The Role of Government as a Catalyst for Reform During Periods of Economic Downturn

Reforming public sector institutions and rethinking the roles of government as agents of change by making their respective states and the environment a better place to live in, are considered to be the significant actions that governments in the post-recession era must undertake. The question is: what can governments do to place their countries on a recovery and high-growth path in the post-2009 recession period? Governments should tailor-make strategies to reform their institutions not only to be effective and efficient in resuscitating, improving and sustaining national economic development, but in accelerating sustained service delivery.

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Introduction

Every institution is venerable, no matter how great. No matter how much you’ve achieved, no matter how far you’ve gone, no matter how much power you’ve garnered, you are vulnerable to decline. There is no law of nature that the most powerful will inevitably remain at the top. Anyone can fall and most eventually do.

– Jim Collins

The long walk is not yet over. The prize of a better life has yet to be won.

– Nelson Mandela

Governments were dwarfed by the magnitude of the global economic slowdown or recession between 2007 and 2010 that has had almost catastrophic ripple effects not only on public administration institutions, but also on private-sector organisations such as banks and motor industries, which were left worse off. Consequently, the indirect role of government in economic growth and development has shifted to that of government playing a direct role in the economy. This paradigmatic shift questions the relevancy of capitalism and the New Public Management (NPM) theory (Collins;1 Kinsley2). The recent
recession has indicated that the private sector, with its self-interest promotion, and the indirect involvement of government in the economy, no longer serve as paragons of excellence, and that they too can succumb to the downward force of recession’s gravity (Collins).³

Bill Gates, in his speech delivered at the World Economic Forum in Switzerland on 24 January 2008, agrees with the notion of irrelevance of capitalism in post-recession economic development. He says that “in a system of capitalism, as people’s wealth rises, the financial incentive to serve them rises. As their wealth falls, the incentive falls until it becomes zero.” (Gates⁴) The view is that this is an opportune time to find a better way to make the aspects of capitalism that serve the wealthier to serve poor people as well. Creative capitalism suggests that government will have to move away from the old capitalism idea penned by Adam Smith in 1776 in his book *The Wealth of Nations*, where he wrote that “however selfish man may be supposed, there are evidently some principles in his nature which interest him in the fortunes of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it” (Smith⁵). Gates⁶ has coined a new concept called “creative capitalism”, for use not only by private institutions but also by governments, to reform their institutions and resuscitate their economies to be on a high-growth path.

Similarly, Public Administration writers such as Considine and Painter⁷, Hughes⁸ and Aucoin⁹ argue that the NPM is born from capitalism and, therefore, its utility is no longer relevant to post-recession public sector institutions of 2007 to 2010. The suggestion is a U-turn towards the adoption and further development of the New Public Administration (NPA) theory to make governments serve the people of their countries by directly leading social, economic and technological development. Governments would then be flexible to external environmental influences, but not dictated to by business propositions, as were those governments who were guided by the NPM models introduced by Margaret Thatcher and Ronald Reagan in the early 1980s and adopted by most of the world’s governments today (Doherty and Horne).¹⁰ A government whose leadership and management respect the rule of law and “walk the talk” of corruption-free and hardworking bureaucracy, and that stay ahead of developments in technology, globalisation, world and state politics and economics, is likely to be an effective catalyst for reform in the post-recession period (Frankel¹¹; Blakely¹²). Government should be directly involved in economic development and not abdicate that responsibility to the private-sector institutions described in the NPM.

