ABSTRACT

Rising debt deficits and debt service burdens combined with complex challenges in health care, social security, education, crime and infrastructure threaten economic and social breakdown as unemployment and poverty rises. Governments worldwide are forced to take a critical role in resolving the crises and more so than ever before, must discharge their functions effective and efficiently. The importance and power of government finance in responding to the crises and controlling the effects of recession worldwide now demand deeper and faster reforms, supported by managerial excellence.

The article investigates how the expanded role of government in developing countries meets the demands in response to the economic crises. This article further explores how the impact of policy decisions taken on spending cuts in the developed countries such as the United States, United Kingdom and European Union influence existing tools and methods applied within the South African government. Public private partnerships are described as illusionary ways of raising money that are more expensive than direct government borrowing. The legitimacy of such statements is proven by the strength of lessons learnt and the examination of alternative ways to cope with the pressure to deliver more, faster and with fewer resources towards a comprehensive service that meet the needs of its customers. Embracing an integrated approach to whole-government transformation consequently pulls on varied
INTRODUCTION

In my view, however, it is impossible to understand this crisis without reference to the global imbalances in trade and capital flows that began in the latter half of the 1990s… At the same time that we are addressing such immediate challenges, it is not too soon for policymakers to begin thinking about reforms to the financial architecture, broadly conceived, that could help to prevent similar crises from developing in the future. (Bernanke 2009:1).

Global imbalances, or global current account imbalances mentioned by Bernanke’s statement above arose due to various reasons. The main reasons are portrayed as an overreliance on US consumption patterns and China’s export model, the large current account deficits and surpluses that emerged in the world economy over the past ten years due to inefficient banking regulation and balloon asset bubbles (Treasury 2011a:18; Adam & Park 2009:1).

These global trends are both confusing and contradictory as they blur boundaries between domestic and foreign policy and challenge existing boundaries that for centuries divided one national society from another. In addition, a marked asymmetry characterised the global financial system where on the one hand we saw that rapid financial innovation and sophistication of financial products spurred easy internal and external financing in the developed economies, while some of the emerging economies encouraged savings and current account surpluses. In addition, insufficient macroeconomic discipline where policies have not been sufficiently focused on medium-term stability and sustainability further exacerbated domestic and external imbalances. In response to these inequities governments worldwide were forced to first stabilise their financial systems before they were able to respond to diminishing growth prospects. What became evident was that globalisation thrust together highly sophisticated and highly repressed markets. The impact of this on each country differed and depended as a rule on the institutional environments, types of revenue sources and spending responsibilities of government (OECD 2010: 3; Smaghi 2008:2, 5; McKinsey and Company 2003:1).

It is the purpose of this article to investigate the impact these global imbalances have on decision-making and service delivery outcomes within the South African government and deliberate how these inconsistencies influence the apparent debt levels of debt deficits of
government expenditures. Falling government revenues and shrinking domestic and foreign financing forced central governments to cut back on spending of public services (Burger et al. 2009:3). Careful consideration of how these cuts influence the performance of the public sector and economy is of essence, as cutting back on growth enhancing expenditures (such as education, health, research and development and infrastructure) can result in an increase in unemployment and poverty (Hall 2010:5; OECD 2010:3).

GLOBALISATION AND STABILISING THE WORLD ECONOMY

A vast amount of literature covers the subject of globalisation. Since the 1980s the term “globalisation” has become a core concept in both political and academic debates. **Globalisation** is used as a generic term that refers to a variety of economic processes where the barriers between national markets (whether for goods or services, labour flows and capital flows) disappear into a single global market, thus creating markets with no geographic segmentation. Globalisation has also been associated with a massive increase in the availability of information and greater interconnectedness between societies (Lister 2010:21; Lloyd 2010:71).

McKinsey and Company (2003:1) point out that the process of globalisation is not uniform across all industries and there are large differences in the extent to which developed and developing countries has integrated into a single global market. At global level the attainment of a single market in terms of law and price is enormously demanding as it means full national treatment for all goods, services and factors plus harmonising taxes, subsidies standards, a common currency and globally enforced competition policy (Lloyd 2010:72-73; Smaghi 2008:3). Less obvious, global integration requires harmonisation of tax rates on goods and business incomes as well as monetary union.

