CHAPTER 3: THE ROLE AND FUNCTIONS OF GOVERNMENT

3.1 INTRODUCTION

Government operations are those activities involved in the running of a state for the purpose of producing value for the citizens. Public administration is a vehicle for expressing the values and preferences of citizens, communities and society as a whole. Some of these values and preferences are constant, others change as societies evolve. Periodically, one set of values comes to the fore, and its energy transforms the role of government and the practice of public administration.

Future trends in public administration highlight the importance of good governance and recognise the interconnected roles of the private sector, the public sector and civil society institutions. Good governance requires good government, i.e. an effective public service and effective public service institutions, which are more productive, more transparent and more responsive. The traditional descriptive approach to the study of public administration was confronted with public policy processes that are more open and participative, involving many individuals, groups and institutions both inside and outside government. The changing environment caused a shift towards a new value-orientated public management approach with the ability to provide efficient and effective services to meet the changing needs of society.

This chapter analyses the nature of the economic goods which are typically provided by the public sector and provides an economic argument for the existence of a public sector for resource allocation purposes in a market-orientated system. The analysis considers resource allocation in a society characterised by a preference for the private-sector approach. More specifically, it emphasises the allocation behaviour of a public-sector operating in a mixed, though market-orientated, economic system.

3.2 THE IDEOLOGICAL BASIS OF THE STATE

Gildenhuys (1988:4) indicates that the role of the state is based on four ideologies, namely the laissez-faire capitalism, socialism, the notion of the social welfare state and the notion of an economic welfare state. In terms of the laissez-faire theory, the primary goal of the state is to provide an enabling environment for free competition among the citizens. The government protects its citizens by regulating through enforcement of contracts by the courts of law, the protection of the individuals and their property, and the defence of the national community from aggression from across its borders. Within this framework, the government promotes free and unregulated competition (Gildenhuys, 1997:6).

Socialism differs from the laissez-faire capitalism in that it does not acknowledge private ownership and free enterprise. Socialism makes provision for the redistribution of income and social benefits such as free health services, social grants, pensions and free education. The role of the state is the control of markets, redistribution of income and provision of welfare services for all citizens (Gildenhuys, 1988:8).

The role of the social welfare state is to ensure minimum standards for a good life to all its citizens through providing education, pensions, medical care, housing, and protection against loss of employment or business. The social welfare state creates an enabling environment to ensure its citizens have equal opportunities for a good life (Gildenhuys, 1988:9).

The economic welfare state emphasises the economic welfare of the individual and is based on democratic values and free enterprise, with minimum government intervention in the activities of the individual. The aim of the economic welfare state is to create an environment in which an individual is free to develop his/her personal economic welfare and this will enable the individual to look after his/her personal welfare. The government regulates the relationships between individuals through an independent judicial system based on common law principles (Gildenhuys, 1997:16).

The political ideology will always have a decisive influence on the financial policy of the government in its strive to achieve specific objectives and results. This influence might vary from minimum government with no interference in the lives of citizens to total government with a situation where the state denies the opportunity for private ownership and free enterprise. Due to imbalances in society neither one of these extremes seems feasible for governments in modern society. There is a continuous need for equal opportunities for a good life and also the need to create an environment in which an individual is free to develop his/her personal economic welfare rather: as this will enable the individual to look after his/her own personal welfare, according to Herber (1971:4).

In terms of public financial performance management, the implications of these ideologies are significant with specific reference to the variation in the impact or results derived from government actions. The social welfare ideology to ensure a good life by providing basic services is not necessarily constructive and developmental in nature; however, it places a very heavy burden on government's revenue, namely, the taxes earned from the citizens in a position to contribute. This situation can convert goods and services into deliverables, but the long-term result or impact might be in question. The economic welfare ideology to create an environment in which an individual is free to develop, providing enabling opportunities for growth and still delivering services through public administration interventions is focused on growth results and long-term impact for quality of life. This situation seems to be conducive for a performance platform and the application of good governance, stewardship and finally, public financial performance management. The next part of this chapter will expands on the role and functions of the state (Minnaar, 2010:15-16).

3.3 THE ECONOMIC PROBLEM OF SCARCITY

The primary goal of the state is to promote the general welfare of society. Aristotle (in Strong, 1963:17) argues that the state exists not only to make life possible, but also to make life good. The state's primary role is not only a political one, it also has moral obligations towards its citizens by providing services in making life good (Chambliss, 1954:197).

Minnaar (2010:16) argues that the basic economic problem of scarcity provides a logical departure point for the analysis of the role and functions of government. Due to unlimited human needs and wants, and limited resources to fulfil these wants, basic conditions for optimal market allocation are not fully met and resources available to any society are limited in their ability to produce economic goods by both quantitative and qualitative constraints. The limited supply of resources available to a society leads to the allocation function or problem of economics. The unlimited scope of aggregate human wants, alongside the limited resources which produce the economic goods (including intangible services) capable of satisfying these wants, requires the allocation of scarce resources among alternative uses. An infinite or unlimited quantity of economic goods cannot be produced. When some goods are produced with the scarce resources, the opportunities to produce other goods are foregone. Thus, an economic system must exist to determine the pattern of production and deal with the issue of what economic goods shall be produced and in what quantities. Part of the allocation function is the additional dimension of the institutional means through which the allocation decisions are processed. According to Herber (1971:4), this establishes the link between the basic economic problem of scarcity and the study of public finance.

