Reasserting the Public in Public Services

New public management reforms

Edited by

M. Ramesh, Eduardo Araral Jr and Xun Wu

Routledge Studies in Governance and Public Policy

Reasserting the Public in Public Services

After two decades of dominating the public sector reform agenda, privatization is on the wane as states gradually reassert themselves in many formerly privatized sectors. The change of direction is a response to the realization that privatization is not working as intended, especially in public service sectors.

This landmark volume brings together leading social scientists to systematically discuss the emerging patterns of the reassertion of the state in the delivery of essential public services. The state under these emerging arrangements assumes overall responsibility for and control over essential public service delivery, yet allows scope for market incentives and competition when they are known to work. The recent reforms thus display a more pragmatic and nuanced understanding of how markets work in public services.

The first part of the book provides the theoretical context while the second provides sectoral studies of recent reforms in healthcare, education, transportation, electricity and water supply. It includes case studies from a range of countries: Brazil, China, South Korea, Singapore, Thailand, Vietnam, USA, Hong Kong and the UK.

This book will be of interest to students and scholars in Political Science, Public Administration, Public Policy, Geography, Political Economy, Sociology and Urban Planning.

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1 Introduction

Reasserting the role of the state in public services

M. Ramesh and Eduardo Araral Jr

States are back, hesitatingly, even unwillingly, but it is widely accepted that they have no option but to rescue the market from itself. The financial rescue packages announced in many countries in late 2008 and early 2009 indicated some of the largest expansion in the role of the state as financier, owner and regulator in half a century. While some commentators are describing it as a sudden shift of the pendulum towards the state (Gills 2008), some scholars have observed this trend for some years now (Warner and Hefetz 2007). Regardless of when the trend started, this is certainly an opportune time for analyzing it and understanding its implications.

The debate on the extent and form of the government's role is, of course, not new, as scholars and thinkers at least as far back as Adam Smith [1759] have pondered over the issue (Sen 2009). While Smith was known for his explanation and defense of the workings of the market through his book *The Wealth of Nations* (1776) – popularized by the reference to the self-interested butcher, baker and brewer – little was known about his views on the role of the state. However, a close reading of his first book, *The Theory of Moral Sentiments* (1759) shows that Smith was also a defender of the role of the state in situations where the market fails to do so. In fact, Smith was deeply concerned with the failings of markets and the associated problems of illiteracy, poverty and relative deprivation. He expressed concern for universal education and poverty alleviation. He was concerned with institutional diversity and motivational variety and not monolithic markets and singular dominance of the profit motive. Smith argued the need for institutional solutions that fit the problems that arise rather than for institutions to serve some fixed formula or a dogma. These ideas, unfortunately, were not as attention-grabbing as reference to the butcher, baker and brewer.

Some 250 years since Smith's *Theory of Moral Sentiments*, the debate on the extent and form of the government's role is again on center stage. The current debate is new only insofar as the immediate past when it was common to deride governments as largely unnecessary and frequently incompetent. With markets collapsing and looking to governments for a lifeline, there is a danger that governments will turn to blunt interventions of the 1950s, overlooking the lessons of the last several decades suggesting more nuanced intervention in market processes.

The shift in the nature and extent of government intervention at the end of the twentieth century was built on the policy lessons of the preceding 50 years. In the years following the end of World War II, the role of the state expanded dramatically in both developed and developing countries to address adverse conditions at the time. In the developed countries, states took the lead responsibility for addressing the economic and social problems spawned by the Great Depression and the imperatives of post-war reconstruction, while in the developing countries governments expanded their role in order to expedite economic development. The result was a tremendous expansion in the size and reach of governments in all corners of the world. Described as the Keynesian Consensus, it involved government taking the lead role in macro-managing the economy, promoting industrial development, and providing social protection. The consensus began to unravel in the mid 1970s amidst spiraling inflation, unemployment and fiscal deficits accompanied by political unrest.