Equally, one can not dispute that global economic integration has far-reaching consequences for fiscal policy formulation, primarily because integration into the world economy changes fiscal stance and alters the fiscal strategy (Abedian & Biggs 1998:10-12). With each systemic shock, the macroeconomic configuration must be adjusted and the fiscal stance must re-equilibrate demand and supply of domestic and foreign assets. Any re-configuration in the macroeconomic policy variables will have some effect on the fiscal structure, which varies from country to country. This asks for an in-depth understanding of the underlying forces at work and the links between the different parts of the economy and how this shapes government’s role in stimulating domestic demand by creating appropriate enabling environments for the private sector (Greve 2010:4; Adams & Park 2009:44-45). Deriving the benefits of globalisation and coping with systemic shocks therefore entails a change in fiscal stance and must be backed by good institutional supports systems and quality of governance.

Financial globalisation in combination with sound macroeconomic policies and effective domestic governance is therefore conductive to growth. Moreover, countries with good human capital and governance tend to do better at attracting foreign direct investment (FDI) which is especially conductive to growth and public service delivery. In contrast, corruption has a strong negative effect on FDI inflows.

Global rebalancing is made more difficult as emerging markets are growing and they have their own models for economic growth. Politically this kind of growth is creating unprecedented levels of conflict. The danger is that there could be a movement into an
environment where instead of having a global governance model, countries are instead focused on what works for themselves by implying that globalisation is not happening any longer (McKinsey & Company 2011:2).

Nevertheless in dealing with the global financial crisis, countries still have to weigh their options for fiscal policy responses. Countries that have macroeconomic stability and fiscal space (with output gaps and sustainable debt and financing options) have the scope to implement expansionary fiscal policies where the main focus should be on the expenditure side, particularly infrastructure and social spending (IMF 2009:3, 6). The economic shock faced in Africa is to some degree different than from what developed countries are faced with. The developed countries are predominantly faced with a decline in domestic demand, while in Sub-Saharan Africa it is mostly an external shock in terms of trade and capital flows (IMF 2009:7). These differences influence the approaches governments in the developed and developing countries take in restoring growth in their public finance, particularly where governments have to provide the necessary safety nets to maintain social stability.

THE ROLE OF GOVERNMENT, GOVERNANCE AND POLITICS

During the twentieth century the role of the public sector has expanded, though the extent of the role varies amongst countries such as United States, United Kingdom, European countries and South Africa (Miles & Scott 2005:225). The strength of their social institutions (laws, conventions, how laws are enforced and changed) in preventing inefficiency may help to explain the massive differences in wealth and income across countries (Miles & Scott 2005:231). Until the middle of the nineteenth century government’s most exclusive role in the economy was to provide public goods. This however, has changed and today only a small part of government spending represents the provision of public goods.

The focal point became paternalistic, reflecting the belief that when people are left to themselves they will not act in their own long-term economic interest. The role of government shifted towards determining real living standards by improving the quality of service delivery in health, welfare and the environment through economic development (Miles & Scott 2005: 231; Visser & Erasmus 2002:3). Various government structures were developed and maintained for the purpose of regulating, facilitating and enabling overall economic well-being. Governments’ primary role being that of providing leadership and in identifying and promoting cost-effective approaches to public goods and services, financing those goods that have the best impact on the enabling environment through adequate planning, regulating and collection of information thereby facilitating activities of public and non-governmental providers. Delivering better and smarter public services is extremely difficult in the current economic climate as governments have to do this with less available public finances.

Public finance suggests monetary flows as manifested in the budgetary process. Figure 1 links public finance to government’s role in its allocation and distribution functions in which the use of taxing, spending and monetary policies affects the overall level of employment and the price levels.