3.3.1 Basic functions of an economic system

Two primary institutions exist for the purpose of performing the basic functions of an economic system. The private sector or market institutions within the domain of business management with the factor of profit as the overriding criterion are engaged in business allocation activities of demand and supply and the price mechanism. Public-sector or government allocation is accomplished through the revenue and expenditure activities of governmental budgeting (Swilling, 1999:21). However, no economy in the world follows a purely market or a purely governmental approach in the allocation functions, instead, Samuelson (1954:387) contends that each economy in the world is 'mixed' to one degree or another. Accordingly, a given national economy may typically be referred to as 'capitalist' or 'socialist' depending on the degree to which it is focused on the market or governmental means of allocation. This analysis will emphasise the allocation behaviour of a society characterised by a preference for a market approach operating in a mixed economic system.

The private and public sectors of a mixed economy also determine the other major branches of economic activity. These consist of the three functions, namely distribution, stabilisation and economic growth functions. Firstly, the distribution function relates to the manner in which the effective demand over economic goods is divided into the various spending units of the society where effective demand stems from the pattern of income and wealth distribution in the private sector and the pattern of political voting influence in the public sector. Secondly, the stabilisation function concerns itself with the attainment of the economy of full- or high-level employment of labour and utilisation of capital, price stability, and a satisfactory balance of international payments, and lastly, the economic growth function pertains to the rate of increase in a society's productive resource base, and a related satisfactory rate of growth in its real per capita output, over a period of time (Gildenhuys, 1988:8).

Since the public sector inevitably will influence the performance of the national economy in terms of these economic functions, it is reasonable to assume that society will wish to consciously formulate fiscal policies to attain given allocation, distribution, stabilisation, and economic growth goals. Hence, the functions or branches of economics may be viewed also as the objectives of public-sector economic activity. These goals cannot always be separated in a precise manner. Thus, a given budgetary act usually will exert an influence on more than one goal (Herber, 1971:6).

3.4 THE EUROPEAN ROOTS OF MODERN PUBLIC-SECTOR ECONOMICS

Adam Smith's *The wealth of nations*, published in 1776, is generally considered to mark the beginning of modern economic theory. Smith described the appropriate economic role of the public sector and enumerated four categories of governmental allocation activity. The national defence function; establishing an administration of justice which provides for law and order in society; the duty of establishing public institutions and necessary public works that private firms could not profitably supply; and the duty of meeting expenses necessary for support of the sovereign (Ranney, 1975:505). Throughout the 1800s and early 1900s, a number of European economists, following Smith, tried to develop a coherent economic theory of the public sector. These exponents were never entirely successful, but their research led to a number of the principles that underpin both the modern mainstream theory of the public sector and Wicksell's theories as the basis for Buchanan's theory of public choice (Tresch, 2008:1)

Ranney (1975:506) contends that though Smith often has been described as a bold advocate of minimal governmental activity, his writings fail to indicate significant opposition to a public sector for allocative purposes in society. In contrast, Herber (1971: 22) argues that the four functions of government would require a level of public-sector resource allocation substantially greater than a laissez-faire economic system. The most relevant of Smith's four functions of government are the first and the third, namely, the national defence and public works functions. The second function, that of preserving law and order in society, and the fourth, that of maintaining the sovereign or executive level of government, are not controversial functions of government and relate to the existence of a public sector for resource allocation purposes in a market-oriented economy. The national defence and the public works functions, however, are less intrinsic to governmental provision than the justice and sovereign support functions (Herber, 1971:23).

Probably, the most significant of the four governmental functions introduced by Smith is the one relating to "public works". In his book, *Principles of political economy* (1848), John Stuart Mill (1926:978) argued that in the particular conditions of a given age or nation "*there is scarcely anything really important to the general interest, which it may not be desirable, or even necessary, that the government should take upon itself, not because private individuals cannot effectively perform it, but because they will not"*. Mill (1926:978) thus believed that at certain times and places, the public sector would be required to provide roads, harbours, canals, irrigation works, hospitals, schools, colleges, printing presses and other public works. Mill (1926:978) thought that government should enhance the happiness of its subjects "*by doing the things which are made incumbent on it by the helplessness of the public, in such a manner as shall tend not to increase and perpetuate, but to correct that helplessness*".

During the 1920s, John Maynard Keynes, a British economist, reiterated the viewpoints of Smith, Mill, and others on the importance of public works allocation by government. Keynes (1926:67) commented: "*Government is not to do things which individuals are doing already, and to do them a little better or a little worse; but to do those things which at the present are not done at all*."

The development of economic theory in the Western world has been well represented by an appreciation of the need for governmental resource allocation in a system characterised by a basic preference for private-sector economic activity. According to Tresch (2008:2), economists brought their own distinctive points of view to the analysis of the public sector, centred on three main issues: how were government expenditures and taxes to be determined? Included in this was the issue of how the benefits of the expenditures and the costs of the taxes should be evaluated. Secondly, how could the government achieve efficient and equitable outcomes? The third issue questions the appropriate relationship between the government and the citizens, in particular: to what extent must the government be coercive in carrying out its functions and levying taxes?

