

Public Management Reforms in Israel

Prof. Itzhak Galnoor*
Deputy Chair, The Israeli Council for Higher Education

Abstract

The aim of this article is to provide an overview of the principal reform issues in Israel; privatization, public budgeting and the Civil Service, followed by a proposal for overall reform in public management. Nearly sixty years after its inception, the State of Israel still lacks effective public management, in terms of structure, modes of operation and division of labor between the political and administrative echelons. The instability of the political system in recent years undermines the functioning of public management institutions, especially the Civil Service. Moreover, the penetration of political behavioral patterns into administrative decision making processes may be discerned as well. In lieu of the increased influence of professional priorities on political decisions, we are witness to rising "politicization" of management considerations, in the form of aggressive negotiations and ineffective compromises. This phenomenon is apparent throughout the non-political executive echelons, i.e. the public sector at all levels; government Ministries, the statutory authorities, government-owned government corporations, as well as the local authorities. The budgeting process provides an instructive example of the dilemmas appearing in public management at all levels.

Democratic states introduce periodic reforms in public management to adjust the Civil Service to changing needs. Public management reforms have seen a worldwide burgeoning since the 1980's, primarily due to public pressure toward an improvement in services in return to high taxes, as well as the increased demand for high quality and transparent governmental policy making processes.¹ Virtually all of the western democracies have instituted reforms in public management, especially since the 1990's. These reforms emphasize the management of public institutions as part of the capacity building necessary to maintain democratic stability.² Although such public demand has emerged in Israel as well, for various reasons, all attempts to institute an overall reform in public management have failed.³

Israel is a technologically developed state with an educated population and a modern economy. However, the level of its public management is lacking in comparison with many democracies, and despite the attempts at innovation which we will describe below, this necessary tool –the public management machinery -- has not adapted to modern requirements.

We will commence with a discussion of privatization - one highly important reform which has been successfully instituted. Although this reform was the result of many factors other than the desire to improve the Civil Service, it has had extensive structural and substantive implications.

* Head, Civil Service Commission of Israel, 1994-1996

I. Privatization

Privatization, in its narrow, technical sense, is the transfer of assets, services and goods from responsibility and/or management of government organizations, to market organizations or the third voluntary sector (referred to often as "civic society"). From an ideological viewpoint, privatization aims at reducing the role of the State, explicitly the intervention of the executive branch in economic and social affairs. This aspect goes beyond our discussion of public management and relates to the widespread phenomenon of the decline of the "state" as an institution and to the overall economic and societal transformations taking place in many countries.⁴

Israel's privatization policy is consistent, if rather disorganized. The premise behind this policy is that goods and services are produced more efficiently and with fewer occasions for corruption, by private organizations. On this assumption, a wide range of public services in Israel have been privatized over the last twenty years.⁵

These changes have led to an increasing ambiguity as to the boundaries of responsibilities between the private and public sectors, as well as to some cooperation between the two, at times productive and at other times not so. An additional outcome has been the appearance of a powerful third sector which has appropriated many areas traditionally considered the State's responsibility, either willingly or out of necessity. The results of these processes were resolutely obvious during the Second Lebanon War (July – August 2006), when government Ministries and local authorities in the North virtually ceased functioning, and more than two hundred voluntary organizations operated in their stead.

Privatization in Israel may be perceived as a shift in the boundaries separating public and private, or market, allocation. Accordingly, the various areas of privatization may be categorized as follows:

- **The Privatization of Producing Private Goods:** The government's exit from activities such as road-building, mining and communications. The assumption is that privatization will lead to an increase in competition and thus to higher efficiency and improved services. Some examples of this type of privatization are the oil refineries (BAZAN), Israel Chemicals (ICL), and the Port Authority. Nonetheless, even justifiable privatizations such as these arouse dilemmas as to appropriate compensation for assets transferred, the transparency of the privatization process, the balance between beneficiaries and losers, violations of labor agreements and the scope of required post-privatization

regulation. Additionally, experience has shown that privatization often leads to the creation of private monopolies which take advantage of consumers, rather than an increase in competition.

- **The Privatization of Public Services:** This type of privatization is not always introduced directly by government, but comes about as a result of gradual reductions in services provided, creating gaps which are often filled by private service providers. Some examples of this are to be found in health services (the additional paid insurance offered by The Health Funds and private medical services offered in public hospitals); and in education (private schools and the various "enrichment" classes). Similarly, cutbacks in law enforcement funding have led many well-to-do homeowners to install security cameras and employ private security firms. Privatization of the prison service, which will be described later, belongs to this category.