This means that although capitalism and NPM systems have both self-interest and indirect participation in the economy, they are not immune (Gascon¹³; Mamdani¹⁴). In addition, although capitalism has made multinational private institutions strong, and the NPM has contributed to governments of the developed states being the strongest, now it is known that the gravity of recession can make the mighty and the strongest fall and fail (F2). This paper attempts to answer the following questions: what process can governments follow to place their countries on a recovery and high growth path in the post-2009 recession period? How can institutions be noticed when they are declining, so as to save them or make necessary interventions before the decline causes recession or depression? The paper argues in favour of reforming public-sector institutions and rethinking the roles of government as a catalyst for and an agent of change, and making respective states and the world a better place to live, which are considered to be the significant processes to follow.
Recession as a Socio-Economic “TKO”: Challenges and Perspectives

The current global recession or financial hurricane which started in the United States (US) in December 2007 was caused by the bubble of sub-prime mortgage in the housing market and problems in the financial market, and has now affected all countries. It is estimated that the recession has lasted for over 24 months, but no one knows when the world will have completed dealing with its effects. For the developed countries, this dealing may be quicker than for developing countries. Zuma15 agrees that the “crisis was not of the making of the developing world, but they have to suffer the consequences”. The effects of the crisis of this global financial hurricane on the poor of the world and people of the developing states in general, will take longer to undo. It may take the whole of the second decade of the 21st century, amidst other global issues waiting to be resolved, such as climate change, poverty alleviation, terrorism and civil wars.

The Business Cycle Dating Committee of the National Bureau of Economic Research (NBER) 2009 states that the economy of the US has experienced six recessions since 1947. The recent recession was severe and has been compared to the Great Depression (Gascon16). Consequently, governments are compelled to take leadership not only in financially saving their affected public- and private-sector institutions, but also in reforming institutions, particularly public-sector institutions, and enhancing human resource development in their respective countries.

Recession is time- and place-bound. Recession is defined as “a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in production, employment, real income and other indicators” (White17; Gascon18). This means that it is not the first time that the world has experienced a global recession or “global financial hurricane” (Chuma19). However, it has affected South Africa for the first time since the advent of democracy in April 1994, and has put the current administration on a crossroads as it is occupied with blaming the West whilst people are engaged in service delivery riots and many have been retrenched. Concomitantly, the number of people living below the poverty line as well as the unemployment rate has increased.

The leadership of the communist ideology considers recession as a demonstration of the failure of capitalism, and is hard at work to ensure that the capitalist economic policies in South Africa are forbidden, and those policies that the government was in the process of developing since 2007 do not see the pen of the State President (Nzimande20).

The recent global recession was ignited by capitalism (Zuma21). Efforts by the developed states that have been commanding its implementation by the Third World countries through the Breton Woods institutions, such as the International Monetary Fund (IMF) and World Bank, have failed. The argument is that recession came through people in institutions and institutions in people. “People in institutions” means that it was people who were employed by private institutions in the housing and financial markets who created short-term business strategies aimed at generating high profits instead of decisions that would enable companies to contribute not only to seek high profits but also to promote sustainable development programmes and enhance equitable distribution of resources. It was also people in public institutions who made weak laws or policies, or failed to make relevant laws that could prevent a credit crunch and the failure of private companies, which led to business closure and unemployment. The Framework for South Africa’s
Response to the International Economic Crisis passed on 19 February 2009 states that the recent economic downturn was caused by various factors, such as “gross imbalances and inequalities in the global economic system, the impact of the financialisation of economies, ineffective regulation in several of the major world economies and poor business practices that has resulted in significant asset depreciation, closure of companies, rising unemployment and a sharp slowing economic growth”.

The phrase “institutions in people” suggests that reputable institutions caused the decline of the economic system, which resulted in the economic downturn. Government as an institution has had no strict laws in place to promote order in financial and property institutions. For example, banks have been giving credit to people without appropriate checking measures in place, and people have abused such privileges as if there was no tomorrow (White22). The consequence of these short-term decisions has been that government and private sector institutions and the majority of people have been left deep in debt (Kamen23). Although governments of the developed world have injected trillions of dollars to bail out their respective financial and motor industry organisations, unemployment is still very high. Appropriate solutions to this debacle can only be developed and effectively implemented by governments working hand-in-hand with business organisations and people taking their countries out of recession and onto the path to prosperity for all.

