values is paramount even in the provision of services. Effectiveness incorporates performance on how well other core public sector values are upheld, e.g. the impartiality of administrators when determining eligibility for welfare payments or disability benefits.

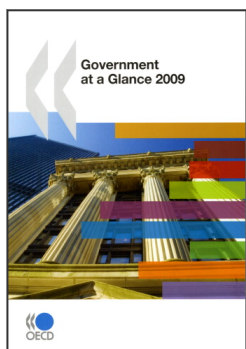
Broadening the definition of performance to include how well core values are upheld may require countries to update management and measurement systems. In doing so, it is important to avoid common pitfalls. Experiences with using performance measurement in management systems both at the individual and organisational level have shown that they can have many unintended consequences. For example, connecting performance to monetary or career incentives could lead to gaming, which entails the manipulation of the output information that is reported (e.g. cheating in the reporting process to show better than actual results) or to the alteration of the output itself (e.g. “teaching to the test” where staff focus on only those outputs that are measured). In addition, solely focusing on performance measurement can unintentionally set a minimum standard rather than incentivizing improved performance.

Expanding the definition of performance could have benefits given the difficulties inherent in measuring efficiency and effectiveness. Both notions require readily available data on inputs, outputs and the results of government action (outcomes). While the measurement of inputs is well advanced and standardised in OECD member countries, internationally there is an extensive and continuing debate on how to measure outputs and outcomes and how to use this measurement to influence individual, organisational and system-wide behaviour. There are notable advances in output (e.g. number of vaccinations provided) and outcome (e.g. increased life expectancy) measurement in the education and health sectors, but few countries measure other public sector outputs and outcomes and what is measured varies from country to country. Efficiency analysis also requires cost accounting based on accruals, which is applied in only a few member countries (the United Kingdom, New Zealand and Australia). Measuring effectiveness is also complicated by attribution problems: how much of the measured outcome can be attributed strictly to government action and how much is caused by other factors?

Addressing these issues is one of the key challenges, objectives and ambitions of future editions of *Government at a Glance*. As better and more frequent data become available and more robust analysis can be conducted of government strategies and activities, *Government at a Glance* will contribute to countries’ efforts to tackle these areas and learn from others’ experiences.

## Notes

1. Australia is a notable exception, where several Australian states have pioneered the use of RIA.
2. OECD (2009) “Sub-National Dimension and Policy Responses to the Crisis”, contribution to the experts’ meeting of the OECD Network on Fiscal Relations Across Levels of Government, OECD, Paris, 12 June, [www.oecd.org/departement/0,2688,en\\_2649\\_35929024\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/departement/0,2688,en_2649_35929024_1_1_1_1_1,00.html).
3. The instruments mentioned here do not encompass the indirect impact of national stimulus measures on sub-central finances (such as support to specific industrial sectors, employment measures, VAT reductions, tax breaks, reductions in social security contributions, etc.).
4. OECD (forthcoming), “Improving the Outcomes from Regional Development Policy”, *OECD Regional Outlook*, OECD, Paris.
5. OECD (2002), “OECD Best Practices for Budget Transparency,” *OECD Journal on Budgeting*, Vol. 1, No. 3.
6. OECD (2009), *Rethinking E-Government Services: User-Centred Approaches*, OECD, Paris.



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