The economic turmoil of the 1970s created fertile conditions for the critics of the interventionist state who had never disappeared but rather receded to the sidelines in the heyday of Keynesianism. They blamed all economic ills on the state, arguing that the economic malaise was rooted in market distortions caused by governments (Brittan 1975). By muting and suppressing market signals, it was claimed that governments had fostered severe misallocations of resources which eventually emasculated the economy. Some of the critics went further and devised a formal theory of Public Choice which claimed to logically demonstrate that sub-optimal economic outcomes was an unavoidable result of state intervention (Buchanan 2003). The thrust of the Public Choice thinking – the general skepticism towards the state – became part of the mainstream thinking during the 1980s as governments began to roll back their involvement in the economy and in society generally.

The new consensus – also derisively referred to as "market fundamentalism" or "economic rationalism" – was initially confined to the English-speaking world but quickly spread to other parts of the world. The new policy thinking was actively promoted among developing countries, often backed by much-needed loans and aid from international financial institutions. Fiscal restraint; liberalization of regulations; weakening of trade and investment barriers; and privatization and marketization of goods and services produced by the government were the archstones of the new policy paradigm. Described as the Washington Consensus, the new policy framework was firmly in place by the end of the 1980s and it dominated reform debates in public policy and public management through the 1990s (Williamson 2000).

The faith in the minimalist government was, however, shaken by the economic turmoil of the late 1990s. The Mexican crisis of 1994 was followed by a much larger Asian financial crisis, with Russia and Brazil coming in the grips of a severe crisis in 1998, Turkey in 2000, and Argentina in 2002. Many countries suddenly faced with dire economic conditions had been some of the most ardent subscribers to the market-oriented reforms prescribed by the Washington Consensus. Some countries, notably China and India, that had not opened up their markets to the same extent, not only escaped downturns but actually grew rapidly (Kanbur 2005; Stiglitz 1998). The frequent crises since the mid-1990s fostered the conclusion that it was the excesses of the preceding market-oriented reforms that were to blame. Although there were many advances that benefitted society, there was also increasing recognition of the negative effects of many reforms which undermined the case that vital public services can be left entirely to the private sector.

The case of privatization of state-owned firms, the most hallowed of the 1980s reforms, illustrates the diverse, some expected and others unexpected, effects of the reforms. Empirical assessments of post-privatization experience tend to be largely positive overall. In a study of the privatization in four different countries, Galal *et al.* (1994) found net gains averaging 30 percent of pre-divestiture sales, with workers, owners and government always benefitting, and consumers benefitting in half the cases. Nellis (2003), Megginson *et al.* (1994), Boubakri and Cosset (1998) and La Porta *et al.* (1998) arrive at substantially similar results. Of all sectors, it was telecommunications in which the gains were the highest, a result of technological changes that almost eliminated natural monopoly and promoted intense competition. The case of telecommunications shows that privatization works if conditions of true market competition exist, a condition that does not exist in many sectors. Electricity transmission and water distribution (and, to a lesser extent, segments of the transportation industry such as rail tracks, airports, etc.) remain natural monopolies and their privatization led to unsatisfactory results. Although few privatized projects were cancelled outright, 74 percent of transport and 55 percent of water concessions in Latin America have had to be renegotiated (World Bank 2005).

Some of the greatest disappointments with privatization occurred in social policy sectors. In the healthcare sector, extreme market failures in the form of information asymmetries and externality effects meant that privatization expanded opportunities for providers to raise the volume and price of their services. While the quality of services improved, especially in non-clinical aspects, expenditures increased yet more. The result was an increase rather than the decrease in overall expenditures that was predicted by reformers (Wu and Ramesh 2009). The privatization of social security, most fervently pursued in Eastern Europe and Latin America, led to similarly unsatisfactory results (see Gill *et al.* 2004). The pension-related budget deficit rose instead of falling in many countries. Similarly, program coverage declined rather than increased as had been claimed, on the grounds that a closer link between contributions and benefits in a funded system would improve incentives to participate. Capital markets did not develop either, as had been predicted, because pension funds continued to hold safer government bonds. Interestingly, private pension funds proved more expensive to administer than the previous state-run systems, aggravated by the high marketing costs which reduced returns. Most significantly, the reforms did little to advance the main purpose of social security, which is to provide income security, as much of the unemployed and low-income population remained outside the privatized system.

