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Globalization and public administration: a complex relationship

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Abstract

The paper examines the relationship between globalization and public administration through economic theory principles and an example. Starting from the consideration of early concerns about globalization, it argues that although the size of government has rarely declined, its power has been eroded, making room on the one hand to the quest for global public goods, while on the other hand urging for more local public goods and decentralization. University education, mainly publicly supplied in Italy as well as in many European countries, exemplifies the awkwardness of introducing best practices in a context of asymmetric information with many idiosyncratic features.

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1 Introduction

The debate on globalization and its effects has been with us since about the last two decades. During this time, it has moved from what was regarded as the most likely - either feared or welcomed - future scenarios and their peculiar features, to the appraisal of various consequences - whether actually related, or as a sheer outcome of speculation - on sometimes previously unforeseen realms. Not surprisingly, by now the term "globalization" itself has come to refer to a variety of meanings according to the various domains where its effects are deemed to have taken place. Globalization hints at political, financial, cultural, industrial, informational, linguistic, social, legal effects, just to name some of them.

In what follows, I will mainly refer to economic globalization: the integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and where a major role is performed by information and communication through the spread of new technologies (Bhagwati, 2004). To an economist, the very first foreseeable outcome of economic globalization implies a tendency to the advent of price convergence everywhere, having taken into account the conversion from a currency to another one according to the nominal exchange rate. The removal of market segmentation due to a variety of possibly non competitive conditions- whether assessed through partial equilibrium analyses (i.e. market by market) or according to simple two-goods-two-factors-two countries general equilibrium models - leads to the so-called "one price law" predicting the same price for (homogeneous) goods, capital and labor in both countries. This is why an envisaged consequence of globalization was, on the one hand, a more "uniform" world in terms of prices, and on the other hand, a disturbing "race to the bottom" in terms of quality (the obvious reference is to Gresham's law according to which bad money drives out good money). So, how does public administration, operating essentially on an extra-market sphere, enter this picture?

The economic analysis of public administration[2] developed by public choice (Niskanen, 1971, 1994) focuses on self interest as the major characteristic defining the rational behavior for every economic agent, not only for

[2]Since public administration is identified as the management of government policies, in the following sometimes public sector and public administration may be taken as synonymous.

those active in the private sector. Profits must be replaced with some other maximand relevant for the public sector agents' objective function. This is done by the Public choice view (Buchanan and Tullock, 1962) asserting that while politicians seek power through re-election, bureaucrats seek it by expanding their influence and status. In both cases the public budget (taxes and public expenditure) may be arranged and exploited towards unintended ends. This rent seeking activity results in both actors playing a major role in the public administration (i.e. politicians and bureaucrats) bound to hinder optimal resource allocation, in a way similar to what happens to producers operating on imperfect markets.

In addition, since the public administration provides its citizens with mainly non-tradable services[3], in a globalized world another source of inhibition, thwarting an optimal resource allocation, arises through the Balassa-Samuelson effect, whereby differences in the relative productivity of the tradable and non-tradable sectors may coexist. Therefore, not only the law of one price is prevented from being effective across countries, but sometimes even its milder version, i.e. price convergence, does not take place. Hence, the area of optimal resource allocation is deemed to have to be expanded[4] by reducing the size of the public administration in terms of both output and employment. For all these reasons, one may conclude that the more globalization proceeds, the more the public sector is bound to recoil. Do they really oppose each other?

This paper will address the complex relationship between globalization and the public administration by focusing on a number of general concerns, related to the economics of the public sector. All issues related to public economics, in so far as they require governmental power, may be exacerbated by globalization. The Italian experience, itself in turn placed within the European Union, is taken as the observation point to exemplify the argument by looking at the case of tertiary education.

[3]In addition, Baumol (1967) argues that governmental services are mainly provided by means of labour intensive practices where labour saving technological progress - for various reasons ranging from lack of investment to rent seeking inclinations – is very slowly adopted.

[4]This view disregards the second best theory (Lipsey and Lancaster, 1956) according to which when one or more optimality conditions cannot be satisfied the second optimum solution may be found away from, rather than approaching, the first best solution.

2 The concerns

2.1 Dimension: is the size of government changing?

The early literature about the relationship between economic globalization and the national state hints at "retreating shifts" in the quality and quantity of state power and authority driven by the ever-increasing economic power and strength of private firms (Strange, 1996). The process of globalization is seen as a trend eventually leading to a "borderless world" (Ohmae, 1990) where empowered non-governmental players emerge in the world order (Falk, 1997). The intensification of "state-indifferent" multinational corporations would ultimately imply the irrelevance of the national states and elicit the end of public administration with it (Stever, 1988).

As only market-established prices are reckoned to be optimal and fully informative, and since the public sector, for its very nature, cannot either implement or emulate market prices[5], the way forward to re-establish economic efficiency was envisaged in downsizing the government activity and so reduce the need for public administration.