The issue of whether capitalism is irrelevant or not, or should be replaced by the new creative capitalism first coined by Bill Gates in January 2008, is a critical issue to be written about, but not in this article. The current recession is the biggest one since the recessions of 1973-75 and 1947. Kamen24 agrees that the current recession is the biggest since the recession data was gathered in 1947. He writes that in the US, the “2007-09 recession of –3.9% on a GDP peak-to-trough basis jumped into first place as the largest recession since the GDP data history began in 1947”. In South Africa, more than 285 000 jobs in the formal sector and one million job opportunities, both in the formal and informal sectors, were lost during this period (Makgetla25).

Governments are in the process of designing policies and programmes of action to enable a turnaround of their feeble economies to an upswing level. There are steps to be followed in strategy development, and one of the fundamental strategies is to identify the cause of the problem to enable policy-makers to design a cure which will be right first time. White26 identifies 12 causes of the current recession in the US as follows:

- Federal Reserve’s excessively easy monetary policy
- The “Greenspan put, which is defined as the promise that the central bank will prevent a financial crises. The concept is coined after the 1998 collapse of Long-Term Capital Management when the chairperson of the Federal Reserve Board promised to lower interest rates when necessary to stabilise capital markets foregoing price stability” (White27)
- The failure of bank supervision
- Moral hazard from “Too Big to Fail” and “Too Strong to Fail” doctrines and deposit insurance (Collins28)
- Deregulation of banking
- The failure of the financial rating agencies
- Legislation promoting affordable housing
- International imbalances due to high savings in China and East Asia
- Unregulated derivatives markets
- Greedy or predatory lenders
- Greedy and ignorant borrowers.
There are four economic indicators that can be used to determine the severity of a recession, namely: “industrial production, real personal, income less transfer payments, employment, and real retail sales and food services” (NBER29). The severity of a recession is not determined by the duration but by the profundity of the decline. In the 2007-09 recession, the world has experienced a sharp decline in real production, income earned by employees has been reduced, the retail sector has seen a decline in sales, and the unemployment rate has risen sharply in the last quarter of 2009. For example, in South Africa, the “household debt rose to 78.25% of disposable income by the first quarter of 2009. In addition, the household debt service has risen to 11.25% of disposable income.” (Makgetla30)

**Figure 1: Stages of Institutional Decline**

Collins31 uses an analogy of disease to illustrate the challenge of detecting decline in institution. He writes that “institutional decline is like a staged disease: harder to detect but easier to cure in the early stages, easier to detect but harder to cure in the later stages. An institution can look strong on the outside but already be sick on the inside, dangerously on the cusp of a precipitous fall.” The question is: how can institutions be noticed when they are declining? It is essential to save institutions from declining by enabling governments to make necessary interventions before the decline happens and leads to a recession or depression.

It is important that proactive measures be developed by institutions and governments to
avoid institutional decline from happening, as this might prevent the world from experiencing another economic downturn. Universities should develop programmes for public servants and senior business executives to gain knowledge and skills to deal with the stages of decline, and to be able to put their institutions and countries on an economic upswing where employment opportunities would be created.

The advice is that institutions and society generally must go back to basics by returning to some degree of functioning, which would not only provide self-fulfilment in terms of high profits, but also provide social and ideological support for political democracy that is directly involved in the economy. Undisciplined pursuit of “more” leads to peril for institutions and the death of society. If a business could be managed in such a way that its owners and managers can sleep well at night, then a country is back to the ethical values it needs to make its future viable (O'Donnell and Schmitter33). It is important for institutions to develop tailor-made corporate governance and a measure of ethical values to avoid a decline as far as possible. This measure is what perhaps governments in the aftermath of recession can consider when reforming institutions.

**Government as a Vehicle for Reform in the Aftermath of Recession**

Contributing to the popular perception that governments are less effective than they have been in the past, is the fact that the challenges they are faced with are greater than those that the governments of the past centuries were faced with. Today’s governments are faced with recession, wars, terrorism, global poverty and climate change. These challenges appear to be constraints to world peace and development. Peter and Savoie34 write that governments must now attempt to manage economic development guided by the theory of the NPA, which is based on conventional public administration nexus rather than on the NPM, which is founded on the business proposition and is unlike public administration. However, such overall new economic and governance planning requires government to use experts with skills and expertise to reform effective and efficient organisations that are reformed on the fundamental philosophy that failure is not an option (Sweezy35).