The credibility of the market-inspired reform ideas was dealt a fatal blow by the financial crises that broke out in late 2008 which were widely blamed on inadequate government supervision of financial institutions. Governments around the world have had to launch massive financial rescue packages to shore up their economies and there is much talk of reasserting firm government control over the economy. Incidentally, the spikes in both the rhetoric and reality of government intervention are particularly large in countries most staunchly associated with rolling back the state during the 1980s: the United States and the United Kingdom.

The recent expansion is, however, only the latest phase in a longer term trend towards reassertion of the state's role. States have been reasserting themselves in a range of sectors and countries for some years now, sometimes in sectors from which they had withdrawn only a decade earlier. The revival of the state's role is being variously described as de-privatization, reverse privatization, re-balancing, re-centering, and emergence of the regulatory state. None of these descriptions are, however, entirely satisfactory as they fail to fully convey the complex, even contradictory, nature of the development. It is also not a case of the swinging back of the pendulum, because we are unlikely to be going back to the position that existed in the 1960s. What we are witnessing is not a move in one direction or the other, or even somewhere in between. It is instead a multifaceted and multi-layered phenomenon involving withdrawal in some respects and assertion in others.

The current redefinition of the role of the state is built on the belief that what is needed is effective and not minimal or maximal governments. Going beyond the tacit assumption that the choices between the state and market are mutually exclusive, the view accepts both as vital and explores ways in which the two can be combined to achieve policy goals. As Deng Xiao Ping might have said, it does not matter if it is the state or the market so long as the job gets done. The current failings of the market do not bring back rosy recollections of the state's achievements, as the abysmal failure of state planning in Eastern Europe and much of the developing world is still fresh in people's minds. But nor is the market as alluring, given the global economic turmoils it has wreaked. The last six decades have clearly shown both the potential and limitations of the state as well as the market.

It serves little practical purpose to engage in abstract debate on whether governments should or should not intervene in the market. A more fruitful question to raise is: what can governments do to ensure effective, equitable and sustainable public service? This book is an attempt to address this question by acknowledging, as a starting point, that what governments can and should do varies across sectors and nations due to conditions specific to the case in question. What is notable about the chapters in this volume, and others writing in the vein (for example, see Stiglitz 2008; Rodrik 2005), is the contingent nature of their claims. They accept that markets are a highly efficient and effective means of achieving policy goals but the extent to which their potential is realized depends on a host of conditions that must first be met. What governments should do depends on the sector in question, the interests of key actors, and the institutional context in which they operate, as the following section shows.

The new consensus: it depends

Some 250 years ago, Smith argued for the need to have institutional solutions that fit the problems that arise rather than for institutions to serve some fixed formula or a dogma. In light of the current economic crises, this argument is now worth revisiting.

The current debate on the role of the state is set in the background of the experiences of the last two decades. All in all, efforts to free up the economy through the 1980s and 1990s had mixed results at best, generating nuanced lessons. One lesson is that competition does not simply emerge by removing state ownership or regulations. And even if it does emerge on its own, the competition may not deliver results desired by the society. Governments may have to intervene to create the conditions for competition, as evident in the healthcare sector (Ramesh 2008). Sometimes, as in education and healthcare, it is necessary for the government to stifle competition in order to achieve socially desired outcomes.

There was also a shift in the thinking that promoting economic efficiency was the primary policy goal and that it was best achieved by reducing government involvement. It was realized that the resulting economic efficiency may not be accompanied by growth in not only the short but also medium and possibly long terms (World Bank 2005). The distinguishing feature of the "miracle" Asian economies of the 1980s was that they promoted economic growth rather than efficiency, and thus raised their population's standard of living. Scholars like Alice Amsden (2007) highlighted how "wrong" policies that compromised economic efficiency in the short run were crucial for laying the foundations for Korea's phenomenal economic development.

Another salient development of the 1990s was the greater acceptance in academic and policy circles that inequality and poverty are bad for economic growth (World Development Report 2008). Fairer and more equal societies enjoy more social capital which is conducive to effective decision making and implementation (Deaton 2003). The understanding led to the conclusion that governments should actively seek to reduce inequality rather than be agnostic about it in the hope that the benefits of economic growth will eventually trickle down to the entire population.