The statement "the era of big government is over" - pronounced by the US president Clinton in 1996 - was widely endorsed by the public in many states where the electorate voted accordingly. The policy "Starve the Beast" (i.e. carry on tax cuts so to make public expenditure reduction inevitable and eventually end up with a smaller government, the Beast being understood as the Hobbesian Leviathan) seemed to need implementation almost everywhere. The suggested policy for outflows was to reduce and possibly eliminate as many lines as possible in the budget expenditure, while for inflows it prescribed a major recourse to privatizations and to tax reductions. This was done directly by means of explicit tax cuts and indirectly through the many ways tax erosion could come about.[6]

[5] No allocation may be declared optimal (more precisely: the optimum cannot be defined) when some room is left for exemptions from the general rule of pricing at the marginal private cost such as missing markets, externalities, public goods and the like.

[6] Economic globalisation, involving the free movement of goods and factors has indeed changed the availability of the tax base. This is so, because the more a good is tradable, the less taxes may be levied on it, due to competition reasons, analogously, the more a factor is mobile, the less it may be taxed, lest it moves away from the place where taxes are higher. A shift in tax composition has therefore occurred recently: less taxes upon the more mobile capital, more taxes on the more immobile labour. Yet, more taxes on labour translates into higher labour costs (or, wage reductions) which implies a less

The minimal state (i.e. a government only protecting individuals from coercion, fraud, theft and foreign aggression would only need police, judicial and military personnel) was suggested to be the way ahead. All what could be provided otherwise should be: therefore publicly provided health, education, transport, utilities, pensions, trasfers and the like should be trimmed down as much as possible and possibly soon, while the "competitive state" was expected (and in some cases encouraged) to replace the welfare state (Faramzand, 1999).

The economic analysis, on its part, addressed such issues like the association between the kind of government and its size to find that democracies are more inclined to redistribution (Acemoglu and Robinson, 2005) and so tend to prefer a bigger government. The institutional choices were also put under scrutiny to find that a parliamentary government tends to approve a higher government expenditure than a presidential government, and even that a government elected through proportional representation tends to spend more than when elected by majoritarianism (Persson and Tabellini, 2003).

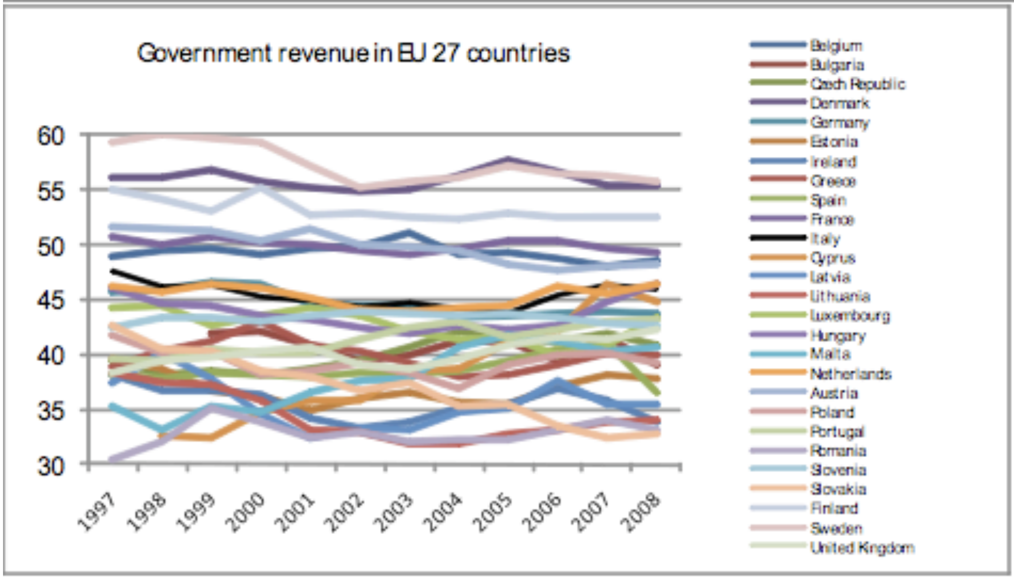
A few years later, what do we observe? The power of the state might have been eroded, but the weight of the state in terms of tax and expenditure does not appear to have unquestionably done so. A quick look at the most recent figures for the 27 countries of the European Union in Figure 1 tends to suggest – with few exceptions - an overall stability rather than a clear downwards trend.

