

Building Sustainable Quality

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Minister Wideroos, Ladies and Gentlemen,

It is an honour for me to participate in this 4th Quality Conference for Public Administrations in the European Union and to deliver this keynote address.

It is no coincidence that this event takes place in Finland. This is a leading country in modernising the public sector, performance measurement, and in obtaining results –we all know how well Finland’s education system performs in OECD’s PISA survey. Finland is also a very good partner of the OECD –in sharing its experiences with other countries and supporting innovative work and policy debate.

1. Why should we worry about the public sector?

At the most general level, the public sector influences overall economic performance. It has a direct impact as a producer of goods and services and, of course, this is where size and efficiency matter. But its main impact is indirect, through the effect policy has on private investment and innovation, on the integration with the global economy; and on growth, productivity, competitiveness and social stability.

The weight of the public sector has not changed dramatically, despite the efforts to reduce the direct state intervention in the economy, to provide greater opportunities for private initiative through deregulation of public utilities, and privatisation of state owned companies and –at a more strategic level –to change the role of the government from “rowing to steering” the economy. Some current indicators – that highlight the still important role of the state, and reveal a great diversity among OECD countries – are very telling (public expenditure as a share of GDP ranges from more than 31% to more than 56%, with the OECD average at around 40%¹).

Reforming or “modernising” the public sector has been more difficult than anticipated also because of the changing economic and social environment:

- As citizens became increasingly aware of, and concerned about, the quality of the public services they receive, and the choices available to them;
- As it became clearer that some of the openended, demand driven commitments of the traditional welfare model, such as healthcare, are not financially sustainable in light of the ageing population;
- As technological change imposed increasing costs also on government, despite the obvious gain in efficiency; and,
- As integration to the international economy was perceived as limiting governments’ choices in managing their national economies.

¹ OECD, Economic Outlook No. 78, (2005); OECD, Modernising Government, The Way Forward (2005).

As a percentage of nominal GDP, government tax and non tax receipts account for between 31% and 63%.

In terms of employment, the public sector in OECD countries ranges from between 5.7% to 23.1% of the labour force.

2. Are governments succeeding in meeting the challenges?

Are governments living up to the demands for sustainable quality and performance, for more open, more responsive and more efficient government? We all agree that recent reforms in OECD countries have led to fundamental changes in the public sector:

- In preparing and executing state budgets –putting together the budget is today a transparent process; budgets are built around mediumterm scenarios; and –particularly important –greater emphasis is put on objectives, outputs and performance.
- In regulatory reform – moving away from interventionism and the state as the monopoly provider of public services, to the establishment of level playing fields for markets, introducing quality regulation, and reducing administrative burdens.
- In public employment and management – introducing management approaches already well tested in the private sector, including more flexible contract arrangements, strong focus on performance and monetary and career incentives for civil servants;
- In preventing and fighting corruption – creating an anticorruption culture, ranging from criminalisation of corrupt practices to policies for managing conflicts of interest;
- In transforming the public sector – through introduction of online and ITbased public services;
- In accountability and control –strengthening public scrutiny, freedom of information, legislation and upgrading audit institutions and evaluation policies.

All these reforms certainly testify to the “Government’s own ability to adapt to change” – as Tony Blair aptly put it.

3. Are they meeting the real test?

The ultimate test of good government is the trust by the citizens in public institutions, in the fairness of government decisions and in government itself.

There are, however, signs of growing disappointment in some OECD countries. Decades of reform for “greater efficiency and transparency” have not enhanced public trust nor led to a greater sense of security or citizen satisfaction. I tend to agree with those who are increasingly concerned about the drive towards individualisation and a mechanical view of the state as a service provider. What are the trade-offs between ever growing freedom and responsibility in the private sphere and the loss of common values in the collective sphere? Is it time to launch some serious reflection and deliberation on how to establish a better balance?

This reassessment should in my view include paying greater attention to the feasibility and the constraints, i.e. the political economy of the reform process. Politicians and administrations have to do more creative thinking about the opportunities for inclusive policy making. This process must be more than listening to citizens and stakeholders –it requires sharing with citizens what the government hears from others and how this will be translated into goals policies, and later, informing how the government is performing relative to those goals. In short, how it delivers on its promises.

Timing of reforms is crucial, as is staying on the course, when those adversely affected by reforms become strident, while beneficiaries are dispersed and less prone to collective action. The results of reform often materialise over the medium to long term, and have no regard for political calendars. Good examples are the civil servants themselves: if government employees are not on board, reforms will not happen. And there is, of course, the issue of leadership and commitment for reform at the highest political level.