To ensure fairness and prevent corruption and abuse, the 1980s reforms had sought to establish clear and firm rules that limited discretion. But such rules also stymied growth by curbing innovation (World Bank 2005). So another significant policy lesson to be learnt was that governments need discretion, backed by clear accountability processes, in order to innovate.

The role of institutions, whose importance has been recognized for some decades, gained special salience in the 1990s. It came to be realized, for instance, that efficient markets do not simply emerge by the state's withdrawal from an area. For that, governments need to supply supporting institutions that were consistent with the country's social, economic and cultural system. There is also a need to create a demand for institutions by identifying institutional successes and failures, by experimenting with and recognizing local conditions, and opening information flows among others (World Development Report 2002).

Contributions in this volume are consistent with the emerging realization that the role of the state in the economy and society are contingent and context-specific and cannot be ordained in advance. The realization is based not only on the myriad theoretical and reflective writings on the subject (see Jomo 2008) but also solid empirical studies on privatization and deregulation over the last decade. The "it depends" line of argument is clearly evident in studies focusing on the efficiency and equity implications of privatization and regulation in sectors such as water utilities, electricity, telecommunication, transport, infrastructure, banking and social services such as health and education (Roland 2008; Parker and Saal 2003). Similar conclusions have emerged from studies on the effects of privatization on developing and transition economies (Nellis 2008; Cook and Kirkpatrick 2003; Hare and Muravyev 2003) and from studies explaining the shift towards mixed public–private delivery of urban services (Warner and Hefetz 2007).

A diagnostic framework

The new consensus "it depends" is not an entirely satisfying answer because of the question "depends on what?". Positive political theorists have proposed a diagnostic framework as a first step to answer this question. For example, building on the work of Ostrom (2005), Araral (2008) examines at least three broad sets of factors in a diagnostic framework as a starting point to the question "depends on what?". These broad factors – (1) the characteristics of the service; (2) the characteristics of the players involved; and (3) the transaction cost characteristics of institutions – are hypothesized to affect the incentive structures of players and hence the outcomes of privatization and regulation.

This approach builds on the work of scholars who suggest that institutional solutions should be designed to fit the problems that arise rather than for institutions to serve some fixed formula or a dogma. This approach is closely associated with Dewey's (1927) pragmatism which he espoused in his seminal work *The Public and its Problems*. What follows below is an examination of these three broad sets of factors and how they could affect the outcomes of privatization and regulation.

Characteristics of the good

The characteristics of the good have important implications for how it needs to be treated by the government for policy purposes. For example, primary healthcare and basic education services are characterized by extensive market failures – externalities and extreme information asymmetries – that prevent markets from functioning in a way that meets social needs. And sub-optimal operation is not an option for these vital services because contemporary community standards regard healthcare and education as basic human rights that should be available to everyone who needs them. Electricity and water supply are similarly essential services, but with the difference that they are characterized by elements of natural monopoly which engender different incentive structures and hence require different responses.

Market imperfections are, of course, not static: technological and institutional innovations have made it possible, for instance, to unbundle the competitive segments of utility markets from their monopoly segments. But the potential for change cannot be assumed a priori; it must first occur before policy makers can respond to it. The innovations in wireless technology that fundamentally transformed the monopoly nature of the telecommunications industry is not found in water or electricity supply and, hence, the latter needs to be treated differently by governments. This is a consideration policy makers should have borne in mind before they privatized electricity and water supply in the wake of success with privatizing telecommunications.

Information limitations embedded in a good or service – whether the good has characteristics of search good, experience good or post-experience good – also matter in public policy. For example, monitoring the quality of the services of teachers in a classroom or doctors in a clinic is not easy since they allow much discretion by the provider that cannot be monitored easily. In contrast, a health service such as immunization is easier to monitor. Information problems embedded in urban water supply have also been identified – among others – as a reason for the widespread failure of water utilities' privatization compared to the privatization of some other utilities (Shirley 2006). Information problems, in general, limit what governments can anticipate, specify, regulate, monitor and enforce and therefore also set a limit to what can be achieved by privatization and regulation.