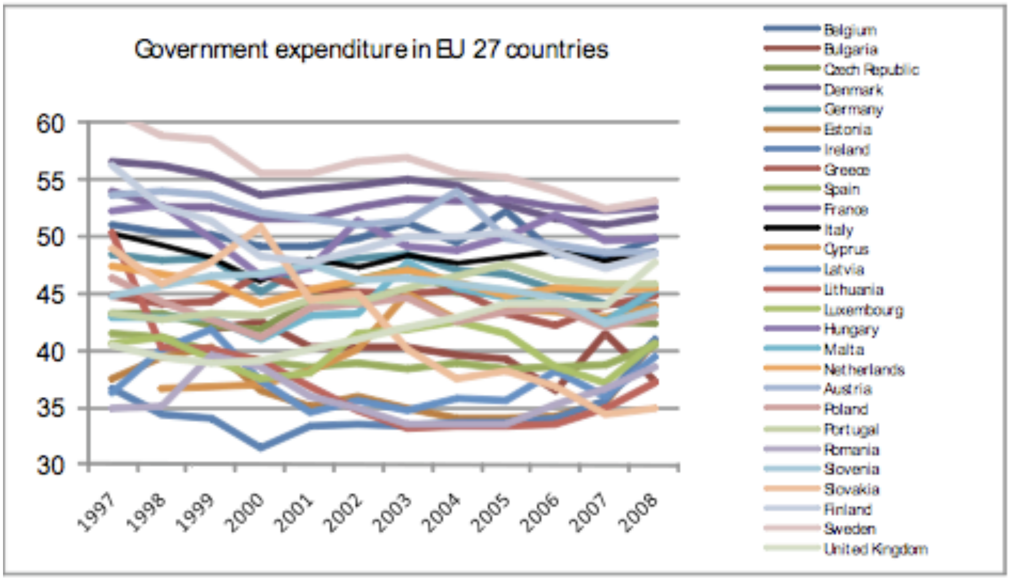
Figure 2 presents a selection of countries, where the different paths and behaviors may be more clearly identified. On the revenue side, a small decrease in standard deviation testifies a light reduction in many countries which contrasts with increases in the UK, but across the 12 years under examination no country shows a monotonic trend. On the expenditure side, the standard deviation falls by more than one percentage point and the picture is more dramatic showing some impressive reductions in Finland and Denmark, and to a lesser extent also in Germany and in other states, while the UK exhibits a substantial increase. Yet, one can hardly argue that the picture may be perceived as representing a phenomenon "in retreat", let alone the foreseen end of public administration.

While such aggregated figures do not seem to depict a massive govern-

internationally competitive production and eventually more unemployment.

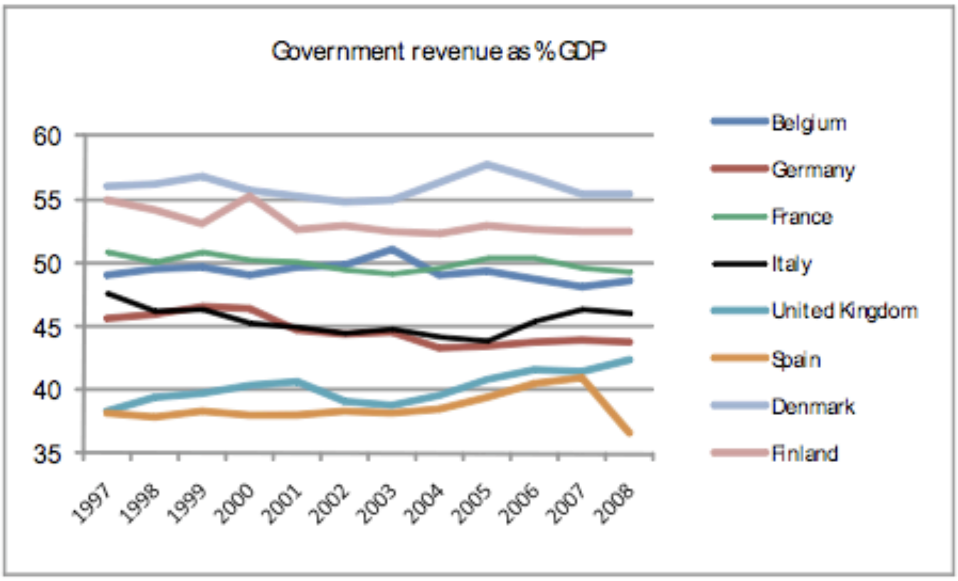
Figure 1: The size of government in EU countries (1997-2008)