According to the World Bank,26 public sector institutional reform and enhancing human resources in times of economic downturn are a necessary step to organisational re-engineering of “dysfunctional public institutions that would not be effective in shaping the way public functions are supposed to be carried out”. The new organisational structure and culture must assure people that government has the highest attainable quality of planning and recovery results. Governments must be cautious of misguided resource allocation, excessive government intervention in development even beyond recession, and corruption of their human resources entrusted with managing public resources. These aspects have deterred investments and slowed growth and poverty-reduction efforts in numerous countries. This means that the reforms and enhancement of human resources must be centred on effective poverty reduction. The view is that it is no use recovering from the recession and still having jobless growth, continuous retrenchments and an increasing number of people living below the poverty line.

Recession and climate change are now global problems, and if they are left unresolved economic downturn will sharpen. The developed states, such as the US and the United Kingdom, have progressed well in developing
strategies and directly providing bailouts to their respective business institutions, thus taking their countries out recession. In addition, they have provided leadership and taken shared responsibility in finding solutions to climate change. The world has signed an agreement in this respect at Copenhagen in 2010. Another challenge is how governments accomplish the provision of overall national planning with tailor-made local implementation strategies. There are states whose national budgets come from borrowed income (Sweezy37); their countries’ reforms may have mixed results and a short life-span.

The US must take responsibility for helping the poor countries as the recent global economic downturn started there, and the US is a large consumer of natural resources. Sweezy38 writes that the US consumes about one third of the total world resources, whereas they only number about 6% of the world’s population. So it is important that the US population reduces its wasteful use of natural resources. A distribution of resources from the developed nations to the poor and developing nations is necessary. The view is that the wealthy section of global society should assist the reforms in developing countries not only financially but with expertise as well. This means that institutional reforms and the enhancement of human resources must be a balancing act. Sweezy39 cautions that “the super-rich will fight by whatever means they have at their disposal, especially their unwarranted influence over policy-makers in government. Different results can only be achieved when the stranglehold of the rich over elected officials is broken. Simply funding brief political campaigns from public funds, by highly publicising the issues and candidate positions through the media, and by precluding any private contributions to any political campaign, will do an enormous amount to breaking the stranglehold held by the super rich. All we have to do is do it.”

For developing countries, the political and administrative reforms appear to be the most appropriate ways to stabilise governments whose long-term policies have been jeopardised by economic failure (Peters and Savoie40). The World Bank41 further asserts that institutional reform in the public sector could succeed if it is owned within the country and driven by a country’s leaders, with participation and input from the private sector, civil society movements and the country’s citizens. The global economy, with the help of the Breton Woods Institutions, can set the stage for national and local economies to compete and lay down the rules under which economies and firms must operate (Peters and Savoie42). The challenge at hand is one of redefining the role of government in major policy areas, identifying new levers, and designing policy to deal with the new political and economic forces emerging from the fast globalising environment.

**Strong States as a Vehicle for Effective Institutional Reforms**

Reforming institutions of government and enhancing human resources, improving good value governance, and combating corruption are challenges that cannot be overcome by weak states in the peak period of globalisation. Given the nature of not only economic but also social, political and institutional institutions, attempts at reforms can fail to meet their full objectives unless states become strong. The characteristics of “strong” states are democracy, respect for the rule of law, sovereignty, strong economic growth and development, strong army, political and economic stability, and financial independence. At least 90% of the country’s budget must
be from its own revenue system and not from borrowed sources or aid from other states or foreign institutions. The standard of living of strong states must continuously increase. With these features, the “strong state” can fight or engage in dialogues or negotiations with other non-state parties from the developed or developing world to help them get out of socio-economic or political challenges they face, or that have been put upon them by non-state actors. In contrast, “weak states” lack the power to tax and regulate the economy and to withstand the political and social challenges from non-state actors (Acemoglu43). The view is that it is much easier for strong states to efficiently design and execute strategies to recover their own countries out of the global economic downturn. Their strategies and actions are considered as lessons by many of the weak states or third-world countries.