- **The Privatization of Operations:** This type of privatization may be complete or partial, involving either the acquisition of private services by the government, or the transfer of operations to the private or the voluntary sector --such as in outsourcing, partnerships, franchises, sub-contracting and voucher distribution. These methods are often motivated by a desire to scale down the public sector or to increase flexibility in the decision making process. However, privatization of operations may lead to violations of workers' rights, as may occur when employment is transferred to personnel placement government corporations. If the process involves transfer of decision making authority to for-profit institutions, for instance in the field of retraining for the unemployed or nursing, one must consider the potential injury to helpless "clients".

The Privatization Process in Israel

The broad context of privatization in Israel is governmental involvement in economic development. The initial goal was improved services to the public. Thus, as early as the 1960's, the Bureau for Vehicle Testing was privatized; the Israel Association of Community Centers was founded in 1969; and in 1986 the Center for Office Technology was removed from the Finance Ministry and reorganized as a government corporation (Malam Systems). The public sector in Israel, including the Histadrut (The General Federation of Labor) and other national institutions, which in the 1960's was responsible for nearly 50% of the net domestic product,⁶ was bound to diminish in any case, due to the economic and societal changes in Israel, the new liberalism prevalent in many Western states and globalization. The

right wing Likud Party's success in the elections of 1977 accelerated the process introducing policies aimed at reducing government involvement in the economy.

Although there are numerous examples of the privatization by governmental institutions, a poignant illustration of this issue is provided by the dramatic transition experienced in *kibbutzim* (communal agricultural villages), and *moshavim* (cooperative villages), communities totally antithetical to a neo-conservative economic ideology. During the 1960's, there were 269 *kibbutzim* and 454 *moshavim* in Israel, based on the ideals of communal cooperation, including joint ownership of the means of production. The percentage of the Israeli population who were members of these villages was low (3.5% during the 60's), but their overwhelming influence was felt in all spheres of life in Israel, including agriculture and industry. This situation began to change during the 1980's, when the *kibbutzim*, and to a lesser extent, the *moshavim*, were faced with a series of crises, both ideological and economic. Most of the *kibbutzim* underwent momentous and diverse alterations; some were completely privatized and their assets were transferred to their members, others were partially privatized and introduced a system of salaried labor, payment for services, etc. In 2006, *Kibbutz* members represented 1.8% of Israel's population, and only about 40% had retained their communal framework.

As acceptance of an individualistic economic worldview spread in Israeli society, support for privatization and the reduction of the public sector intensified across the political spectrum, not only in the right and center but also within the previously dominant socialist Labor party. In fact, relatively few privatization processes were carried out during the years following the Likud's rise to power. Examples: the removal of the telephone service from the Communications Ministry in 1984, to a new governmental company – Bezek (which was sold to private investors in 2005); the creation of the Postal Authority within the Communications Ministry in 1987 (in 2006, a governmental company was founded – Israel Post Ltd.). The change occurred during the unity government (1984-1990), which adhered to an active privatization policy as part of its economic stabilization program, mainly the transfer of government corporations to the private sector.⁷ The amendment to the Government corporations Law of 1993 and the ensuing creation of the Ministerial Committee for Privatization provided additional momentum in this direction. Under Benjamin Netanyahu as Finance Minister (2003-2005), privatization was emphasized ideologically and applied not only to government corporations. During this period, outright attempts were made to curtail the welfare state and the public sector.

The Privatization of Government Corporations

During the late 1960's, there were 155 government corporations in Israel (including subsidiaries). This figure rose to 159 during the late 80's, and then fell dramatically, numbering 94 in 2006. The privatization process encompasses the transfer of government corporations to the private sector, as well as the reorganization of Ministerial departments and units as statutory authorities, government corporations or private government corporations. Several government corporations were even reorganized as non-profit organizations (e.g., The Bezalel Academy of Art and Design, in 1987). Another exceptional case is the gradual sale of Israel's banks, which were nationalized following the bank stock crisis of 1983.⁸ The privatization of government corporations generated revolutionary structural changes throughout the Israeli governmental public sector, as did the transfer of public ownership in the industrial sector (including the Histadrut and the *kibbutzim*) – a sharp decline was noted over the course of two decades: from 34% to just 18%.⁹

Nevertheless, the privatization process is affected more by political factors, than by economic considerations. For this reason, many big government corporations were not privatized and today the ten largest hold 80% of the total assets and 90% of the sales, principally in military products and services, energy, natural resources and trust funds.