The economic case for substantial public-sector resource allocation was supported by the theoretical development of marginal concepts as the basis of the economic reasoning which occurred during the 1870s and 1880s. William Stanley Jevons (England), Léon Walras (France), and Eugen Böhm-Bawerk (Austria) were the men most responsible for applying marginal utility analysis to private-sector demand while Alfred Marshall (England) was most responsible for applying marginal analysis to private-sector supply as well as to reconciling both sides of the market mechanism. Subsequently, marginal analysis was incorporated expertly into public finance theory by Pigou in his *A Study in Public Finance* (1928). In defining this theoretical point of optimal inter sector allocation, Pigou implicitly recognises the need for a public sector. The same implication may be drawn from the voluntary exchange approach to optimal inter sector resource allocation of Erik Lindahl and Howard Bowen and to the political process insight of Knut Wicksell regarding public goods allocation (Brady, 1995:34).

Some European economists viewed the state from an individualistic perspective and perceived government officials as agents acting on behalf of the preferences of the citizens, which is one of the foundational principles of the modern mainstream theory. In contrast, German economists adopted an organic theory of the state, containing that people had their individual lives to lead and would properly engage in self-interested economic activity in the private sector. At the same time, however, they recognised that people had a broader social identity as citizens of a nation, an identity that gave rise to a collective will or utility. The collective utility is not simply economically based; it is determined in large part by historical, political and cultural values, and thereby varies from country to country and even within a country over time. The collective utility takes precedence over the citizens' individual utilities, and the primary economic function of the state is to promote the collective utility in the interests of preserving social cohesion. Moreover, argued the German theorists, individual citizens do not have the intellectual ability to understand the collective utility nor the resources to pursue it. Therefore, all public expenditure decisions to promote the collective utility are made by experts employed by the state. The government experts also design tax policies with the goal of minimising the loss in the collective utility (Musgrave, 1959:392).

The Germans' organic view of the state posed a challenge for Western economists raised in the humanistic tradition, which has only deepened over time. Governments do confront highly complex problems that require the input of experts. But to place all the decision-making in the hands of the experts risks a high degree of coercion. Where, then, should the influence of the experts end in forming government policies?

The German economists did not see coercion as a threat because the government and the citizens are not in an adversarial relationship. In their view, the people fully accept the role of the state in promoting the collective utility (Musgrave, 1959:394).

Although economists gave equal attention to expenditures and taxes and thought about how to achieve an efficient public sector, British economists focused their attention exclusively on taxation, and their only concern was achieving equity in taxation. The functions of government enumerated by Smith were simply accepted without much more thought given to them. They were viewed as necessary evils, either protecting citizens from foreign predators and from each other or providing essential but unprofitable goods and services. There was no question that the government had to provide these functions; the only issue considered was how to raise the taxes to pay for them. The answer they gave was to minimise the aggregate tax burden to the citizens, which was accomplished by taxes in accordance with people's ability to pay. People with higher incomes would pay more to support the necessary public expenditures than people with lower incomes. Taxing according to people's ability to pay became established as an equitable way of paying for public services in Western economic thought by the 1920s, and it remains a central principle in the discussion of tax policy (Stiglitz,1998:8).

The Italians did not take government expenditures as a given and viewed the provision of public goods as equivalent to the provision of private goods. Taxes were seen as prices for the public goods, in this case, prices that reflect the opportunity cost of the private goods given up for the public good. Accordingly, each citizen demands a public good such that the marginal benefit of the good to him/her just equals the tax paid for the good, the same decision rule that applies to the purchase of private goods. Taxing in this manner is called the benefit-received principle of taxation, and citizens pay for public goods on the basis of the (marginal) benefits they receive from the goods. Moreover, the benefits-received principle of taxation leads to an efficient provision of the goods, just as it does for private goods (Wikipedia, 2007).

The Italian view of the public sector was not purely individualistic, however. The requirement was that the Italians were used to a ruling class, so it was assumed that the elite ruling class would run the government and make the required marginal benefit and cost calculations for the citizens. Since citizens have different tastes, the decisions of the public officials would reflect the desires of the average citizen. The potential for coercion on the part of the ruling class was an issue, but it was argued that the government agents would have an incentive to follow the desires of the citizens so that they could remain in office (Wikipedia: 2007).

The Austrians pushed the individualistic perspective to the limit. They added to the Italian economists' theory by distinguishing between *particular* goods that offer specific and measurable benefits to each citizen, and collective (non-exclusive) goods such as national defence, whose benefits are available equally to all citizens and are not so easily measured. The particular goods are paid for in accordance with the benefits-received principle, with the taxes serving as prices. The collective goods cannot be taxed according to the benefits-received principle. Nonetheless, the Austrian theorists argued, the citizens willingly contribute to them even if they believe that their tax payments exceed the benefit they personally receive from these goods. They agree to this because people see themselves as part of the larger society and seek a balance between their self-interest and society's collective interest. They view their relationship to the government as equivalent to their relationships to voluntary trade associations, in which dues are paid for the benefit of all the members of the association. Coercion by the government is not an issue given the assumed attitude of the citizens. People are seen, in effect, as voluntarily taxing themselves to pay for particular and collective goods (Stiglitz,1998:8).

