

# Administrative Decentralization and Management for Myanmar: Recap and Reflections on Year One (Part 2)



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# The Role, Size, and Quality of the Public Sector



# Role of the Public Sector: Leader or Enabler?

## The Public Sector as Leader (“Row the Boat”)

- Dominant position in the economy
- Principal agent of development
- Lead in development planning and implementation

## The Public Sector as Enabler (“Steer the Boat”)

- Catalyst in economic development
  - Facilitate/complement economic development of private and non-profit sectors
- Stylized distinction: matter of degree, proper mix; varies by place and time, country context, and point in history
- Avoid unintended consequences: do no harm

# Size of the Public Sector: Government Expenditure/GDP

- On-budget vs. off-budget
  - State-owned enterprises/government-linked enterprises
  - Central bank quasi-fiscal operations/subsidized credit programs
  - Special earmarked funds
  - Contingent liabilities
  - Tax expenditures
- Central government vs. subnational government
  - State and local government
  - Sanctioned and unsanctioned
  - Transfers and double-counting
- International comparisons
  - Over time and across countries
  - Definitions and footnotes

# Size of the Public Sector: Measurement Tricks

## Decrease Expenditures

- Tax expenditures (exemptions, credits, deductions) vs. subsidies for individuals, households, and businesses
- Tax expenditures (exemption of interest on state and local bonds, deductibility of state and local taxes) vs. direct transfers to state and local governments

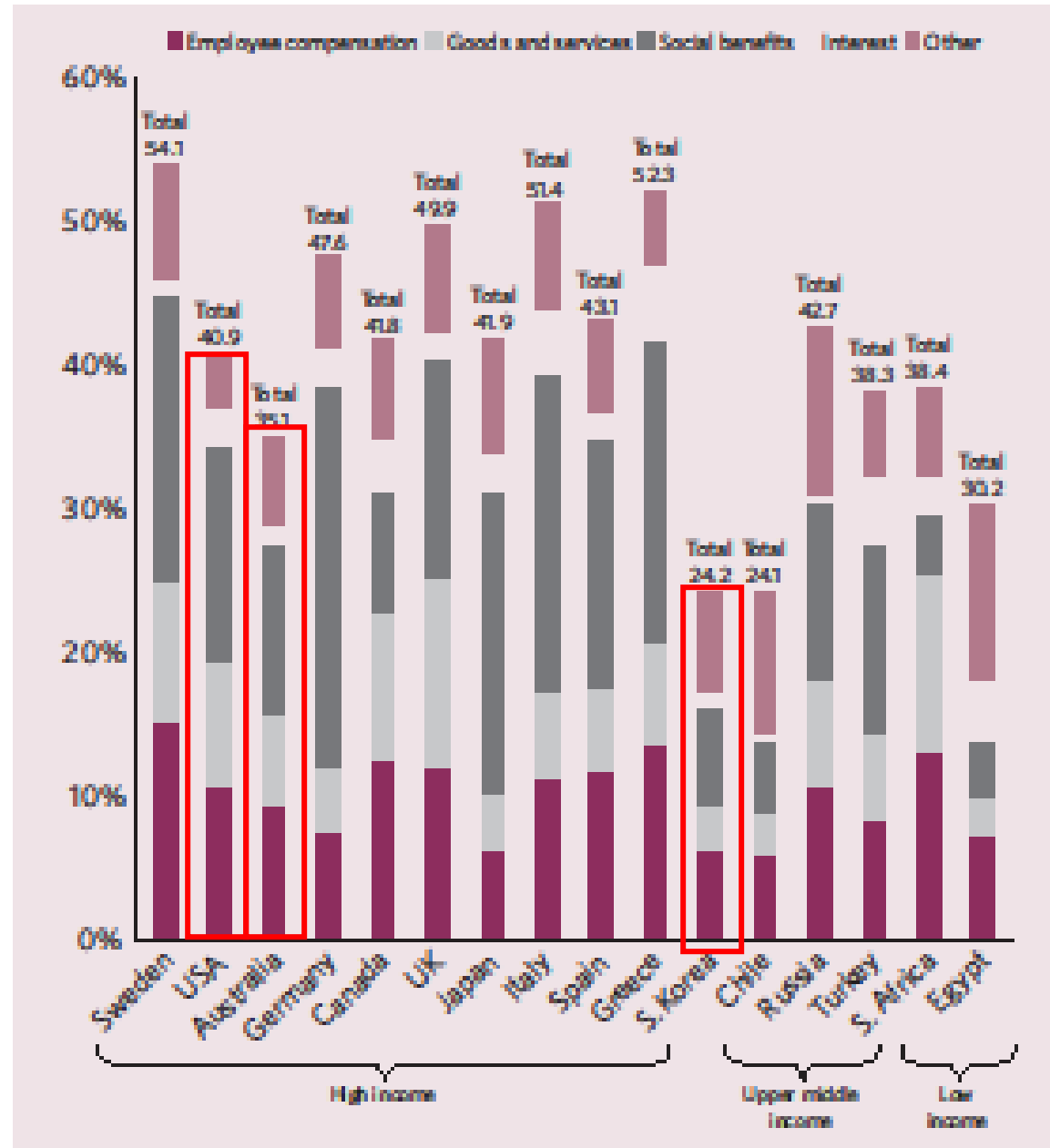
## Increase Revenue

- Record receipts when state assets sold, but not cost of asset reduction
- Raise level of tax withholding