Politically motivated factors constitute legitimate considerations – for instance, the desire to retain defense industries or to preserve important social services as public goods -- but often the interests of Ministers and members of boards of directors are involved as well. Certain government corporations have extremely powerful labor unions, such as the Israel Electric Corporation, which remains a government-held company to this day, despite the fact that several governments have decided to partially privatize it. The Government Corporations Law states that the founding of new governmental corporations or the sale of existing ones is the sole prerogative of the government. The Knesset is not part of the process and its Finance Committee is informed, but not required to ratify these decisions.

Since the inception of the State of Israel, the scope of governmental involvement in social and economic affairs and the political exploitation of mechanisms such as government corporations (and to the same extent, statutory authorities); pose a demand for fundamental modification. However, ignoring objective technical difficulties, past cases of privatization have been interlaced with controversial decisions – cronyism, lack of real competition, the replacement of governmental centralization with private centralization and random decision making. Most of the privatized government corporations in Israel have been sold to private investors rather than on the stock market, and in several cases a public monopoly was

converted into a private one. Certain privatizations came about without proper legislation, while others seem to be the outcome of an unfortunate inclination to privatize at any cost, regardless the consequences, ostensibly to promote "efficiency", including functions which the state ought to retain, not just for security reasons, but in order to preserve its authority and responsibility, and to safeguard fairness and human rights.¹⁰ The current attempt to privatize the prison service is a case in point.

Privatization of the Prison Service¹¹

Israeli prisons operate within the framework of the Civil Service, and correctional officers very much like the police officers are representatives of the state, operating under the jurisdiction of the Minister for Internal Security. In 2004, the Finance Ministry initiated an amendment of the law, to enable the foundation of an experimental private prison. Let me mention in passing, that the procedures preceding this legislation in the Knesset were far from thorough, transparent or unequivocal.

The ALA Company was awarded the tender for the construction and operation of the first private prison in Israel. The principal arguments cited by advocates of prison privatization were efficiency and the saving of public resources. In addition, it was argued that private prisons would offer some relief from the extreme overcrowding found in Israel's prisons. For example, while the average area per inmate in a public prison is 3.4m², ALA's private prison planned to offer 5.28m² per inmate. As to the fear of violations of prisoners' rights, the promoters claimed before the High Court of Justice that the "supervisory environment" they would provide for the private corrections officers would greatly exceed that available in public prisons, preventing violations of prisoners' rights. Furthermore, they claimed that Israel should study the examples of democratic nations such as Australia, New Zealand and Canada, all of whom had privatized some of their prisons.

This approach differentiates between punishment authority, which will remain in the hands of the state's courts, and the "captivity management" carried out in prisons, which may be privatized. In 2005, there were approximately 200 privatized prisons worldwide, with nearly 80% of them in the United States.¹²

The opponents noted that very few countries had introduced **total** privatization of prisons, such as suggested in Israel, a model based primarily on the prison system in the state of Texas (ALA had consulted with "Emerald", a firm that operates five Texas prison facilities). The opposition posited that although this model has been implemented in other countries, it represents a conceptual misunderstanding of the responsibilities of the state by

market economy promoters. They cited the fact that several governments, including the United States, are currently reexamining and reevaluating their prison privatization policies.¹³ The New Zealand parliament decreed in 2004 that prison privatization had failed and passed legislation preventing future attempts; in Australia, the women's prison in Victoria was renationalized, four years after being privatized. Moreover, as stated, most countries have refrained from total privatization, which would encompass financing, planning, construction and management, preferring partially privatized services such as medical care, catering, maintenance, security, etc., with the State retaining all correctional authority. Nonetheless, private prisons are planned in Israel, South Korea, Japan and in some other countries.