Evident from Figure 1 is that financial management is centered at the heart of government and comprises of all the decision-making and other functional activities performed by public managers who determine and control the optimum utilisation of scarce resources in order
to achieve political objectives effectively and efficiently. PFM represents a process in which budgets are fiscal instruments used as a political, managerial, economic and accounting instrument that relates to daily operational processes and forms a link to the execution of policy objectives. Even if spending is authorised by the budget, the management of government departments should be carried out in such a manner that it achieves the greatest value for money. This means that expenditure management only forms a part of PFM but is not synonymous (Visser & Erasmus 2002:9 – 10).

Benanke (2009:1) suggested that policymakers must think about reforms to the financial architecture if governments want to prevent a similar crisis from developing in the future. Donaway (2009:5) argues against such a notion and felt that despite all its faults the current financial system is far more conducive to sound and stable growth. Dunaway furthermore indicates that the global financial systems ability to deliver depends mostly on the willingness of a country to play by the rules and pursue sustainable macroeconomic policies that become blueprints for economic planning. By using fiscal policies government aims to steer the economy in a direction that will benefit society, the economy and its own generic functions (policy-making, organising, financing, personnel, determining work procedures, control and management). Separate functions such as loans, budgeting and taxes are instruments in reaching these objectives.

Public spending is financed primarily out of taxation. Funding of services creates distortions that affect the demand and supply for taxed goods. Likewise, labour supply is affected by income taxes while investment is influenced by corporate taxes and taxes on savings. One must keep in mind that the cost of taxes arises from the distortions to the allocation of resources that they bring. Taking the effect of distortions into consideration, the optimal scale of government is one that perfectly trades off the benefits from government by rectifying forms of market failure against the cost of raising the funds for financing government expenditure. For that reason if tax rates are kept smooth one avoids excessive distortions in economic behaviour (Miles & Scott 2005:239 – 254).
In most of the developed countries the economic crisis brought with it a rise in unemployment, poverty as well as government spending. The reduction in net taxes increased the aggregate outcome which necessitates expansionary fiscal policies (Hall 2010:8). Hall (2010:9) points to a clear link between democracy and public spending in both the developed and developing countries and maintains that democracies are more likely to produce higher spending than authoritarian regimes, basically because participation makes a difference to decision-making and how public finances are to be spent. Democracies with high electoral turnouts and participation reach much higher levels of public spending than democracies where turnouts are 50% or less. Equally, higher life expectancy increases public spending because more public services are needed to cope with the demands posed on them. It appears that the response to increased public spending is intertwined with social democratic ideals and assumptions that translate into universal welfare services and benefits on grounds that they foster growth (Lister 2010:41; Hall 2010:9).

GOVERNANCE REDEFINED

Good governance is an essential complement to sound economic policies and underpins five core principles; accountability, leadership, integrity, stewardship and transparency (Office of the Auditor General of British Columbia 2011:5-6; Dia 2001:13). Each of these principles direct, control and hold the structures and processes within the organisation to account. Governance can be described as a process of management – control – supervision – accountability in which the leader sets the tone at the top in managing (being open, accountable and prudent in decision-making) and delivering programmes (The Netherlands Ministry of Finance 2000:8).

Whole-of-government reforms labeled as post-New Public Management (post-NPM), was launched in the late 1990s and sought to apply institutional change in governance (Greve 2010:2; Christensen & Laegreid 2009:10). According to Christensen and Laegreid (2009:10) slogans such as joined-up-government (JUG) and whole-of-government (WG) provided new labels for coordination and the complexities faced in public administration. JUG was presented as the opposite of departmentalism, tunnel vision and vertical silos. It denotes aspirations to achieve horizontal and vertical co-ordination in order to eliminate situations in which different policies undermine each other, and so doing make better use of resources thereby creating synergies between different actors in a particular policy area that offers a seamless rather than a fragmented approach to service delivery. A whole-of-government reform denotes public service agencies working across portfolio boundaries to achieve a shared goal and an integrated response to a particular issue. Particularly it is about joining up at the top and at the base thereby enhancing local integration and involving PPPs. Its strongest contention is based on its ability to respond to increased fragmentation and a wish to increase integration, coordination and capacity. ICT is an important WG tool that can enhance integration and co-ordination (Christensen & Laegreid 2009:11).