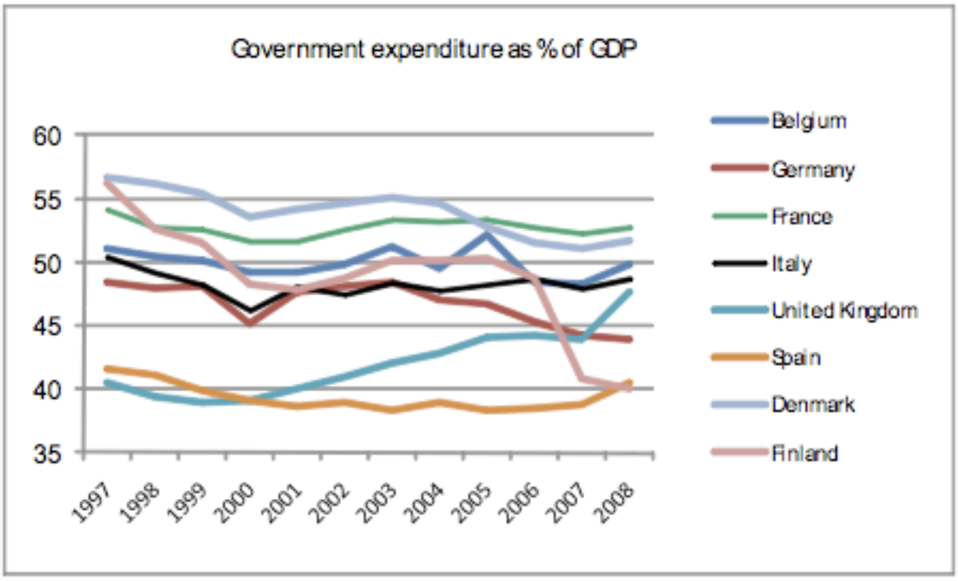




Source: Eurostat

Figure 2: The size of government in selected EU countries





Source: Eurostat

ment downsizing, they still may mask a huge redistribution involving a shift in the preferences for redistribution of the median voter, which is bound to interfere with the characteristics of the typical taxpayer (Sinn, 2003), as well as in that of the emblematic public expenditure beneficiary. Furthermore, no proposition may be expressed about the cost-effectiveness of any policies pursued by the governments represented in those figures. Whether one adheres to the view that the swelling in government size experienced in the 20^{th} century reflects a lack of safeguards apt to restrain government t power to tax, or to the opposite view that praises government effectiveness in acting towards common interest, the most recent evidence does not unambiguously support any imminent advent of the minimal state.

2.2 Tasks and efficiency of the public administration: how is the role of government changing?

According to traditional economic theory, a public administration is necessary to enable the public sector with the provision of public goods, which - being defined by such characteristics as non-rivalry[7] and non-excludability[8] - are unsuitable for profit maximization (Samuleson, 1954). Such circumstances imply that, in the absence of sufficient incentives for the private sector, private production would end up with suboptimal produced quantities, not enough to fulfill citizens' requirements. Thus, in the simplest case[9], the government directly provides its citizens with public goods through bureaucracy and imposes taxes to finance them, while private goods are produced by the firm and voluntarily paid through the price system.

The concept of public good unfortunately is sharper in abstract terms than in its actual applications. A more widespread consensus exists about the police, the army, the judiciary being pure public goods than for health, education, and pensions. In addition, a closer examination to government expenditure reveals that only a share of it responds to the above quoted

[7]Consumption is non rival if it can be expanded to an additional consumer at zero marginal cost. The implications are that 1. By pricing the good at its marginal cost, a zero price and thus no incentive to private production follow, and 2. Limiting the consumption of a non rival good is undesirable.

[8]A non excludable good cannot be privately produced for making a profit as profits cannot be (fully) appropriated by the producer. Preventing its consumption is more expensive than letting it free.

[9]Less simple cases either refer to government indirectly providing public goods through the private sector, or publicly providing private goods (e.g. through state firms).

public good requirements. The Classification Of Functions Of Government (COFOG), developed by OECD and applied since 1999, counts 10 entries: 1. General public services, 2. Defense, 3. Public order and safety, 4. Economic affairs, 5. Environmental protection, 6. Housing and community amenities, 7. Health, 8. Recreation, culture, and religion, 9. Education, and 10. Social protection. These headings list both provision of public goods through state bureaucracy and through purchases on the private market where production is actually carried out: defense is an agreed upon public good, yet weapons are often produced by private firms. So, how should the essence of a public good be specified to seize correspondence between conceptual and concrete matters? This question will not be answered here, but the issue about how intermediate goods (weapons) relate to final goods (defense) embodies one crucial aspect towards the criteria for the evaluation of the efficiency of the public sector. Another crucial aspect is the reach of the public good, i.e. for whom a particular public good is relevant. Defense is relevant for the nation, while a lighthouse is relevant for boats, irrespective of their nationality.

The specific nature of a given public good may, or may not, be such that public provision must, could or does not, coincide with state provision. The benefits of local public goods (Tiebout, 1956) only accrue to a limited area, while global public goods (Stiglitz, 1995) are beneficial worldwide. For the former, the solution to the core issues of public goods[10] – "voting by feet" – is easier than for the latter, for which there is no global public authority in charge. The question about which government should provide global public goods, whose scope, by definition, goes beyond the national boundaries, has been answered by the "hegemony" literature (Keohane, 1984) and by stressing the role of international cooperation (Kaul *et al.*, 1999) as a substitute for the lack of a global public authority.

The two aspects of the provision of public goods discussed above intersect with innovation and technical progress, which have transferred a number of formerly considered national public goods (again defense is a case in point,

[10] By reducing incentives to private production, free-riding also leaves open the question about the optimal amount of public good to be provided, as well as whom should be charged and by how much. For local public goods the solution proposed by Tiebout is "voting by feet". If perfect mobility across jurisdictions is allowed, the basket of public goods supplied by each local government would be optimal in terms of amount and payment. The problems posed by free riding would be circumvented as citizens would reveal their preference by choosing the jurisdiction offering precisely those public goods they value most.

but the list ranges from the fight against contagious diseases to financial stability) to the international realm. What is analytically defined a public good may have to be delivered in a continuously changing dynamic environment where a state bureaucracy is unlikely to be particularly well suited to incarnate the best solution. Indeed, the changing scope of national states' sovereignty in a globalized world requires a re-definition of what exactly may be regarded as a public good reasonably within the reach of the economic and political dimension of the state. Still, as actual states' dimensions differ, this issue is unlikely to obtain a general and straightforward answer.