Opponents contend that even staunch supporters of privatization ought to recognize its inapplicability in certain fields, and that the responsibility for the prison system must be prevented from passing into the private sector. The state must retain the sole responsibility, even if public service is more expensive and less efficient. Incidentally, it has yet to be proved that private prisons are more cost-effective in the long run, including precise calculations of regulation costs.¹⁴

Incarceration of prisoners constitutes a unique public service, with deterrence as its primary aim; when deterrence fails, the system implements court ordered penalties; if offenders are imprisoned, correctional institutions are responsible for rehabilitation. Contrastingly, the aim of privately owned prisons is entirely different, because long-term, full-capacity incarceration is advantageous for them. Moreover, privatization is based on the premise that the market is more effective than the government due to competition. However, privatization of prisons does not create competition, unless competition is instituted between public and private prisons, or unless the "consumers" – the prisoners themselves – are permitted to choose between various private prisons. In short, the entire issue is questionable, as prisoners are not the sole "consumers", and society at large as well as human and civil rights must be taken into account.

As to prisoners' rights –they are not guaranteed in private prisons. With higher profits in mind, contracting companies may hire low quality staff, cut back on food or increase the rate of prisoners per cell,¹⁵ requiring the State to maintain high-cost, full-time supervisory staff to prevent violations. In other words, adequate supervision denotes increased regulation – to which proponents of privatization tend to oppose.

The salient point is that the days of infamous totalitarian-style prisons are long gone. Incarceration, even in neo-liberal states, is overseen by the government, and its transfer to the

private sector poses a threat to the very tenets of democracy. Following the logic behind prison privatization, one may incur that the state ought to go back to the Feudal practice and hire private tax collectors – if they can pledge to reduce tax evasion. Similarly, perhaps "private courts" could contribute to solving the problem of backlog in the court system, shorten procedures and hasten prisoners to the privatized prisons? Regulation of market interests in these cases would be virtually impossible because contracts stipulating how the judges, tax collectors, or correctional officers are expected to perform and use their professional judgments are inconceivable. Furthermore, privatization of this sort raises the possibility of corruption, with the government creating private for-profit entities with financial interests in the penal system. In fact, scholars have noted the emergence of a private prison lobby, promoting deregulation, reduced supervision and more severe prison sentences.¹⁶

The unfortunate situation of prisoners -- in Israel and in other countries -- must be addressed by the state and its public resources. The prison system, as well as other essential services, should remain beyond the limits of privatization policies, thus preventing violations of basic constitutional rights and of society's collective goals. Reforms must clearly define applicable areas of governmental authority suitable to privatization, as well as those that should not be privatized. One of the most extreme sanctions the state has against the individual is imprisonment, and that should not be turned over to private organizations.



II. Budgeting Reforms

The attempt to isolate the budgeting process from "political influences" is basically unfounded, although obviously there is room for improvement in the use of this tool, "sharpening the knife that cuts the public pie",¹⁷ as it were. How do it? Let us first investigate several budgeting assumptions.

According to one approach, every government action should be evaluated in monetary terms, assuming that specific qualities are embodied in the **cost –benefit formula**. For example, the profitability of investment in education would be measured by students' expected future contribution to the national product, or the contribution of an academic degree to an individual's income. The use of solely monetary criteria demands the transfer of diverse variables into monetary terms. The results are rarely precise; at times monetary

measurements are partial, irrelevant or distorted. Moreover, they disregard the merits of education as such.

The opposing approach disregards monetary criteria in assessment of public affairs, and posits that values such as security, welfare or education can not be construed in financial terms. The most radical proponents of this approach tend to favor absolute "truths", which are above trivial material interests; they renounce the use of many valuable financial indexes as assessment tools. This commonly results in rhetorical justifications, such as: "There is no doubt that this investment will be beneficial to many people"; "This expenditure will raise our prestige" etc. Justifications such as these may be correct, partially correct, or totally imagined.

Incorporating these two radical approaches, one begins to comprehend the role of the public budgeting process in democratic countries. Exaggerating the importance of financial criteria leads to emphasizing supervision of expenditures (in inputs terms) and a lack of attention to what is actually done. Exaggerating the non-importance of these criteria prevents discussion of the fact that money spent, including money spent on the most exalted aims, and could have been spent on something else. When one adds a reluctance to recognize the "politics" is involved in the budgeting process, the budgeting tool ceases to serve as a means to improve government activities on such issues as: How the budget can reflect real costs of programs such as vocational training, traffic accident prevention or homeland security? How can services such as irrigation projects or family planning be evaluated effectively? Can the budget identify the benefits and the distribution of clients served by public services such as hospitals, homes for the elderly, or schools?