Instead, whole-of-government reforms redefined governance. Major emerging governance issues questioned power on a multi-disciplinary basis at all spheres of government as to fully comprehend the main elements of better public sector governance. Significantly governance focuses on performance and conformance ensuring that organisations meet requirements of the law, regulations, published standards and community expectations of probity, accountability and openness. More emphasis is placed on the reporting of performance.
since performance information is an integral part of public management reforms and sets out to improve accountability, results and risks.

Risk management is an integral part of good governance and strengthens the approaches followed by an organisation in reaching effective performance outcomes and conformance to their objectives. The essence of governance is to put together enough safeguards to bear responsibility over an entire policy chain, thereby realising policy objectives efficiently and effectively (Office of the Auditor General of British Columbia, 2011:5-6). This puts more emphasis on the value and importance attached to deeper and faster reforms. Integrating risk management seamlessly into the day-to-day business of government as well as making it part of its higher-level strategy and planning process means that the role of the public sector itself changes. Government has traditionally been risk averse which limits strategic choice because managers tend to lean towards safe and conservative strategies. Finding the right balance for control structures that do not encourage risk averse behaviour not only compels managerial excellence in public administration but also urges public managers to reach into the inner core of government and consider whole-of-government (WG) and cross-agency issues in policy development and public finance.

**ORGANISATIONAL PERFORMANCE AND PUBLIC SECTOR REFORMS WITHIN A POST-NPM ENVIRONMENT**

Post-NPM literature stresses the importance of boundary spanning and collaboration. Whereas previously in the NPM era, emphasis was placed on service delivery within an organisation (justified by the idea of focus and specialisation). Public services in the post-NPM now required complex solutions for highly multifaceted environments, ruled by quick developing technologies in which competency becomes the knowledge to access and its ability to bring together expertise. Meeting these requirements demand organisational forms that enhance improved cross-border collaboration and horizontal co-ordination combined with an increased focus on central control. The agencification process (a more horizontally structured and fragmented arrangement of regulation and control) slowed down and the importance attached to central capacity moved to the foreground on government agendas. These changes challenged organisational theories in both the public administration processes as well as regulatory performance. Emphasis is now more on ethics and rules as it moves away from a setting where managers are free to manage as an individual towards that of overall performance and the way in which outputs/outcomes are distributed. A team-based incentive system becomes the focus in managerial excellence as performance measurement is based on the performance of their team and not the individual adding to complexities faced in both the NPM and post-NPM reforms (Greve 2010:2-4; Christensen & Laegreid 2005:3).

Prior, the NPM design focused on better economy and saving money instead of expanding budgets in which the public manager became the main driver of change. The post-NPM reforms are a reaction to the negative effects of NPM. A hybrid administration within the context of NPM and post-NPM reforms developed in an attempt to balance control and autonomy within horizontal structures that evolved while attending to numerous actors (Christensen & Laegrid 2010:5). The actor-centredness of multilevel governance in PPPs emphasised the different governmental layers and clouded policy networks. While multi-
level governance in PPPs is a relative new institution, the interest in multi-level governance corresponds to a broader phenomenon of globalisation in which decision-making is more dispersed. Multi-level governance (MLG) is a term which describes the simultaneous activation of governmental and non-governmental actors at various jurisdiction levels and goes beyond intergovernmental bargaining and federalism’s perspective (Ongaro et al. 2010:159, 186). Introducing post-NPM reforms requires either revision to existing policies or initiating new policies. The deeper the reforms the more fundamental the changes in the legal framework and governance structures become.

PUBLIC FINANCE REFORMS AND DEBT MANAGEMENT

Deficit financing has been a common source of government revenue since the 1940s. Expanding services and community needs brought about a growth in financing requirements of government. The growth in finances necessitated the use of alternative methods of financing, particular for budget deficits and capital projects mainly because taxation and the usual financing sources provided insufficient revenue for government. Long-term debt financing could be justified on the basis of the benefit principle for financing capital projects as the burden of financing capital expenditure through current taxation is postponed to future taxpayers. This means that the burden of debt falls on future generations. Future generations are faced with higher taxes as they bear the brunt of compulsory taxes to pay interests on loans as an alternative to receiving government goods and services in return for the taxes (Abedian & Biggs 1998:16).