North44 writes that weak states are more costly than strong states because the latter have both the political and economic power to regulate not only the state, but also the economy and taxes. The governments of the weak states are neither politically nor economically powerful enough to enforce high taxes. Consequently, they lack incentives to invest in improving public goods and services. In addition, the human resources of weak states are difficult to enhance as the majority of the highly skilled are in diaspora or in strong states in search of better living conditions. However, we are not arguing that the current strong states must come out of the reform to become too extreme, as that may thwart the kind of institutional change envisaged in this article of making the world a better place to live and a valuable heritage to the next generation.

For the benefit of the developing countries, it is important that they change from weak states to consensually-strong states (CSS), which are founded on participatory democratic principles where government-citizen relations are the norm. The CSS are able to impose high taxes and use the proceeds to improve and sustain public goods and services (Acemoglu45). Corruption practices are limited. Both weak and extremely strong states are commonly affected by corruption, instability, development constraints and dictatorship. The private institutions in both cases seem to be free to continuously increase prices at any time so as to make profits (North46). An example of a too strong state is the US, where its private sector, particularly the banking industry, was left alone and continued to provide credit to citizens, ignoring affordability lending standards for loan owners. As a result, people were deeply in debt and could not afford to pay back the loans, so their assets were confiscated. It is this freedom that led to the credit crunch and later the recession.

Extremely strong states are based on the “Too Big to Fail” and “Too Strong to Fail” doctrines, which were proven to be fallacies by the global financial hurricane that started in December 2007, with its impact felt by rest of the world. The saying, “If America sneezes, the rest of the world will catch the cold” is true. South Africa is an example of a strong state in Africa. But with recession there is no big or small state and there is no weak or strong state that is immune to its effects. The notion of “South African exceptionalism” coined by Mahmood Mamdani in the 1990s, which suggests that South Africa is better than the rest of Africa, has proved to be wrong, because South Africa has also not been inoculated against the calamity of recession (Mamdani47). It affected both the rich and the poor, in both developed and underdeveloped nations.

According to the Economic Commission for Africa,48 the lessons of experience have shown some limitations of the structural adjustment
programmes (SAPs) of the 1980s, and have pointed to the need to broaden the agenda of public-sector reforms. It has been acknowledged that states with weak institutions are not well-prepared to face the adjustment costs of globalisation, and will not resuscitate themselves from the economic downturn (Chuma49).

The view is that countries must design their domestic business with unusual strategies for institutional reform and complement these with agreed international agreements or international best practices for opening up to new global market forces developed after the recession. State capacity is critical to building highly performing institutions to improve productivity in institutions. This process begins with developing talents of public servants and improves knowledge and skills to make public administration institutions effective, efficient and economical. The more effective a state, the more it can focus on compensating losses caused by globalisation, change its government machinery for the betterment of its people, act as enabler for its private sector institutions responsible and responsive to economic development, and combat unemployment and poverty. The absence of an effective public administration can often constrain states from participating in the global economy. It is now recognised that the reform of the public sector institutions will give government a better opportunity to benefit from globalisation than the opposite (Economic Commission for Africa50).

Economic Upswing Spiral Rests on Human Capital Development

Public managers walk a tightrope seeking to balance the jurisdiction’s basic values, the needs of workers, and the organisation’s financial resources. When there is uncertainty about fundamental values, managers lack guidance and direction in dealing with workplace issues. It is advised that the post-recession institutions be values-centred and development-oriented. The values that are suggested are efficiency, value for money, fairness, equity and high performance, among others.