The Budgeting Process in Israel

Soon after the establishment of the State of Israel in 1948, the Finance Ministry and the Bank of Israel set guidelines thus recognizing the governmental and economic importance of a sound budgeting process. The Budget Law is based on the Basic Law: The State Economy, 1975. The Budget Principles Law, 1985, set many additional principles to prevent deviations from the annual budgets passed by the Knesset.¹⁸ Israel's budget has made great advances toward the implementation of democratic principles. The "explanations to the budget proposal", which were added in 1955, have been expanded extensively and are now available to the public on the Finance Ministry's website.¹⁹

The government's Budget Bill is put before the Knesset two to four months before the beginning of the fiscal year. If the bill is not ratified within three months of the beginning of the year, this constitutes a vote of no confidence in the government and a date for new

elections must be set. Once the budget has left the Finance Ministry and been approved by the Prime Minister, there is relatively minimal alteration as a result of negotiations with other Ministers, representatives of the political parties or the Knesset finance committee. Provided there is a strong coalition, the government usually passes the budget through the Knesset without significant changes (as little as 3% of total expenditure).

Yet, the Budget Bill already includes some alterations and concessions made by the Prime Minister and the Finance Minister to appease coalition parties, especially those in strong bargaining positions. Ironically, during the years when the Prime Minister was elected directly (1996 – 2001), a step aimed at increasing the Executive power vis. a vis. the Knesset, the small parties acquired much more bargaining power in the budgetary process.

Deliberations in the Finance Committee commence after the budget has passed its first reading in the Knesset. The Committee has almost unlimited authority regarding government policy as it appears in the budget. However, Committee members are not actually equipped to grapple with the complexities of the budget proposal. Changes usually are marginal: pre-planned additions from the budgetary reserve, aimed at satisfying specific demands made by Committee members. In general, these changes do not relate to socio-economic policies, and they do not touch security policy. Knesset members' authority was limited further as a result of irresponsible private bills, which included expenditures above the budgetary limits. Consequently, the Basic Law: The State Economy was amended in 2003 and requires that a private bill with expenditures exceeding five million NIS must be approved by at least fifty Knesset members at each reading.

The Ministries' minimal involvement in budgetary planning, and the superficial deliberations conducted by the government and the Finance Committee of the Knesset, create a centralized and partially secretive process, with Israel ranking second among OECD countries in budgetary centralization.²⁰ Consequently, no organization throughout the political system, exclusive of the Finance Ministry, is familiar with the budget or able to comprehend its numerous volumes, or analyze its socio-economic aspects. This monopoly is not necessary, and in fact, it is opposed to Finance Ministry policies, which promotes decentralization.

As a result of the situation described above, the budget in Israel is rarely utilized as a policy-making tool, and in this regard, Israel lags behind other democratic countries. First of all, the budget proposal presented to the government lacks options, and the Ministry of Finance does not request alternative proposals from the Ministries. The Budget Law

constitutes the government's overall annual program; nevertheless, the government discusses one alternative only, on which Ministers can vote "yes" or "no", followed by hastily reached and marginal alterations.

Secondly, deliberations during the budgetary process focus on **expenditures**; Ministries are not required to present **output** (what they plan to produce, or who they serve) in their annual programs, or **outcomes** (cost account of anticipated benefits). The Ministries are more familiar with output and outcomes, while detailed expenditures are the exclusive monopoly of the Finance Ministry.

Thirdly, the annual Budget Law includes an "Arrangements Law" which encompasses much more than various amendments related to the budget and to taxation. Over the years, it has become a tool for promoting socio-economic ideology without substantive public or Knesset supervision.

Fourthly, the Budget Division in the Finance Ministry guards its exclusiveness zealously, preventing any other authority from analyzing the budget proposal. Ministries are directed to discuss articles relating to input rather than their annual programs, activities or services, whereas the government, the Prime Minister, the Ministers and the Finance Committee lack the independent resources necessary to contend with the "budget proposal" – the one and only, multi-articled version presented by the Finance Minister .

Fifthly, until the document known as the "budget proposal" is made public, the process takes place behind closed doors. Government Ministers do not participate in defining overall policy, and procedures are strictly departmentalized, each Ministry receiving only those portions of the proposal which relate to its activities.

The accumulated outcome: budgetary centralization discourages creative management and is the main reason for the lack of innovativeness in Israel's socio-economic policies.