OECD countries are responding to this with different institutional solutions – the responsibilities can lie with the President, the Prime Minister, the Chancellor, the Minister of Finance or a Special Reform Commission. What is essential, however, is the capacity of the leading institution to call on all parts of the government to make reform happen. Not easy, but in our experience this “whole of government” approach is crucial for successful reform agenda.

4. What’s the way forward?

Since reform is a continuous process, greater emphasis has to be put on equipping policy makers with adequate instruments for navigating better in stormy weather and rough seas. I am thinking in particular of devoting more effort to the measurement of results of public sector reforms. It will allow to measure progress against promises, and provide meaningful comparisons over time and between countries, leading ultimately to relevant benchmarks for public sector reforms. Reliable measurement could also help to better identify the contributions of the public sector to macroeconomic growth and productivity and thus guide further reform priorities. The existing evidence on this suggests that there is substantial scope for improving the performance of the public sector.

The private sector can be a useful source of guidance on innovative approaches for improving productivity in the public sector. The reform of human resources management with better incentives to civil servants, and outsourcing to private service providers are already ongoing trends. Greater transparency in reforms could help to curb the builtin expenditure drivers while raising the cost effectiveness of public

spending. The budget process will benefit from introducing better fiscal rules, extending the planning horizon, reducing budget fragmentation and focusing on spending outcomes.

The relationships –some may call it the partnerships between different levels of government are a major area of potential reform. Existing multilevel governance arrangements are often the result of a long historical process –which is why realigning the relationships can be complex.

It is claimed that decentralisation improves the effectiveness of public spending. The evidence, however, is not clear cut. Decentralisation does allow for local preferences to be taken into account. It increases transparency of spending decisions. It also provides for competition between regions. However, it also tends to neglect national and supranational policy goals, spillover effects between regions, and economies of scale and scope. Tax competition between regions may lead to underfinancing of core public spending. It may increase disparities rather than reduce them.

5. Where does the OECD come in?

The OECD can make a critical contribution to these debates. This capacity is a result of the way we work – where exchanging experiences among policy makers, practitioners and experts from likeminded, democratic countries leads to adopting common approaches to similar challenges. But we also seek to identify emerging policy issues – issues that may not yet be well defined, but are likely to increase in importance. Our work on ageing is a very good example – we began to analyse the implications of the long term generational trends long before it became a household item.

We analyse these emerging challenges in a multidisciplinary way, where expertise from a range of policy areas can be brought together to understand the different dimensions and to develop comprehensive policy responses. We call this in the OECD “horizontality” – a trademark which is applied, for example, in our work on health, sustainable development, or regulatory reform. Something by the way, which we should do more often, better, and in relation with many more of the issues we address.

The last Ministerial Meeting of the OECD Public Governance Committee on the “Role of Government in the 21st century”, less than a year ago in Rotterdam was one of those meaningful events of discovery and exploration of unknown territories. Ministers asked us to assist their governments in four central emerging issues, i.e.:

- assessing the results of reform, including the development of indicators to measure performance;
 - strengthening open and inclusive policy making, increasing transparency and engaging citizens;
 - improving risk awareness, assessment and management in the public sector;
- and
- building better relations across levels of government.

We are pleased to support analytical work and policy discussions in each of these areas.

I can assure you that the OECD will continue to speak loudly about the benefits of reform, while keeping in mind that some transitional measures may be needed for those adversely affected by it. The Organisation is well equipped to propose policy responses that reflect country specific circumstances – based on the shared experiences of our 30 countries. We have a solid tradition of recognising good

practices, balancing the need for change with the need to preserve and nurture wellfunctioning institutions.

I have a mandate to put the OECD at the centre of the globalisation process. This means working increasingly with the emerging economies and other major players. I want to build on the extraordinary wealth of knowledge in the OECD, and move into new priority areas where I think the Organisation can have a significant impact. This includes expanding our work on health, migration and water. All of these issues are global issues for which a trusted and trustworthy public sector is critical.

6. Conclusion

Ultimately, policies are based on values. Trust in government is fundamental. Citizens, politicians, administrations need to be actively involved in policy research, policy development and policy implementation, if lasting progress is to be achieved. Building on the achievements of the many reform initiatives in the OECD member countries, the time is ripe for some more reflection on common challenges and interests in the sphere of public administration. The OECD will continue to strive for excellence in our Member countries and our partners around the world on this long journey for public sector reform.

I wish you a very successful conference.