According to Berman, changes are also occurring in the way government does business and the way the public-sector institutions are managed and respond to the needs of its people and to global challenges. Reforms at all levels of government must be implemented at a faster pace, and goals or policy developmental targets that are set should be achieved timely. Bearing in mind that these reforms influence the ability of administrators to do their jobs, it is important that they keep abreast of new developments and best practices to guide the change well in their respective states. Government leaders and the members of their bureaucracies must develop and sustain a new culture, which maintains that it is imperative for institutions to be productive. They must understand that cultures vary from agency to agency, whether public or private, and government to government, but the ethical imperatives remain constant and provide continuity (Chuma52; Berman53).

The most important job of an administrator is to help the institution to productively use its most valuable asset, which is its human resources. From deciding how individuals will be recruited to how they are then compensated, trained and performance-evaluated is significant for public-sector institutions to fully recover from the recession or economic downturn. It is in this regard that professional human resource administration has a significant, even definitive, effect on the careers of all employees. This underlies the status of the economy and ought to be optimised fruitfully (Berman54).
Adler writes that public servants have an obligation to serve the public by putting their interests first, and not their individual self-interest, as that may cause harm to development. Public-sector employees in the reformed institutions must adhere to the highest standards of ethical conduct. The reforming institutions must create clear accountability procedures, and those who ignore them must be punished severely.

The New Public Administration Theory for the 2007–2010 Recession Governments

The current theory used in the practice of public administration is the New Public Management theory (NPM) which was founded on the wrong proposition held by the private sector. What is needed is public administration that is more public-focused than the one that is promoting self-interest, as seen by the high rate of corruption and poor performance (Kasemets; O’Donnell and Schmitter). It is recommended that the New Public Administration (NPA) theory be developed and adopted by post-recession governments, including the South African government. With the development of the NPA, there will be a “return to issues of ethical and values of public administration which is centred on public orientation, where shared or common interests of citizens are the compass” (Fraser-Moleketi). In addition, the NPA will enable the government to be more responsible, responsive and flexible, and improve its direct accountability to the citizens. In terms of this theory, the state is seen to play an extensive role in sustainable development and in improving the material well-being of the people, in particular the poor (Hulme; Pollitt).

Pochards, in Fraser-Moleketi and Nigro (1965), agrees that the state has missions even more demanding and compelling, which consist of ensuring the control of all the forces and threats that weigh upon the world, and are very varied and formidable: “The power of ideologies or extremisms of all kinds ... the power of hidden forces such as drug networks or mafia which undermine states and constitute an ever-present seed of disorder and conflict; powers connected with fantastic perspectives opened up by scientific discoveries, whether they concern genetic manipulation or the diversification of the methods of mass destruction. To confront these powers and threats we need strong states and public authorities capable of rising to the challenge and acting effectively, both at their own level and at the level of the world as a whole... This role of public authorities seems to us more decisive for the future than relating solely to everyday needs of citizens.”

Conclusion

The season for indirect participation of governments in economic development has ended. After the current world recession, governments have realised that the main reason of their existence is to serve the people and to be directly involved in the improvement of economic growth and development. Public-sector institutions are to be reformed to effectively carry out governments’ socio-economic mandates in the aftermath of the global economic downturn. Capacity development of public servants through continuous training and development programmes remains critical to governments’ performance, as well as its ability to develop and implement business strategies for economic upswings, and thus give institutional decline no more opportunity to grow.

In the period ahead, the people of the world need governments with both experience and
political will, and governments that fully understand what needs to be done to address global challenges such as recession and climate change; governments whose reformed institutions put people first. Governments must work with people, private sector organisations and civil society movements to improve governance procedures to curtail bad practices such as corruption, poor performance and a poor work ethic. Governments and institutions in the post-recession period require good and visionary leadership that can look ahead, and ensure for this and future generations a country and world that will be guaranteed free of economic downturns. The rethinking of the role of government as a catalyst for reform is vital for change to take place, where exclusions, poverty and unemployment will be reduced.

Notes and References

3. Ibid. p. 8.
24. Ibid.
27. Ibid. p. 4.
32. Ibid.
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38 Ibid.

39 Ibid.


54 Ibid.