The choice of whether a public good or service is to be directly produced or financed by the national or local government or contracted out depends on several factors (see World Development Report 2004): (1) the ease of monitoring the qualities of the good or service (which is a function of information problems embedded in the good or service); (2) the homogeneity of client preferences; and (3) the politics of public service (i.e. whether clientilistic or public interest). If the politics of public service is oriented towards the public interest and if the service is homogenous in its traits and its quality easy to monitor, then there is a case for the service to be financed by the central government (because the service is homogenous) and contracted out to public or private service providers (since standards are easy to specify and monitor). A good example of this is immunization. However, if the service is not easy to specify and monitor – for example quality of education services – but clients are homogenous, then the central government would be a more efficient provider of the service. If preferences are non-homogenous, local governments would be more efficient and responsive to diverse demands. If standards for local public goods are easy to specify and monitor, local governments can finance and contract out the delivery of such services, for example, street cleaning. Otherwise if the standards are difficult to specify in a contract, direct local government provision would be more efficient and responsive when preferences are diverse.

Characteristics of players

The characteristics of players involved in the production and delivery of public services – the clients, service providers and policy makers, including regulators and politicians – also matter to the outcomes of the government's decision to intervene or withdraw. The interests, ideas, and power of the key actors involved facilitate the choice and execution of some decisions and hinders others. Players vary by the composition and size of their membership, financial resources, ideology, history of cooperation, social capital, and so on, and these have a decisive impact on what governments can or cannot do. As Schalager (1999: 235) puts it, "theoretical development in public policy must specify the assumptions about the actors who motivate action or change" … as well as "the context that structures, constrains, guides and influences the actions taken by the actors".

Understanding the incentives faced by government agents is important to the outcomes of government intervention. By its nature, governments have multiple, unclear and changing objectives, reflecting the delicate balance among contending societal forces they embody. The problem of striking a compromise among contending societal interests is aggravated by the need to balance concerns for efficiency with equity and sustainable development as well as concerns for citizen engagement, and so on. The discontinuities in governments resulting from change in government or replacement of key ministers or officials has a similar impact on policies.

The interests of service providers and investors also shape governments' policies. They seek to maximize returns on investment while minimizing various types of risks: commercial, regulatory and political. The extensive literature on the problem of credible commitment and political and regulatory risks are good starting points to analyze how attributes of players matter to the outcomes of the government's efforts to engage the private sector in delivering public services (for the credible commitment literature, see Williamson 1981; Qian and Weingast 1997).

Improving public service delivery requires, for instance, strengthening accountability relationships among clients/citizens, and service providers/policy makers. This would involve among other things giving clients and citizens a stronger voice in influencing policy makers and politicians in the delivery of public services. Stronger voice requires that clients have access to more information about public service delivery. Strengthening the control of policy makers over service providers requires, among other things, the use of performance-based contracts – to the extent that contracts can be clearly specified, monitored and enforced cost effectively. Again, transparency of performance-based contracts is important if they are to succeed.

Institutional context

Developments in institutional economics – particularly the theory of incomplete contracts as well as developments in information economics – have led to a better understanding of the costs and benefits of government's decision to intervene or withdraw from an activity. Roland (2008), for example, suggests that contract theory has shown that previous assumptions in favor of public ownership of natural monopolies are unwarranted and that the purported advantages of private ownership are not unambiguous either.

In industrial organization theory, the case of natural monopoly is often invoked as the main argument for public ownership because it would allow government to impose pricing and production policies on firms that increase social welfare. Critiques of this theory, however, argue that it does not necessarily follow from the argument that public ownership is the only way to improve on the limitations of the laissez-faire model. For instance, Laffont and Tirole (1993) ask why can the government not regulate private monopolies and issue appropriate incentive contracts in order to achieve socially desirable outcomes.

Contract theory suggests that if the government knows exactly what it wants the producer to make, it can specify this in a contract or regulation and enforce it. In this case, there is no difference between in-house provision and contracting out. As Williamson (2000) and Grossman and Hart (1986) emphasize, ownership structure does not matter when complete contracts can be written. From this perspective, government ownership – under certain conditions – does not matter when it can align private incentives with social objectives through contracts and regulation. However, in the world of boundedly rational individuals, it is the general case that contracts are incomplete, information is imperfect and transaction costs non-trivial. Thus, ownership and contractual arrangements do matter to the outcomes of privatization.