The Swedes also believed in the individualistic perspective of government, but they did not accept the Italian and Austrian view that the people would simply agree to the decisions of the government. The Swedes understood that people might attempt to free-ride on others in the provision of non-exclusive goods. They also worried about the people who feel that the value of their benefits from the public expenditures is less than the taxes they are being asked to pay. They assumed that these people would feel that they were being coerced by the government, and the Swedes had a dislike towards government coercion. They also placed a high value on political and social justice. Achieving efficiency was important, but no more so than equity (Herber, 1971:63).

These concerns led Knut Wicksell to contemplate about the problem of collective choice within a democratic government, that is, the political process that citizens would use to determine public expenditures and taxes. Wicksell agreed with the Italian and Austrian economists that expenditures and taxes had to be simultaneously determined, and he assumed that people would vote directly or through representatives for different spending and tax packages. He concluded that the only way to guarantee efficiency and equity was to require a common vote to approve government policies, and this was a decision rule that he knew was impractical (Musgrave, 1959:71).

The other great Swedish economist of the period, Eric Lindahl, described a method for providing non-exclusive goods that, he argued, met the dual requirements of paying for the goods on the basis of each person's marginal benefit received along with the British ability-to-pay doctrine. The latter applied because the marginal benefits were directly related to people's incomes. Unfortunately, his method could not be implemented because people have an incentive to hide their preferences for these goods and try to free-ride on others. Nonetheless, Lindahl's theory was the closest that the 19th and early 20th century European economists came to the modern mainstream public-sector theory, which was first formalised by Samuelson in the 1950s (Herber, 1971:63).

3.5 THE NATURE AND FUNCTIONS OF PUBLIC SERVICES

Minnaar (2010:5) argues that although there are differences between the two main categories of institutions, namely that of making a profit and the promotion of general welfare, there is also a measure of similarity at executive level and particularly at operational level in so far as techniques are concerned. Based on the distinctiveness of public administration, as explained in Chapter 2, every society has devised methods to place political office-bearers in power. Public administrators in a democratic state have to respect specific guidelines that govern their conduct when carrying out their work. These guidelines are derived from the body politic of the state and the prevailing values of society and are the foundations of public administration. The guidelines from the body politic are based on political supremacy and public accountability (Minnaar, 2010:16).

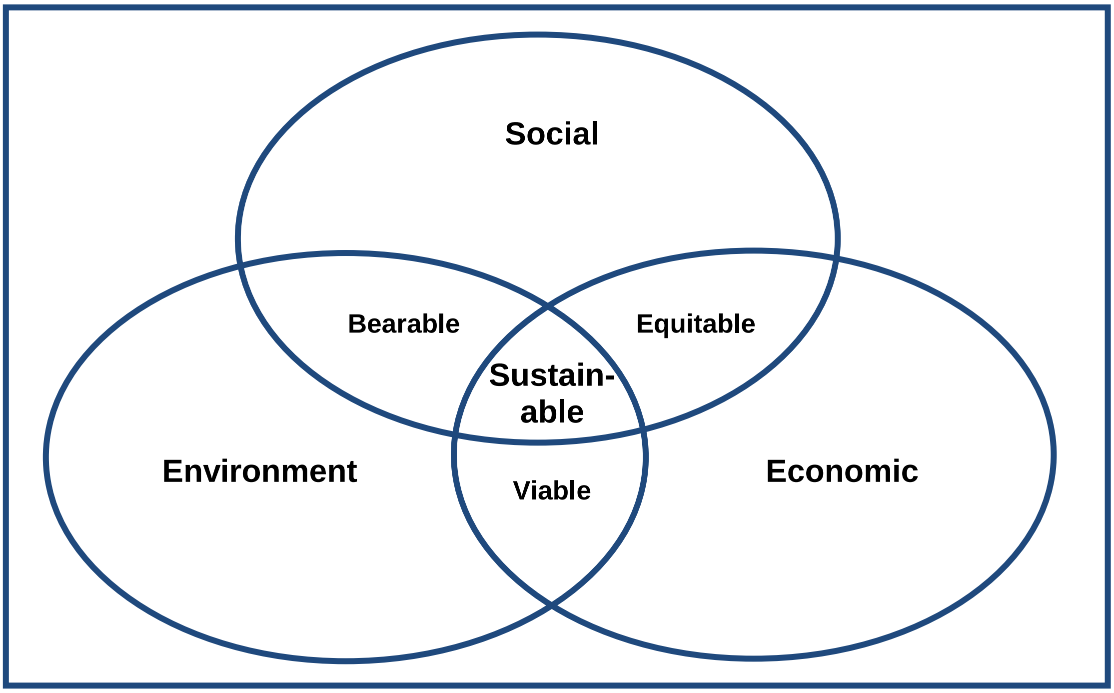
Cloete (1994:57) refers to four categories of state institutions; namely, legislative, political executive, administrative executive and judicial. The political executive institutions deal with governmental functions and integrated with this are the administrative executive functions; namely generic administrative and managerial, auxiliary, instrumental and functional activities. As analysed in Chapter 2, the generic administrative and managerial functions are policy-making and analysis, organising, staffing, financing, determining work methods and procedures and controlling.