Required Changes

Since the 1950's, there has not been a comprehensive structural reform in the budgeting process in Israel, while many other countries have introduced budgetary reforms and much may be learned from their experience and adapted to the Israeli situation.²¹ Accordingly, several fundamental changes are required:

- Abolition of the monopoly held by the Budget Division in the Finance Ministry in the budgeting process;
- Increased transparency at all stages of the process, including publication of an advance "user friendly" version of the budget proposal to promote public participation and media discussion;

- Intensified government discussion of available options for the socio-economic policies embodied in the budget;
- Allowing for Ministries' professional contributions to the budget process through plans and programs; commitment to outputs and outcomes rather than inputs only within the framework of the approved budget; prevention of deviations through internal Ministries' control over their budget articles;
- Introducing a new document to accompany the line-and-item Budget proposal comprising analysis of outputs and outcomes;
- Significant modification of current methods of parliamentary discussion of the budget proposal and of budgetary regulation.

III. Attempts to Introduce Inclusive Reform in the Civil Service²²

In 1974, public administration researchers in Israel published recommendations for improving Israel's public management.²³ Unfortunately, more than thirty years later, these recommendations are equally relevant. Although many changes and improvements have been implemented, most of them were incidental and limited in scope. Since the State establishment, no all-inclusive, planned and systematic reform has taken place in Israel's Civil Service. The broad goals of such a reform are as follows:

- To assist elected political leaders in policy design and decision making processes, including budget related issues, through professional analysis and organized and transparent decision making at the administrative level.
 - To provide efficient and high-quality services to the public.
 - To establish an effective framework for well defined regulation.
 - To establish cooperative frameworks for coordinating the work of Ministries, statutory authorities and government corporations to contend with multi-faceted policy issues.
- To develop and promote an administrative culture based on professionalism, impartiality and integrity, aimed at reinforcing the public trust in the Civil Service.

Before 1980, several attempts were made to restructure the salary system in the Civil Service, to improve the budgeting process, redefine the roles of central and local government, reduce the number of government Ministries, etc. Following the privatization policy and other changes described above, the government established a public commission,

known as the "Kubersky Commission", to examine issues of reform in the Civil Service. The Commission report, recommended an all-inclusive reform in Israel's public management system, and was unanimously endorsed by the Cabinet in 1990. Implementation of the Commission's recommendations was delegated to the Civil Service Commissioner and several committees were formed to execute them. However, no substantive reforms were carried out over the ensuing four years. The next attempt, and actually the only one that successfully implemented certain reforms in Israel's Civil Service, was a program known as "Change Generating Steps" that was introduced under Itzhak Rabin's premiership of 1994-1996.²⁴

Although this reform originated from within the Civil Service, it was discontinued by the next government in 1996. Additional attempts originating from the Prime Minister's Office had similar results, pointing to more fundamental structural causes.²⁵ An analysis of the obstacles that prevented implementation of all these reforms reveals the following reasons: insufficient political support; the absence of public pressure; the Finance Ministry consistent and determined resistance; the opposition of the workers unions; the inability to implement reform through legislation; the shortcomings of the Civil Service Commission. Moreover, in addition to the specific causes cited, the continuously instable political situation affects public management as well and prevents the implementation of long-term reforms. The administrative system in other states that experienced political upheavals, such as France's Fourth Republic, remained stable and maintained continuity until political stability was restored. In Israel, the interdependent nature of the political and administrative systems and the absence of a professionally autonomous Civil Service, have led to a situation whereby political instability is linked to the decline in public management.

IV. Recommendations for Reforms in Israel's Civil Service

This study has suggested possibilities for reform in several areas pertaining to the Civil Service in Israel. Following is a proposal collating the measures for a comprehensive administrative reform.²⁶ Based on past failures, the crucial problem is not the "what" (the substance of necessary reforms is familiar from previous proposals and reports as well as from the experience of other countries), but the "how": how to secure continuous support for an effective reform and how to implement it? The principal proposal is the creation of a management center with political and administrative power within the executive branch. This unit should be responsible for governmental public management on one hand, and have the authority to implement the reform and maintain it (for the requisite duration – approximately

ten years), on the other. The necessary legislation requires broad multi-party support to insure long-term support.

The Measures

1. Legislation: Basic Law – The Civil Service

This legislation would have two purposes: the integration of the Civil Service as a constitutional institution within the executive branch and the creation of a cohesive infrastructure for its implementation; and the integration of existing laws and adding new amendments, including legislative authority for implementing this reform.