Asset ownership, however, is only one part of the story. Technological and institutional innovations have also led to policy prescriptions that saw the unbundling of various functions previously monopolized by governments. Functions such as policy making, regulation, asset ownership, corporate oversight and service provision are functions that can be unbundled – in theory – to improve the delivery of public services. There are certain functions – for example policy making and regulation – that must always remain a function of governments – while asset ownership, corporate oversight and service delivery could be the responsibility of either public or private agencies or jointly through partnerships. Whether or not these functions are better left to the public or private agencies or through partnership arrangements depends on the context which, as earlier argued, is shaped by the characteristics of the good/service, the characteristics of the players and the transaction cost characteristics of the institutional context.

Service provision is no longer just a choice of either public or private provider. A wide range of contractual and financing arrangements are now available that allow for customization of delivery mechanisms. For example, in the delivery of urban water services, several types of public–private arrangements are available: (1) management contracts; (2) affermage; (3) lease; (4) concession; and (5) divestiture. Each of these arrangements has different implications in terms of operational responsibilities, financial implications, asset ownership and risk profiles. Each of these arrangements can be configured in different ways between the private contractor and the public contracting authority which allows for the customization of service delivery.

In the provision of public infrastructure, governments can introduce various contractual arrangements that mimic competitive markets and encourage private sector providers to provide for efficient service. These include mechanisms such as: (1) competition for the market; (2) competition via capital markets; and (3) competition in the market. Competition for the market consists of rebidding private sector contracts at regular intervals. Because the incumbent contractor risks losing the contract at the next bidding stage, regular rebidding is an efficient way of maintaining competitive pressure to deliver high-quality services at a reasonable price. Competition via capital markets occurs when operators can purchase their competitors by buying shares on financial markets or through direct mergers.

By paying attention to the characteristics of the good, the attributes of the players and the configuration of the institutional context, policy makers now can have more nuanced approaches to solving public problems beyond the dogmatic privatization and regulation debate.

Essays in this volume

The objective of this book is to map and comprehend the recent revival of the state's role in contemporary societies. Towards this objective, contributors to this volume highlight instances of reassertion of the government's role and draw conclusions on the basis of review of the literature and case studies drawn from different sectors and from different parts of the world. Together they present a fascinating picture of governments that have expanded into different nooks and crannies of economic and social policy sectors.

In the opening chapter, Guy Peters provides a sweeping overview of the shifts in thinking and practice with regard to the role of the government in economy and society in recent decades. He focuses particularly on the attempts to overcome the conceptual and practical shortcomings of decentralization and devolution to promote efficiency in the public sector. The most recent response has been the emergence of, what he calls, metagovernance in which the bureaucracy and politics play a central steering role in setting goals and priorities and ensuring their implementation by professional managers. "Soft laws" and "steering" are the key characteristics of this form of strategic management.

In the following chapter, Mildred Warner offers a broad theoretical overview of how governments have recently stepped up intervention in economic and social affairs to correct the shortcoming of market-based solutions to public problems adopted in the 1980s and 1990s. Markets are still used widely and even increasingly, but governments play a "market structuring role". She describes this trend as not only necessary but also desirable because it balances the efficiency benefits of market-type engagement with the technical benefits of planning. But she goes beyond governments and markets and calls for the inclusion of civic groups in the design and delivery of public services. She argues that public engagement can help mitigate government and market failures and foster solutions to difficult public problems that are both efficient and socially optimal.

Pierre and Painter investigate the largely ignored subject of the legal bases of market-based reforms of the public sector. They question if markets can substitute for the state in assuming public responsibilities, as governments alone have the necessary authority and legitimacy. The population values efficiency, choice and customer-orientation in public service, but they also expect impartiality, procedural justice, and accountability from service providers. They do not believe that the recent concept of "public value" bridges the contradiction between legality and efficiency in public sector organization. Nor are they sanguine about the prospect of overcoming the shortcoming by "publicizing" the private providers through formal contractual obligations.