A first answer to the issues raised by national states increasingly void of power has been a considerable resort to privatizations: the production of goods and services, formerly provided by the state, has been shoved to the private sector. Another answer seeks to try and attribute each task to the appropriate level of government, and local public finance argument maintains that, since populations differ in tastes (due to age structure, customs, culture, or else) it will never be optimal to provide the same kind and amount of public good to everyone (Oates, 1972; 1999). When cross border spillovers cannot be disregarded, but are even expected to increase due to technology and to the changes in habits it usually brings about, the answer requires to find some ways so to enact a supra-level sort of government able to manage the challenges posed by globalization (Kaul, *et al.* 2003).

2.3 Level and coordination: the role of subsidiarity

European integration may be considered a reduced scale globalization (Croci Angelini, 2009) with an important qualification: member states willingly devolve shares of national sovereignty to a super-state entity which is deemed to be able to perform the devolved tasks more efficiently. A basic feature of a successful economic integration is its long term time span, which is needed to build acquaintance, reputation, and understanding across member states so to build up a wider cooperation.

In the European Union, the coordination among member states and the coherence required across the actions undertaken by the various layers of its multi-tier governance has led to the introduction of the term "subsidiarity"[11] in the lexicon, and to a very frequent appeal to it in the policy practice.

[11] The term, introduced in 1992 by the Treaty on the European Union (aka Maastricht Treaty), refers to the principle whereby government actions should be undertaken at the lowest possible level and moved to a higher level only in presence of advantages that

In fact, worries about a future re-nationalization of common policies have sometimes been aired. On the contrary, the real issue is the under-provision of a number of global public goods that might more effectively be delivered by the EU than by the member states. Unfortunately, they not always coincide with the existing common policies, which are usually historically driven. Common policies are not always accounted for in the common budget which is for the most part spent under the common agricultural policy and the cohesion policy. The former is especially far from being a typical example of a global public good. On the contrary, monetary policy and the single market may be regarded as global public goods in a framework where the member states play the local and the EU the global role. One may also add that peace is the first and most important global public good delivered by the EU, while the care for the environment is still lacking.

The need for horizontal and vertical coordination, so to assign the various tasks at the most appropriate administrative level (be it the EU or any of the NUTS[12] levels), makes the judgement on the attribution a very complex matter and the decision making across jurisdictions and administrative levels quite intricate. The completion of the single market in the EU meant to privilege the innovative mutual recognition over the traditional harmonization procedure (Croci Angelini, 2005). Although the extensive application of mutual recognition implies a privileged reliance in the market mechanism, at the same time a much stronger emphasis was placed on EU, rather than national, standardization, and (tentative) best practices.

In imperfect markets, where asymmetric information is pervasive, the public authority also needs perform a guaranteeing role. "At the heart of the effective government lies the solution to a principal-agent problem between citizens and government." (Besley, 2006, p.2) This issue[13] is usually scruti-

can only be reaped at that level. The principle has mainly being interpreted as the EU refraining from embarking on actions in areas where individual member states' actions are sufficient.

[12]Through the Nomenclature of Territorial Units for Statistics (NUTS) the EU Commission developed a standard denoting member states (NUTS0) and their subdivisions (NUTS1, 2 etc) which may or may not coincide with pre-existing administrative units: regions, provinces etc. As the NUTS different levels are employed for different purposes, in the end it makes some difference whether an institutional arrangement exists or the (dis)aggregation reflects a pure statistical background.

[13]A principal-agent problem arises when complex tasks need accomplishment by the agent, while, on the part of the principal, monitoring is very unsatisfactory.

nized in reference to the willingness of an elected politician (the agent) to act in the best interest of the voter (the principal) rather than - in the absence of effective monitoring - deliver political favors and pursue self-interested policies. Yet, another key aspect resides in the power of the public authority to certify the quality of goods and services where the know-how contents is critical and so information is imperfect, such as education, health and safety, credit, and many other professional occupations. In such cases, the public good delivered is quality certification and it is almost always provided by setting standards.

2.4 Standard and best practices: why and why not

Quality standards take away a significant part of risk and so reduce some costs. Still, they may help little in evaluating whether a standardized product comes at the lowest possible cost. EU common standards may be employed to assess the cost effectiveness of a standardized product. It is increasingly frequent the comparison of cost and quality content across member states especially of public services, and in many cases best practices have been identified and sometimes successfully exported. However, these issues cannot always be sorted out in terms of best practices, and the least so, when procedures, best apt to deliver a good or service, are applied in another country, but under different circumstances. The variety of institutional forms characterizing national countries usually have reasons behind them. The more these elements matter, the less best practices can be meaningful. Therefore, although EU best practices may be desirable, in some sphere of application they might actually be impracticable.