Preparing and dealing with loans and bonds, whether from domestic or international funding does not constitute standard financial management procedures and for that reason public debt management arguably falls within the niche of macroeconomics (Visser & Erasmus 2002:136). However, the concept of debt is wider than the mere obtainment and repayment of loans over varied time spans. The basic objective of public debt management operations is to finance the deficit before borrowing and debt repayments in a non-inflationary manner and exert control over the liquidity in the economics. Debt management serves as an instrument of government and forms the meeting ground of fiscal and monetary policy. By using the budget as an instrument to execute fiscal policy, debt management is concerned with the financial management of government (Visser & Erasmus 2002:136 – 137). Deficit financing as part of budget is becoming more and more risky. A debt management strategy and the plans for the management of government’s domestic debt and foreign currency liabilities are essential.

PPPS AND DEBT MANAGEMENT IN SOUTH AFRICA

In contrast to the US, UK and European experience; South Africa’s exposure to the economic downturn was largely reduced due to government’s ability to put sound fiscal and monetary policies into practice (Treasury 2011c:14). These countercyclical fiscal and monetary policies supported the economy during the recession and continued to strengthen the economy through 2008 – 2009 by offering growth opportunities over the medium term (Treasury 2011b:16). By correcting and readjusting the macroeconomic configurations, government strengthened the economic foundation necessary for long-term growth in that it re-equilibrated both demand
and supply demands (Colijn 2010:3; Greve 2010:4; Treasury 2011b:17–18; Treasury 2009:1). The main reason for the recession in South Africa (2008-2009) was perceived as domestic in that it arose as a result from a rapid expansion of credit causing a disparity between savings and investments which pushed up inflation. This had a significant impact on monetary policy.

In response to the crisis government argued that in building capacity for long-term growth necessitated an increased investment in infrastructure by expanding labour-intensive employment programmes, broadened social security benefits, rural development, invest in education and healthcare and also support industrial development as these elements provide countercyclical boost (Treasury 2011c:14).

Sustaining the fiscal stance and supporting growth called for prudent management of public finances. The fiscal policy relates to government’s macroeconomic strategy, while its growth plan is sectoral and specifically directed (Visser & Erasmus 2002:63). Figure 2 provides a timeline of the economic reform strategy as it took shape since 1994 in devising long-term plans for economic growth and development, providing greater job opportunities and spreading social investment.

The New Growth Path outlined in Figure 2 took form from the Reconstruction and Development strategy (1994). The strategy encourages prudent macroeconomic policy while it also gives government space to grow expenditure at a moderate space to sustain its growing social and economic priorities (Treasury 2010:17, 20). During 2011 the real GDP growth is expected to accelerate to almost four percent with ongoing public investment on infrastructure and social projects (Colijn 2010:3). This is confirmed in the 2011 Budget Speech (Treasury

Figure 2 South Africa: Economic reform strategy
from a macro-economic dimension since 1994

Source Adapted from Dlamini (2010:12).
2011a) in which over R 800 billion is projected – over the next three years in the Medium Term Expenditure Framework – on spending of economic and social infrastructure within the New Growth Path strategy. The strategy outlines a continuing and broadening public investment in infrastructure between national, provincial and local government (Treasury 2011b:4, 14). Its core elements encourage partnerships between government, business and labour utilizing PPPs to achieve its infrastructure aims (Treasury 2011b:37; Deloitte 2010:4).

Significant changes occurred to the landscape of public and private infrastructure financing since the start of the financial crisis (Deloitte 2010:3). Table 1 provides insight into the pre-crisis and post-crisis infrastructure financing conditions highlighting the impact of changing environments on shifting approaches in policy agendas.