According to Fourie (2005:4), governance is fundamentally a political imperative and should not be reduced to purely public administration "*due to the conflation of the political-administrative role*". Consequently, the three critical functions of government are to facilitate redistribution to assist those marginalised by market forces, to enable the level of economic activity and the rate of economic growth, and to allocate resources to the production of goods required collectively by society and which, if the market were to produce it, would be too costly for citizens.

Improved governance requires that the role of the state be that of a facilitator and a mediator, therefore, the state's endeavours are being directed to basic services in health, education and social development. Ultimately, government will be evaluated through the effectiveness of its role of regulator, facilitator and enabler. To ensure this function, government must function in a responsible, participative, transparent and accountable manner as the guiding principle of good governance. Thus, governance is a relational concept and entails a triangular relationship among government, the legislature and civil society (Otobo, 1997:2).

According to Minnaar (2010:16), the responsibilities of government are to ensure the safety and security of all its citizens and to promote their general welfare. These are the government's ultimate responsibilities against which its performance could be measured. Government makes policy to give practical effect to these two core responsibilities. Execution is the responsibility of administrative institutions and ultimately, the result is sustainable development by the creation of harmony between society, the environment and the economy. This result refers to the triple bottom line as depicted in Figure 3.1.

Figure 3.1: The triple bottom line



Source: Minnaar, F. 2010. *Strategic and performance management in the public sector*. Pretoria: Van Schaik, page 17.

Sustainable development as an outline of resource use that aims to find a long-term balance between human needs and preserving nature can be achieved by considering the balanced interrelationship between society, the environment and the economy. The challenge lies in keeping the interests of society, the capacity of the economy and the ability of the environment for providing resources in balance. Bearable, viable and equitable in the sense that economic growth is depends on resources from the environment. Without these resources, future efforts to deal with sustainable development will fail and without sustainable economic growth, the resources to develop society will not be available (Minnaar, 2010:17).

3.6 CLASSIFICATION OF SERVICES

For any government to fulfil its functions, the delivery of specific services to society is necessary. In order to fund specific services, there needs to be a classification for these services. Services classification is based on the nature of these services. What services are provided by government? Why do people prefer to receive these services from government? What is the difference between government and private services? The answers to these questions are those services that due to the collective nature cannot be provided by the private sector; particular services, which are essential for the development priorities of government and which the private sector for some reason fails to deliver; services that can due to collective action be obtained cheaper and more beneficial than in the case of individual action. The difference between public services and private-sector services is determined by the collective nature thereof. Collective services are normally classified as government services and particular services as private services. However, this classification does not prevent non-governmental organisations to deliver collective services and government to deliver particular services. It all depends on the state's ideology and the democratic process in a specific country (Gildenhuys, 1988: 34).

Samuelson in "*The pure theory of public expenditure, Review of Economics and Statistics",* defined public goods as "*those where person A's consumption of the good did not interfere with person B's consumption*". Mishan in the Introduction to Normative Economics, 1981, prefer to designate these as "*collective goods*". Public institutions exist to provide public goods and services for the maintenance of the state (Cloete, 1994:57).

3.6.1 **The concept of *necessity***

The services and the activities of the public institutions should always be judged on the basis of their necessity. However, as in the case with general welfare as an intangible criterion, necessity is a subjective and contentious concept, which is closely related to individual values. It is inevitable that social needs will always exceed available resources. Public institutions obtain their revenue from money paid by the citizens of society as a whole. Due to the limited nature of revenue or income, the collective ability of satisfying the needs by delivering goods and services is also limited. According to Cloete (1994:81), these restrictive factors prevent public institutions from satisfying the needs of the people and communities in full. Satisfying the most essential needs with available limited resources involves upholding public accountability, democratic requirements, fairness and reasonableness and the supremacy of the legislature in an environment with no exact criterion, such as profit in business administration.

Government is by definition an exercise in intervention. Typically, these interventions take three forms, namely ownership, the state will own a range of business entities and service delivery agencies. The second form of intervention is production, and in essence the state is a producer of goods and services. The third form of intervention is purchase, the state is a major purchaser of goods and services on behalf of citizens. The budgets of many nations typically allocate up to 80% for the purchase of education, health and social services. These purchases are funded by taxes, borrowings and to a minimal extent by user charges (Cloete, 1994:81).

3.6.2 The state as regulator

The state is not just an owner, producer and purchaser, but also a referee. The state sets the rules of the game across a broad range of public and private activities. The role of the state as regulator differs from its role as participant in providing services, being a producer and a sponsor. In its capacity as regulator, it develops a system of rules designed to resolve conflicting ideologies and protect the rights of individuals and institutions (Otobo, 1997:44).

The state as regulator uses coercive powers to permit or forbid certain activities in the private sector (Schoeman, 2007:128). The state as regulator of different sectors of society also ensures that the public service attains the goals of the state (Department of Public Service Administration, 2003:3). In a globalised world, the state has an important role to play in the establishment and maintenance of a fair competition base and also an enabling environment for private enterprise, individual creativity and social action. Through the provision of a supportive environment for economic growth and social stability (see Figure 3.1), government plays the role of a facilitator and unifies different spheres of the public service to ensure good governance (Bertucci & Alberti, 2001:14).