One should understand first, why a best practice is advocated at all and, keeping away from easy recipes, distinguish whether or not the institutional setting is compatible with the recommended solution. Therefore, best practices should be embraced when efficiency can be enhanced by simple changes (*e.g.* re-organization of tasks), when optimization can be pursued in a limited sphere (*e.g.* standardization of rails and roads width), when technology matters (*e.g.* energy saving devices). On the contrary, local solutions should be preferred when different institutional arrangements reflect different social preferences, (*e.g.* different points along the alleged trade-off between equity versus efficiency) and in general "'best practices' are an unhelpful way to think about institutional reform" (Rodrik, 2008) due to the importance of several cultural and institutional diversities shaping national preferences. The examples discussed by Rodrik cover such general areas as contract enforcement, entrepreneurship, trade openness and macroeconomic stability. It is argued that in those areas best practices are better avoided. The legal systems, for instance, are very idiosyncratic to the country, so that what may be considered a rational behaviour in a court could, yield undesired outcomes in another. It is also observed that the best performers on international trade have never been listed among the typical free trader, while free trade was a very recommended best practice. Having observed the gap between what the institutional setting is expected to deliver and the real world where policy-makers everyday operate, it is urged to rely on a second best rather than first best institutions and practices. Is then education a field where best practices should be advocated or avoided?

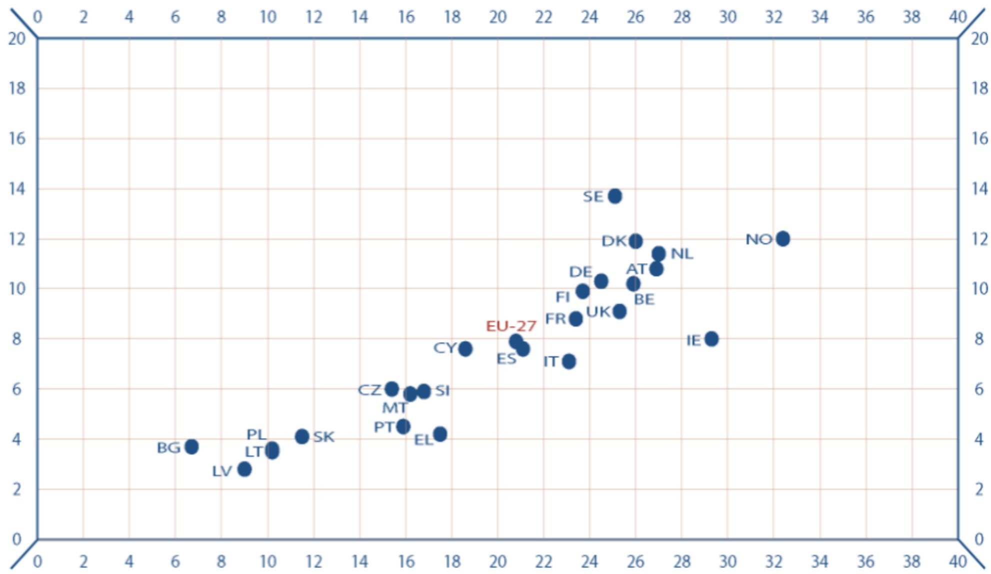
3 An example: University education

"Most knowledge is a global public good" (Stiglitz, 1999 p.310) and this is why at least some education is publicly supplied. In so far as university is linked to the production and transmission of knowledge, it is a candidate fit to contribute an example. University education in Europe is regulated by the Bologna Process, which started in 1999 with 29 participating countries, and today counts 46 members. The system is based on the open method of coordination, a new way of policy-making in the EU, mainly based on voluntary participation, benchmarking and peer review. Standardization has introduced the Bachelor and Master structure of studies with the European Credit Transfer &Accumulation System (ECTS), the National Qualification Frameworks (NQF) for curricula, the Diploma supplement (DS) describing the achievements and grades, as well as endeavours to implement best practices, such as Quality assurance, by soft pressure through naming and shaming rather than inflicting sanctions and fines.

The implementation of the Bologna process on the part of countries that had a different organization has meant not only re-organizational costs, but also many difficulties among its stakeholders in the ways the new system was explained and understood. The obvious advantage was to build up a more homogeneous education system, easier to compare and assess across countries and meant towards fostering student, and eventually labour, mobility. Ten years later, the university system displays apparently the same structure but it seems to yield still very different results. The following figures, all quoted from the latest Eurydice Report (2007) and describing the situation of tertiary education, may help illustrate the point.

The first observation is that, while it is true that richer countries tend to spend more per student in tertiary education than poorer countries, the ratio varies considerably across them: given a similar income, Sweden spends much more than the UK, and Finland more than Italy, while Ireland and Cyprus with very different GDP levels spend nearly the same.

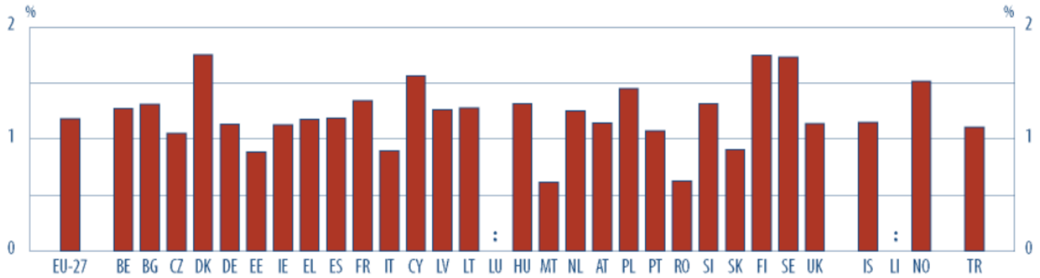
Figure 3: Yearly expenditure per student in tertiary education and per capita GDP in 000 EUR at PPP