2. Structural Changes

The goal is to redefine the basic structure and the Ministerial responsibilities within the executive branch: government Ministries, statutory authorities and government corporations.

- Restricting the number of government Ministries to fifteen and creating professional capacity for policy-making and for contending with regulation, supervision and follow-up;
- The foundation of autonomous "executive agencies" within Ministries aimed at providing direct service to the public, as a substitute for the privatization of governmental services. Disbandment of all other autonomous units and their integration into the executive agencies under the authority of the Ministers;
- Drastic reduction in the number of statutory authorities, currently numbered 45 (and employing approximately 20,000 employees), provision of clear guidelines for the establishment of new ones, for the adoption of appropriate management methods, supervised wages, and oversight, as well as measures to ensure the authorities' continued autonomy;

3. Privatization

- Prudent privatization based on transparent criteria integrating governmental, social and economic needs. Controlled transfer of functions and services, with the exception of important public goods, to the private sector, as well as to local authorities and civic organizations;
- Dissolution or merger of existing government corporations, establishment of policies for control and wage supervision, total de-politicization of appointments to directorships and management positions of government corporations;

- Establishment of clear guidelines for regulation and deregulation, and functional division of labor between Ministerial regulators and specific regulatory authorities.

4. Budgeting

Fundamental modification of current perceptions, processes and tasks:

- Abolition of the monopoly and the centralization of the budget process;
- Introduction of an output/outcome based budget, to accompany the detailed line and item budget – the latter to include no more than one thousand legal lines (over 8,000 now);
- Participation of the Ministries in the budgeting process, through program planning and follow-up after the budget approval;
 - Transparency at all stages of the process;
 - Intensification of governmental deliberations on the socio-economic policies included in the budget; reform of the Knesset Finance Committee handling of the budget proposal, and the establishment of parliamentary budget supervision tools;
 - Revocation of the Arrangements Law, with the exception of taxation proposals to be appended to the Budget Law.

5. Delegation of Authority

- Modification of the current centralized structures and mode of operation and transition to an intentional policy of delegation of authority from Finance Ministry divisions (the Budget Division, the Civil Service Commission and the Accountant-General) to other Ministries and from Ministries to executive agencies.
- Maximizing economization of resources through Ministerial planning and increasing incentives for creativity in policy making and public management.

6. The Civil Service

- Reduction of the governmental public sector based on: an all-inclusive policy implemented gradually over a ten year period; structural redefinitions; separation of functions; and privatization policy.
 - Changing and curtailing the Civil Service into a professional body reducing the number of employees to 30,000, abolition and merger of divisions, modification of Ministries as professional policy units and transfer of functions to executive agencies (e.g., reorganization of the governmental hospital system as an executive agency);

- Redefinition of the Civil Service Commission from the current supervisory body to the "Management Office" of the executive branch. The Commission's new functions: personnel recruitment and development, professional standards and ethics, and improved public services. The redesigned Commission will encourage the adoption of advanced managerial methods, long-term budgetary planning, and management based on transparency, disclosure and public accountability.

- Wage increase for civil servants, to attract highly qualified staff; preparation of long-term remuneration policies under the authority of the Commission; establishment of advancement tracks, retraining programs and benefits plans;

- Enforcement of the Tender Law, abolition of internal tenders and long-term "temporary" appointments in the Civil Service;

- Full compliance with Equal Opportunity laws, advancement of women, Arab citizens, Ethiopian immigrants and individuals with special needs;

- Implementation of the public sector disciplinary recommendations proposed by the Kremnitzer Committee (1998).

7. Senior Civil Servants

- Establishment of a professional, inter-ministerial senior civil servants corps of the four highest ranks, including the Directors General and the CEO's of the statutory authorities – comprising approximately one thousand positions. Senior civil servants will operate under the authority of the Civil Service Commission rather than the individual Ministries, to curtail the too strong "organizational turf" phenomenon ;

- Establishment of a Civil Service Academy for members of the corps, focusing on policy design, advanced management techniques and public ethics;

- Establishment of advancement training tracks and continuing education programs;

- Corps members will be employed under personal contracts, including compensation and benefits agreements, and measures to prevent political interference in hiring and advancement.