3.6.3 The state as enabler

Eventually, all these roles and functions add up to the government's role as enabler for private-sector development (Otobo, 1997:1). As the state diminishes its operational role, a partnership relationship with the private sector should emerge where the private sector should play a leading role in development and service provision; and government, in turn, should create an enabling environment for the private sector to deliver services and to grow its operations (Department of Public Service Administration, 2003:3).

3.6.4 **Performance reality**

Traditionally, it has been assumed that active interventions by the state in all three spheres of ownership, production and purchasing are the best way to advance the public interest, to produce an array of public goods and to promote optimum social and economic outcomes. The reality has been quite different. Luyt (2008:1-7) argues that based on research done by the United Nations, Public Service Accountability Monitor (PSAM), the South African Government as owner squandered resources, diminished the value of the business and delivered, too often, lousy services to citizens. The government as purchaser overspent, failed to get value for money, produced a moral hazard, denied citizens choices and accountability for services and crowded out more efficient and effective private delivery of goods and services. The Government as regulator distorted markets, shielded poor performers, misallocated resources, added to the transactional costs and compromised competitiveness (Luyt, 2008:1-7).

The rationale for intervention demands a fundamental rethink, as does the concept of *public goods*. When the state seeks to justify any one of the interventions, it will typically argue the public goods rationale. On closer scrutiny, it is often revealed that not all of the goods being provided are in fact public goods. Each good belongs somewhere on a continuum from ‘pure public’ to ‘pure private’. The conceptual distinction is well known and important to make (Department of Public Service Administration, 2003:3).

Pure public goods have two defining characteristics; they are non-excludable and consumption of the public goods are non-rivalrous. The consumption of private goods is the reverse. In the middle of this continuum are merit goods. The government may decide to provide access to goods as if it were wholly or partly public goods, even if the goods concerned have the natural properties (rivalry and excludability) of private goods. Education is a most obvious example of a merit good. Public and merit goods can be provided by any one of the three typical state interventions, production, purchase or by regulation (Ploch, 2011:24).

According to Luyt (2008:7), two critical questions need to be asked of any government activity, firstly, what is being provided or regulated a genuine public good or merit goods or is it really a private good or goods, in which case, the government has no reason to be involved? Secondly, is the outcome or results that the government seeks (e.g. better economic or social development) actually best advanced by the ownership, purchase or regulatory intervention the state proposes to make? For example, the state has traditionally been the owner of a monopoly telecommunications business. What is now evident is that globalisation and technology imperatives demand world-class telecommunication services. These are best supplied not by a bureaucratically operated, intellectual and financial capital-starved state-owned business. The state can best advance the desired outcome by getting out of the business of telecommunications ownership and production and using its regulatory intervention to ensure the competitive private supply of telecommunication services.

The starting point for any drive for a public-sector performance management regime is to ask the fundamental question: what should the state do, and not do? The solution to a large number of government performance problems is to first exit the government from a whole range of counter-productive interventions it currently makes. There is no merit in trying to fix "*how*" the state should operate before addressing 'what' should the state do (Luyt, 2008:7)?

3.7 THE NEW ROLE OF THE STATE

As analysed in Chapter 2, the debate about public administration reform has been highlighted beyond the new public managerialism, with a view of the government as one of many social actors whose influence determines the means and ends of public policies. Traditionally, government has been seen as the primary agent in serving the public good and defining the collective interest. According to this view, governments set the agenda for change, propose new laws and enforce existing ones. Governments are the providers of public services, the problem-solvers, the arbiters and the decision-makers. As a result, many public-sector reforms have focused on the direct service delivery role of government to citizens. However, using this basis for reforms will be insufficient to prepare governments for the challenges of the 21st century (Kettl, 2002:43).

The emergence of a new thinking about public management, major world trends such as globalisation, the collapse of the communist states and the subsequent end of the Cold War, as well as the enormous increases of inequities within and between developing and developed countries have all contributed to the debate of the changing role of government (Swilling, 1999:21). The classic functions of government are nation-building, defence, maintaining law and order, creating conditions for wealth accumulation, and some core functions such as taxation and monetary issues, security, environment, education, health, investment and trade and infrastructure (Monteiro, 2002:13). Functions such as taxation, security and policy formation have been outsourced to private companies, but certain core services such as health services and education remain with the state. The state can also play a role in the promotion of technology, marketing, the creation of financial incentives and the management of policies (Chambliss, 1954:197).

The role of the modern state can be seen as a combination of the positive aspects of all the above approaches. The goals of the modern state, or according to Swilling (1999:32), the neo-Keynesian state, are therefore to create an enabling environment for all its citizens to enjoy a good life in a democracy with a free-market system. The state regulates relationships through independent courts of law and promotes individual freedom to personal economic welfare.

While many roles such as facilitator, enabler, regulator, activator and provider were assigned to government, it should not automatically be considered that the state should be the provider of goods such as health services, education and social welfare services (Hart, 2004:1). The role of the state should be confined to what individuals cannot do for themselves, such as provide security, put in place the necessary legal framework, act as mediator between supranational institutions with regard to trade, provide a clean and safe environment, economic stability, provide public transport, provide social welfare and develop a framework to enable people to take responsibility for their own lives (Hart, 2004:2). The role of government could be defined in terms of whatever role the electorate decided to give it. The role of the modern state would ideally be based on a democratic political system, and the creation of a good quality of life for all citizens through protected human rights, the application of the rule of law, and minimum interference by government in the social and economic life of the individual (Crous, 2006:398).

