Letter from the Editor

Reform of the state is appearing increasingly on the agendas of governments around the world. It is widely recognized that persistent fiscal deficits and the growing government debt that they engender can lead to increases in real interest rates that threaten investment and long-term growth. Governments are now realizing that to bring deficits down and improve their countries' growth prospects, they may need to scale back permanently the state's role in the economy.

A century ago the prevailing wisdom favored the minimal state. Over the years, however, attitudes about the role of government changed in the direction of demanding more state involvement in the economy. Income redistribution and the provision of health, education, and social services were added to the legitimate functions of government, transforming the role of the state. In their article, "Reforming Government in Industrial Countries," Vito Tanzi and Ludger Schuknecht suggest that the pendulum has swung the other way. Given the current and expected future financial demands placed upon them and the shift in popular sentiment about the role of the state, governments may now be doing too much. Tanzi and Schuknecht suggest that a case can be made for scaling back government activities without necessarily compromising social objectives.

Privatization of loss-making public enterprises has been high on the list of government reform in many countries. Nevertheless, some countries continue to maintain state-owned enterprises, and governments in these countries are searching for ways to enhance enterprise efficiency and minimize their burden on the state budget. In her article, "Enterprise Contracts: A Route to Reform?" Mary Shirley notes that changing the relationship between the government and the managers of state-owned enterprises is key to improving the enterprises' performance. To accomplish this, enterprise contracts have been tried in a number of countries, but they work only under certain conditions. To be successful, enterprise contracts need to include credible rewards and penalties for good and bad performance, and governments need to show firm commitment to the contract process.

In many countries, civil service reform is a key element of government reform. In his article, "Reforming the Civil Service," Salvatore Schiavo-Campo examines the recent reform efforts of 80 developing and transition economies and draws lessons from their experiences. He notes that although containing costs is important, the broader aim of civil service reform should be the creation of a government workforce with the number of employees and the skills, incentives, ethos, and accountability needed to provide quality public services and to carry out the functions assigned to the state by society.

Reforming government is an imperative for industrial, developing, and transition economies alike. The doubling of the share of government expenditure in national income that has taken place in the industrial countries since the 1930s will be difficult to reverse, because much of it represents politically sensitive social expenditures. Nevertheless, the cost of inaction is likely to be high, particularly when future expenditures to support these countries' aging populations are taken into account. In the developing countries, there is now growing consensus on the need for constraints to be placed on the size and role of the public sector. As the experience of many successful performers among developing countries illustrates, a key requirement for the promotion of growth is often to scale down the role of the state. In the transition countries, the challenge is nothing less than the complete transformation of the role of the state. Making the consequences of yesterday's political philosophies fit today's financial realities will not be easy. However, governments have little choice but to press forward with reforms if they wish to avoid unsustainable fiscal burdens.

ATTENTION READERS

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