Source: Eurostat/Eurydice

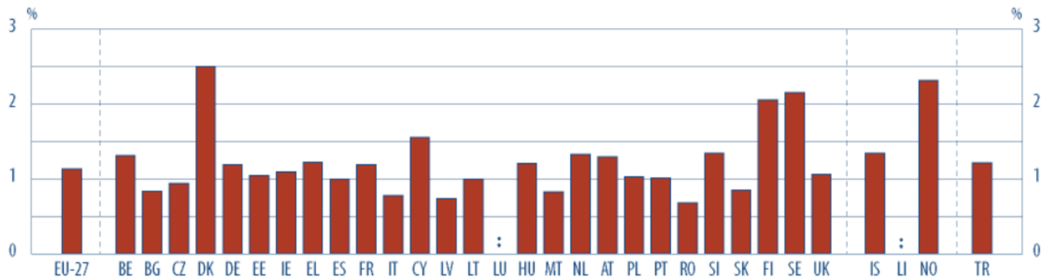
This information is confirmed by looking at total expenditure in tertiary education as a share of GDP, irrespective of whether it is public or private. Figure 4 shows that not only Scandinavian countries (especially Denmark, Finland and Sweden) present a share well above EU27 average, but also Cyprus and Poland do so, while Romania, Malta, Italy and Estonia exhibit the least figures for public expenditure on GDP. There does not seem to be a straightforward clue to explain the picture.

Figure 4: Expenditure in tertiary public and private education institutions in % of GDP, ISCED 5&6 Year 2003



A more impressive representation emerges if only public expenditure is taken into account. Figure 5 shows that only Scandinavian countries seem to believe in public tertiary education. Interesting enough, Turkey ranks higher than the EU27 average, probably as a consequence of the age structure of its population.

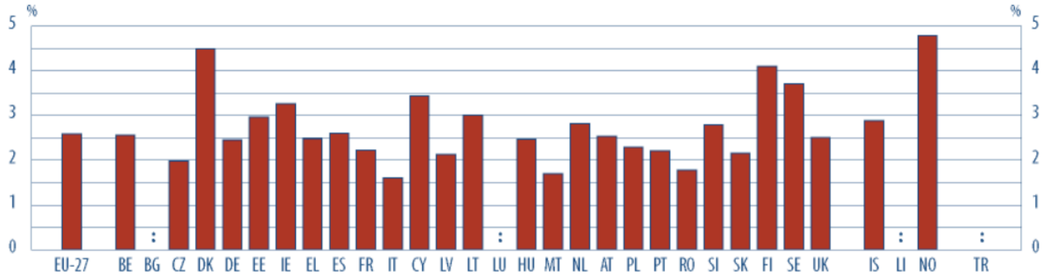
Figure 5: Figure 5. Total public expenditure for tertiary education in % of GDP, ISCED 5&6 Year 2003



A small public expenditure may be due to a small government budget, but the high variability of public expenditure for tertiary education as a share of total public expenditure is unlikely to fully support this hypothesis. While Scandinavian countries still rank highest and Italy, Malta and Romania lowest, Figure 6 shows that for other countries the rank does not seem to be consistent with that of Figure 5.

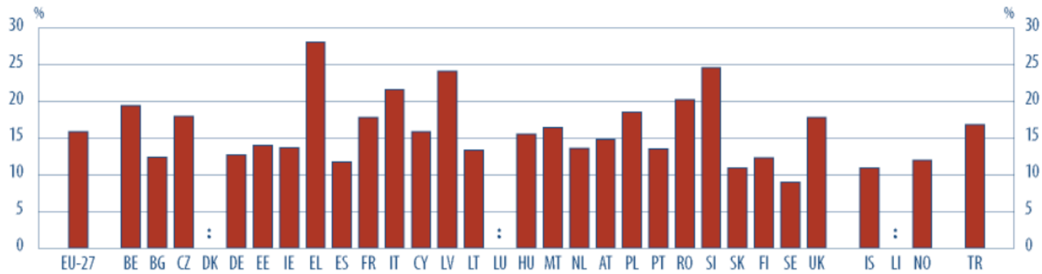
The overall picture is completed by looking at the student/instructor

Figure 6: Total public expenditure for tertiary education in % of total public expenditure, ISCED 5&6