The economic role of the state has increasingly become vital in the successful implementation of a country's development strategy (Stiglitz, 1998:2). The notion that government involvement in the economy is unnecessary and ineffective has been dispelled with the idea of partnerships between the public and private economic sector. Government and the private sector can act together utilising each sector's unique attributes, with government acting as the regulator of financial institutions to ensure competition and maintain safety and soundness of financial systems (Stiglitz, 1998:8). The World Bank (2003:9) has identified four principles to reflect the overall range of the role of government for creating an enabling environment for corporate social responsibility as follows:

1) Mandating - provisioning of formal command and control legislation, regulation and providing legal and fiscal penalties.
2) Facilitating - government provides a supportive environment by unifying different spheres of government for economic growth and social stability.
3) Partnering - the private sector plays a leading role in development and service provisioning, government creates an enabling environment for the private sector to deliver services and to grow its operations.
4) Endorsing - endorsement by means of political support, public procurement and providing publicity and buy-in.

The lines between public-sector instruments and interventions are often blurred as outlined in Table 3.1.

Table 3.1: Public-sector roles in corporate social responsibility

Public-sector roles			
Mandating	Command and control legislation	Regulators and inspectorates	Legal and fiscal rewards and penalties
Facilitating	Enabling legislation	Creating incentives	Capacity building
	Funding support	Raising awareness	Stimulating markets
Partnering	Combining resources	Stakeholder engagement	Dialogue
Endorsing	Political support	Public procurement and public sector practice	Publicity

Source: Adapted from the World Bank. 2003. The World Bank Group's Corporate Social Responsibility (CSR) Practice's Technical Assistance to businesses and education in El Salvador, page 9.

The concept of governance underlines the need for a shift from traditional and rigid public administration practices and procedures to alignment with possible 'best practices' in the business environment. As a result of this situation, public servants are now exposed to a 'new organisation' characterised by business ideas such as quality management, market research, human capital management and entrepreneurship in an environment characterised by political oversight (Thornhill, 2007:13).

According to Denhardt & Denhardt (2007:1-8), government will continue to play a central role in establishing the overall legal and political rules through which various networks will operate. This can be seen as government operations at meta-level where government will play a role in ratifying, codifying and legitimising decisions that arise from within the various policy networks. By means of facilitation, government provides a supportive environment by unifying different spheres of government for economic growth and social stability. This environment will ensure a value-adding relationship in terms of the important role in establishing broad principles of governance which apply to all and setting the overarching rules of the game.

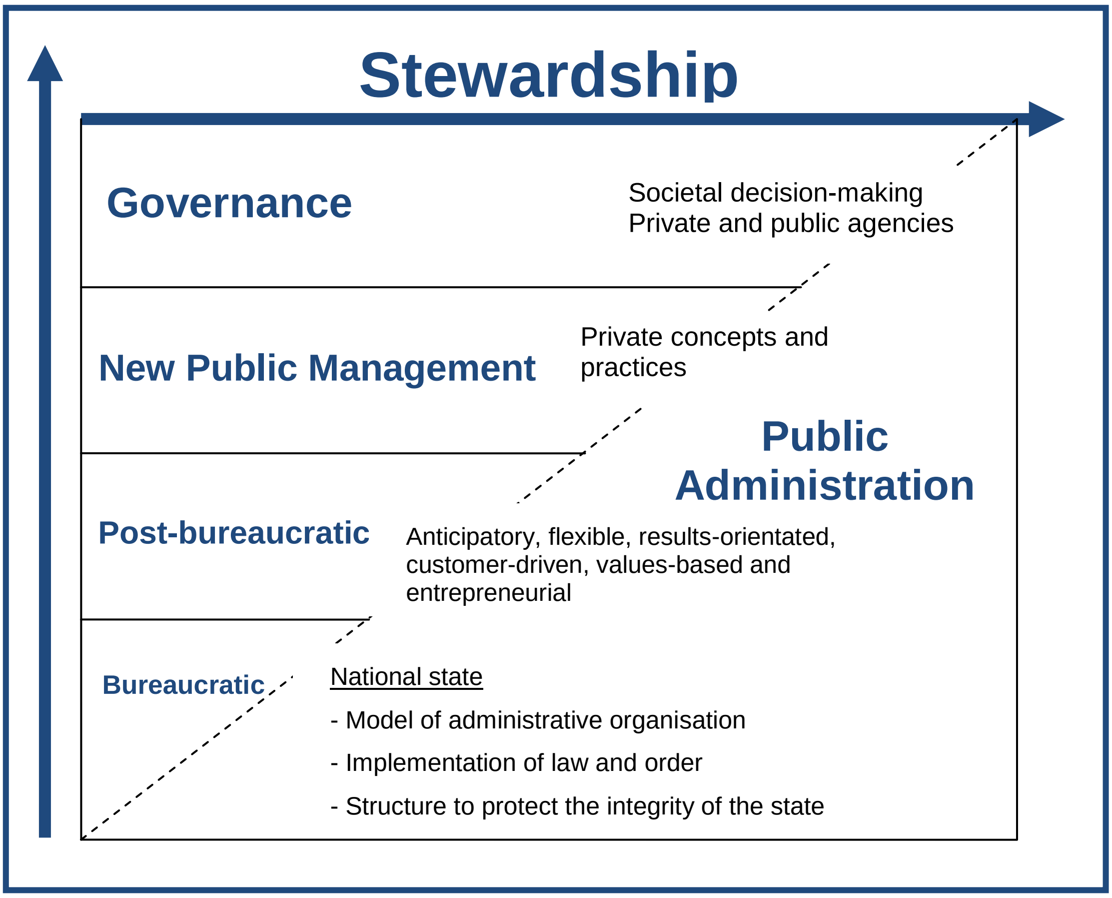
Government must ensure direction in resolving resource distribution and dependency issues in various networks, but especially between and among these networks. Government will aid in protecting economic interests that are played out in the relationships between different sectors or policy networks; it will play the role of balancing, negotiating, and facilitating relationships across network boundaries (often through the use of incentives rather than directives), and assuring that one sector does not come to dominate others (Bourgon, 2007:11).