Evident from Table 1 is the need to recognise trade-offs with other public policies and avoid the implicit bias that may arise against spending of forms of public investment that are more orientated towards human capital. Heller (2010:10) points out that tradeoff between spending on human capital can prevent a country from sustaining growth. The social profitability assessment of investment on human capital is far more difficult to prove than the profitability for physical capital projects and failure to invest in human capital will create bottlenecks and inefficient performance in the outcomes of PPP models implemented.

As the focus shifted from individual performance towards that of overall performance and the way in which outcomes are distributed within a post-NPM environment, Treasury (2011b:13) lay emphasis in its Budget 2011, on efficiency in public service by providing a platform for increased scrutiny of programmes to measure performance by results. The Department of Performance Monitoring and Evaluation oversees progress on reaching agreed outputs and targets in which closer cooperation between the three spheres of government is encouraged. This immediately brings to the foreground a multi-level governance approach as megaprojects not only bring changes to the regulatory environment but also to its control mechanisms as whole-of-government reforms redefined governance within the South African public sector. The fiscal federal framework or intergovernmental fiscal relations that provide guiding principles for the assignment of expenditure functions and sources of revenue now required complex solutions for highly multifaceted environments. The changing environments’ asked for

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<tr>
<td><strong>Pre-crisis</strong></td>
<td>• Limited public money for infrastructure</td>
<td>• Well-functioning debt capital markets and international project finance loan market</td>
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<td></td>
<td>• High construction costs</td>
<td>• Highly geared capital structures and attractive equity returns</td>
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<td></td>
<td>• Fiscal dynamics encouraging governments to explore alternative delivery models</td>
<td>• Dominance of active equity investors and emergence of infrastructure funds</td>
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<tr>
<td><strong>Post-crisis</strong></td>
<td>• Infusion of public money for infrastructure</td>
<td>• Challenged debt capital markets, but aided by new borrowing instruments</td>
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<td></td>
<td>• Falling construction costs</td>
<td>• Price and tenor constraints in international project finance loan market</td>
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<td>• Fiscal distress solidifying interest in alternative delivery models</td>
<td>• Variability in equity returns</td>
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<td>• Impairment of some active equity players, balanced by continued growth in infrastructure funds</td>
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new organisational forms that enhance improved cross-border collaboration and horizontal coordination with an increased focus on central control within the national government.

The change from government to governance is nowhere as evident as in the fiscal policy agendas that faced management by complexity in the development and building of institutional structures for frameworks that encourage sound financial regulation and well regulated institutions (Treasury 2011c:17). These new sets of alliances between government and public-private bodies’ complicate public administration as the demands brought with whole-of-government reforms towards a single-window approach to service delivery, is extremely complex. Strengthening national capacity and facing the complexities brought on by modern macroeconomics are subject to the spending policies of government and linked to sustainable changes in the system of public finance.

CONCLUSION

The global imbalances have brought a host of new challenges and opportunities to the table. Taking advantage of these opportunities and expanding growth asked for macroeconomic policies that were sufficiently focused on medium-term stability and sustainability. The impact on South Africa differed greatly from countries such as the USA, UK and within Europe. Each country had to re-align their strategies within their own institutional structures, types of revenue sources and the spending responsibilities of government. Critical in the success of the options available in responding to the crisis was to cushion the impact of shocks through government’s infrastructure investment programmes and rethinking counter-cyclical reactions of the fiscal policy.

PPPs can ease financial constraints on infrastructure investment, but can also be used to bypass spending controls and move public investment of the budget and debt off government’s balance sheet, leaving government to bear most of the risks involved and face large fiscal costs over the medium to long term. Better understanding of the fiscal debt policy affects the economy as its outcomes having important consequences that create distortions which indirectly affect supply and demand functions. Experience suggested that PPPs are more effective for economic rather than social infrastructure projects. Designing policies that encourage the management of debt ratios are country-specific and impact on how the financial aspects of the PPP model are integrated into public management.

Political inputs are influencing decisions and the way in which political power is packed worldwide, is trumping economics and leadership decision-making. Making policies workable requires careful planning and development of appropriate institutional vetting mechanisms that carefully monitor and evaluate investment objectives and outcomes. Multi-level governance is instrumental in successful execution of future strategies.

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