Richard Walker, Gene Brewer and George Boyne take a more focused approach and empirically examine one of the fundamental tenets of NPM reforms: that public organizations perform better if they behave more like their private counterparts. Just as the imperatives to meet consumer demands make private firms operate efficiently, it is assumed that client orientation will improve public organizations' performance. Using empirical data from the United Kingdom, they find only a weak relationship between market orientation and public sector performance. Their conclusions cast serious doubts on some of the key assumptions of the NPM which have guided public sector reforms in recent years.

The next chapter by Anthony Cheung provides a detailed and perceptive account of the revival of the state in recent years in Hong Kong, the supposed mecca of free market capitalism. After years of NPM reforms and faced with a recession in the late 1990s, he shows how the government under Donald Tsang in recent years has reinstated the bureaucracy's primacy and is contemplating a more active role for the government in shaping the economy.

The following three chapters are on social policy, an area in which the role of the state has always been large but expanded further in recent years. M Ramesh compares recent healthcare reforms in China, South Korea, Singapore and Thailand, and finds an expanding state role in all four instances. However, the expansions are considerably different in substance, with different implications and different chances of success. He shows that healthcare reforms in the Northeast Asian countries have (Korea) or are in the process (China) of expanding social insurance without corresponding efforts to control the providers who have been the key drivers of explosion in healthcare expenditures. In Singapore and Thailand, in contrast, the government has gradually tightened control over both financing and provision of healthcare while allowing room for private competition. He argues that the Thai and Singapore governments' more activist role has been a key reason why the two countries have been able to maintain a lid on expenditures while meeting their health policy obligations.

Jonathan London offers a similar analysis of healthcare reforms, but with reference to Vietnam. Nearly a decade after China, in the late 1980s, the Vietnamese government began to reduce funding for healthcare, forcing households to carry a greater share of the burden. Without sufficient control over providers, the result was a rapid increase in household as well as overall health expenditure financed largely out of pocket. Faced with widespread public anxiety over affordability, the government is in the process of laying out a patchwork of programs to improve affordability. Efforts include various exemptions from fees, greater funding for local health centers, and a modest national health insurance program. If the Chinese experience is anything to go by, these measures are unlikely to address the problems that are rooted in the lack of adequate supervision of the providers.

Painter and Mok's analysis of education policy reforms in China is consistent with the findings for healthcare. After allowing the private or semi-private educational institutions to mushroom through the 1980s and 1990s, the government is currently in the process of limiting their unbridled growth which had increased costs and reduced affordability. The government has not only introduced regulatory and financial reforms to rein in the excesses of private operators, it has begun to articulate a broad commitment to maintaining a certain minimum standard of social welfare for the population. There is no chance of going back to the fully nationalized education system of the past, but rather to make the market work in ways that are acceptable to the population.

Paul Barter offers a sweeping survey of public transport reforms around the globe which indicate trends towards greater state coordination of private providers. He finds that in the developing world there is a clear trend towards an expanded state role in the public transport sector that has been traditionally dominated by the private sector. He finds evidence of an emerging governance model in which the government takes responsibility for delivering transportation services but delegates the task of actual delivery to private firms under service contracts, often with competitive tendering. He calls the approach "proactive planning with service contracting". The successful reforms have involved public sector planning and control while still promoting competition.

In the next chapter, Sunil Tankha analyzes the privatization of the electricity industry in Brazil and its subsequent nationalization. Faced with widespread public disaffection with the publicly owned and operated electricity industry, and in line with the prevalent economic thinking, the Brazilian government privatized the sector in 1995. Hopes of higher efficiency were dashed as prices rose, investments declined, and the quality of supply deteriorated, prompting the government to re-nationalize the sector in 2003. But in the current nationalized phase, the government is employing a mix of centralized planning and competition in order to avoid the excesses of exclusive government or private ownership in a vital monopoly industry. Performance to date suggests the industry is performing better than was the case under private or previous public ownership.

In the final chapter, Eduardo Araral examines the *outcomes* of water utilities' privatization worldwide with a focus on the fiscal and efficiency hypotheses. The