Government will be required to monitor the interplay of networks to assure that principles of democracy and social equity are maintained in specific networks and in the relationships between and among the different networks. Government must assure that democratic processes are maintained and that ultimately, the public interest is served. The emphasis on a governance perspective and a total rethinking about public service paved the way to explore the full range of policy choices, management strategies, ethical responsibilities and public commitments that are necessary for efficient, effective and accountable public administration. These reforms require a broader definition of public results, an expanded view of the role of government and a dynamic understanding of the field of public administration. This situation requires support from a new synthesis of Public Administration, which takes into account the historical foundations, the current realities of practice as well as new insights from other disciplines (Bourgon, 2007:14).

Public administrations are a vehicle for expressing the values and preferences of citizens, communities and society as a whole. Some of these values and preferences are constant; others change as societies evolve. Periodically, one set of values comes to the fore, and its energy transforms the role of government and the practice of public administration. In order for a responsive and responsible reaction from government, public financial performance management principles and practices need to support a public service that is ready and prepared at all times to provide the most effective services at the right place and at the right time (Bourgon, 2007:7).

Since the first description of the classic model of public administration theory in the early twentieth century, and specifically for the last 30 years, many countries have undertaken extensive reforms aimed at making government more efficient, more effective, more productive, more responsive and transparent. Figure 3.2 provides the basic elements of the future role of government.

Figure 3.2: Basic elements of the future role of government



Source: Adapted from Bourgon, J. 2007. Responsive, responsible and respected government: Towards a new Public Administration theory. *International Review of Administrative Sciences*, 73(1). London: Sage. page 7-27.

The basic elements of the future role of government as illustrated in Figure 3.2 emphasise the evolution of Public Administration from the classical theories and stresses the fact that nothing is really 'new'. The need for a unified public administration based on centrally placed values, themes and principles to resolve the current environmental realities, inspiring and assisting public servants, is evident. The concept of *stewardship* centrally placed on the firm basis of governance as the result of the evolution of public administration makes provision for the true meaning or role of government as derived from its mandate to serve citizens and to advance the public good. This provides the opportunity for the application of public financial performance management as part of the generic functions of public administration.

3.8 **CONCLUSION**

The role of the state has changed with the advance of globalisation and the focus has shifted to the ability of the state to strengthen its capacity to effectively manage in a changing and complex situation. The state's role has changed from a hands-on management and direct deliverer of service and goods to facilitator of an enabling environment and framework for private-sector participation. The economic role of the state has shifted to that of regulator of financial institutions to ensure fair competition and maintain safety and soundness of financial systems. It has been increasingly clear that the success of a country's development programmes hinges on the country's effective economic policies, good governance and financial performance management. The conflicting situation between unlimited needs and wants and limited resources is the essence and requires world-class interventions for sound financial performance.

Today, the process of decision-making and the process by which decisions are implemented are becoming increasingly more open and participative, involving many individuals, groups and institutions both inside and outside government. Under these circumstances, the role of government is changing and due to the fragmentation of policy responsibility in society, the traditional mechanisms of governmental control are no longer workable, or even appropriate. The traditional hierarchical government is giving way to a growing decentralisation of policy interests, in which government, non-profit organisations and many others will play new and decisive roles. Control is giving way to interaction and involvement with critical implications for the operational managers' ability to manage, but still to be accountable. The goals of the modern state are to establish an organisation based on governance and stewardship that can create an enabling environment for all its citizens to enjoy a good life.

The next chapter aims to investigate the challenging global, regional and national environment in which public administration is being implemented. Governments in developing countries face daunting challenges such as developing essential infrastructure, reducing socio-economic inequality, combating poverty, supporting social and private-sector development and protecting the environment. The many challenges of developing countries such as national debt, corruption, human rights violations, poverty, conflict, HIV/Aids and other infectious diseases, and food security all impact on the ability of governments to match limited resources with the needs of society in the most economic, efficient and effective way.