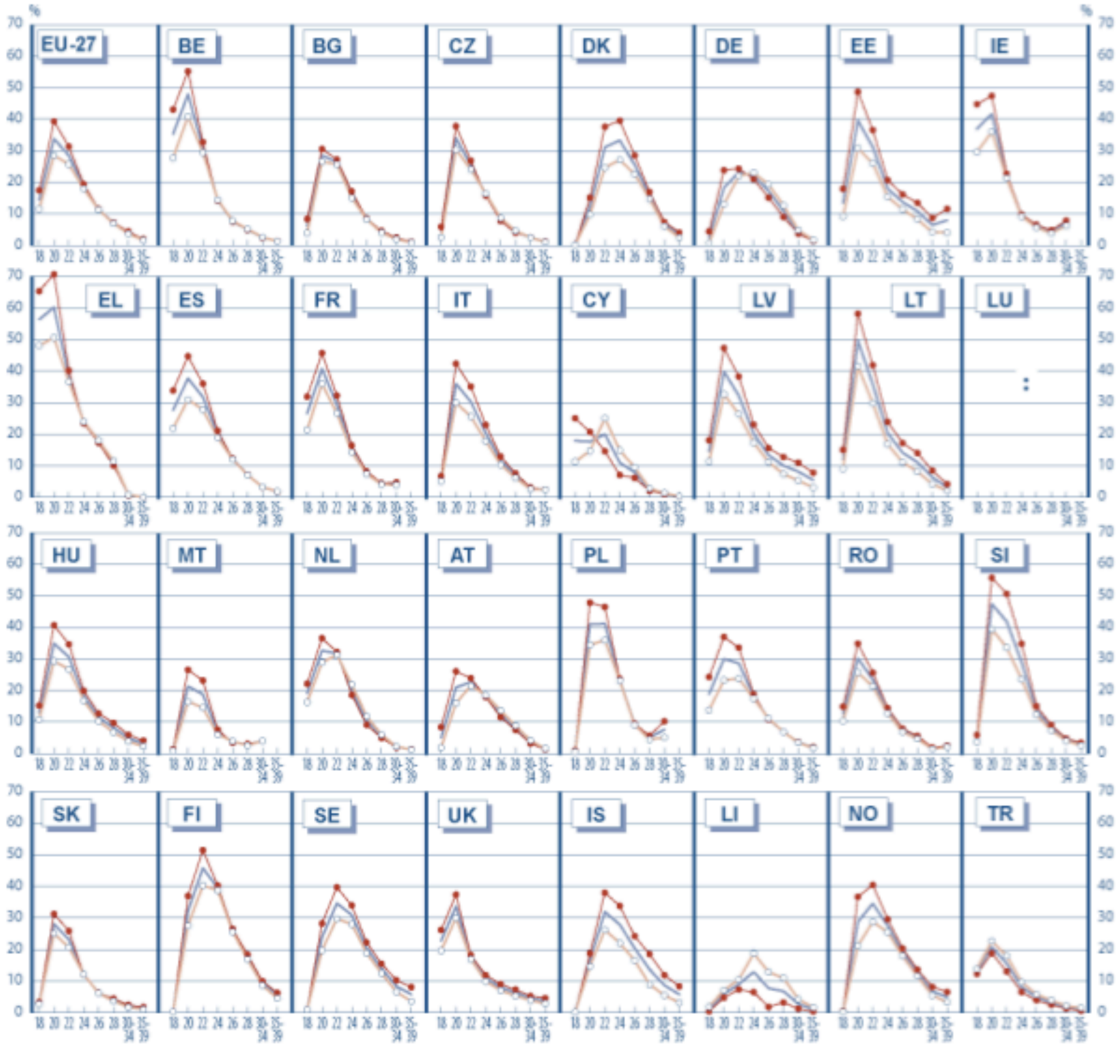
ratio (Figure 7). Again Turkey and the EU27 show similar figures (a little more than 15 students per instructor) while those countries who previously had shown a smaller-than-average expenditure, not surprisingly, now exhibit a higher-than-average ratio. Yet, this can hardly be seen as an efficiency indicator.

Figure 7: Student/instructors ratio in tertiary public and private education, ISCED 5&6 Year 2003/4



A detailed country by country comparison taking into account the share, age profile and gender of the students in tertiary education is shown in Figure 8 where heterogeneity is the word representing the picture at best. The only common feature is that in the vast majority of the EU member states, at a younger age, girls undertake tertiary education more than boys. Attendance and age profile widely differ, though.

Figure 8: Education participation per age and sex at ISCED 5-6 level in 2003/4



Source: Eurostat/Eurydice Figure B9 page 49. Red dots: female. White dots: males. Blue line: total.

No matter the recent move towards a more similar system following the Bologna process, huge disparities in tertiary education still exist. A few words on the Italian situation cannot refrain from underlying that in Italy the expenditure per student in tertiary education is much lower than that of countries with a comparable GDP, the expenditure for tertiary education on GDP as well as on total public expenditure, whether or not only public, is lower than EU average, while the student/instructor ratio is higher than average. Nevertheless, this would be good news if one could claim that the public funds employed in education are efficiently spent.

How do we measure such a basic concept as economic efficiency in the provision of public goods and in the public production in general? In the absence of a reliable price vector, other indicators have often been employed. For education PISA scores are often used. For tertiary education many indicators have been proposed and used, none of which unquestionably reveals extraordinary effectiveness in providing tertiary education, nor prominent efficiency in resource savings.

4 Conclusions

The paper has questioned the anticipated government downsizing as an expected result of globalization. Also the occurrence of a more homogeneous world had been less evident than anticipated, to the point that in many cases standardization and best practices have had to be imposed, not always successfully. Due to globalization, public administration has been subject to twists and turns and has faced the challenge with dissimilar results, whose thoroughly assessment resides outside the scope of the paper. Tertiary education aimed at supplying knowledge, a global public good provided by local government as well as by the private sector, exemplifies the problems and the complexities common to a fair share of the production through public means.

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