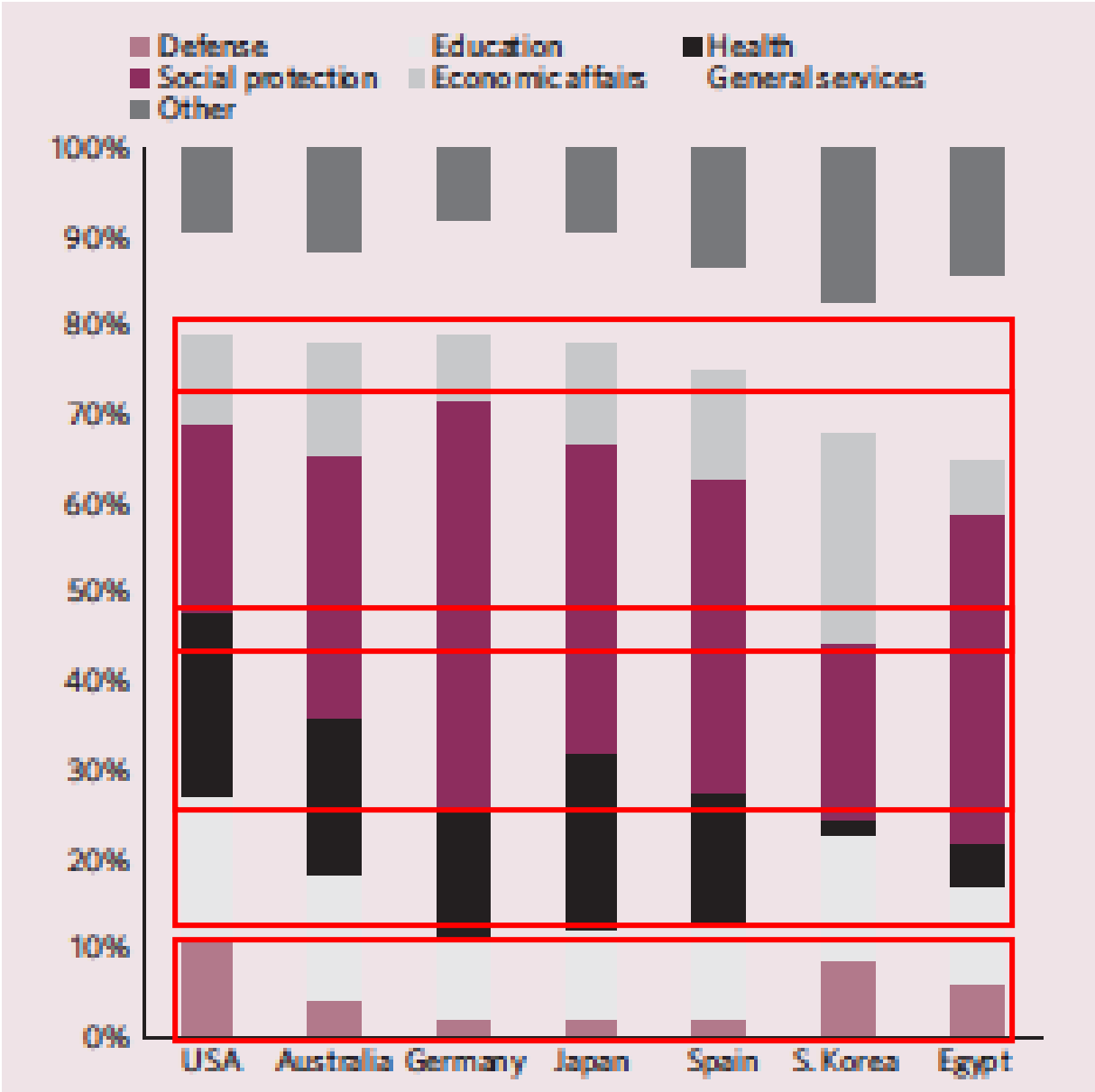
## Shrink Overall Size of Public Sector

- Move off-budget (see previous slide)

# Government Expenditures as a Percentage of GDP in 2009



# Composition of Government Expenditures in 2009



# Quality of the Public Sector: Government Failure





# Reasons for Government Failures

- Limited information for planning, implementation, and evaluation
- Limited capacity to undertake positive and normative policy analysis (next slide)
- Limited government control over private markets and the public bureaucracy
- Limitations of the political process and special interest groups
- Organizational differences between the public and private sectors
  - Soft rather than hard budget constraints
  - Political > financial concerns
  - Limited competition
  - Restrictions on personnel, procurement, and budgeting
- Individual differences between the public and private sectors
  - Weaker “carrots” and “sticks” (positive and negative incentives)
  - Principal-agent problems
  - Maximization of bureaucratic size and expenditure rather than profits
  - Risk aversion/red tape

# Positive vs. Normative Economics

- Positive Economics
  - Descriptive (What Is & What Will Be)
  - Portrait of Current Economy
  - Prediction of Anticipated Effects
  - Modeling and Simulation
- Normative Economics
  - Judgmental (What Should Be)
  - Evaluate Policy Alternatives
  - Based on Objectives, Values, Tradeoffs Between Winners and Losers
  - Utilizes Positive Economics