8. Political Appointments

The whole Civil Service including Authorities and government corporations will be legally separated from the political arena, precluding all political appointments in these governmental organizations. A legal separation between the political leaders and the public administration personnel will be established, ensuring appointments based solely on

professional capabilities. Employees will be appointed on the basis of public tenders and search committees under the supervision of an independent Civil Service Committee.

9. Supervision and Control

- Well defined transparent regulation policies;
- Intensification of internal supervision following the delegation of authority policy to ensure transfer the responsibilities to the Ministries; Simultaneously, increased post-factum control mechanisms administered by external supervisory boards;
- Intensification of supervision and control mechanisms operated by parliamentary committees;
- Legitimization of the positive control functions exercised by civic organizations and by the mass media.

10. Public Service Quality

- Implementation of realistic programs in all government Ministries aimed at enhancing the quality of services to the public through measures such as "citizen charters", customer satisfaction surveys and client/service indexes;
- Implementation of quality controls in all units, tied to employee compensation, decentralized service and freely-available online information;
- The "citizen charters" will provide descriptions of available services, as well as quality assessment criteria (such as accessibility), and criteria for service differentiation. Assimilation of public service quality in Israel is a task demanding long-term consistent action.

11. Civic Organizations

The State will recognize the social, economic and democratic contribution of civic organizations. It will modify the supervisory and regulatory functions currently in use, and replace them with a coherent, consistent and unified approach to all third sector organizations. The enhanced support will be based on fully disclosed criteria.²⁷

12. Local Government

Implementation of a comprehensive reform based on a redefinition of the inter-relationships between the two tiers of democracy in Israel – national and local; the reform will stipulate ways and means of delegation of authority to the Local Councils and for increasing the public accountability of the local political and administrative echelons. The goal is the transfer of most services provided by relevant government Ministries to local authorities.

13. Administrative Culture

The measures for reform presented above should lead to the regeneration of administrative culture in Israel, with an emphasis on several decisive elements:

- The development and internalization of a culture of integrity, based on the assumption that civil servants are honest people unless proven otherwise, including efforts to enhance the public credibility of government employees;
- The development of screening mechanisms aimed at locating qualified conscientious civil servants and the implementation of corruption-discouraging training programs, dispensing with the need for rigid supervision and relying on employees' honesty and integrity;
- Changing the extraneous and destructive culture of secrecy prevalent within the Civil Service and between government offices and the public; Full implementation of the Freedom of Information Law;
- Changing the culture of improvisation towards creative, analysis-based processes of policy and decision-making;
- Intentional efforts to renew citizens' trust in the Civil Service as a basis for legitimization of the Service's activities.

V. Laying the Groundwork for Reform

The main prerequisite for implementation is the formation of an administrative agency within the executive branch, with the power and authority to commence the reform and maintain it over the course of approximately ten years. Given Israel's political situation, this entails the establishment of a "Public Management Unit", preferably within the Prime Minister's Office, under the auspices of a special Minister with broad actual authority, operating simultaneously on two levels:

- The Minister will have authority over all elements associated with the Civil Service and the division of functions between the central and the local authorities;
- The Minister will be in charge of implementing the reforms in the public sector.

Past failures have led to doubt the feasibility of such a broad reform. Following the reform attempt of 1996, "The Change generating Steps", it was noted that "the heavily loaded

Civil Service train has finally started to move, but the wheels are creaking and the going is slow. Once it stops, it will be very difficult to restart once again."²⁸

In retrospect, this prognosis has proved true, and the additional obstacle of an instable political system in Israel has further diminished the prospects – preventing the implementation of a Civil Service reform which is long-term and necessitates multi-party political support. Thus a vicious circle has been created: an instable political system -- leading to controversial political decisions – causing frequent changes of Ministers and Directors General – contributing to diminishing moral standards and public trust in politicians and administrators – and the this state of the Civil Service further contributes to the decline in the political system's governing capabilities.

Nevertheless, implementation of a comprehensive reform is essential, for this is not an inconsequential matter – what is at stake here is the quality of services offered to Israeli citizens and the contribution of the Civil Service to social, economic and defense policy-making.

¹ See D. Osborne and T. Gaebler, *Reinventing Government*, Penguin, 1993; M. Barzelay, *Breaking Through Bureaucracy*, California University Press, 1992; C. Campbell and G.K. Wilson, *The End of Whitehall*, Blackwell, 1995; "The New Public Management," *International Encyclopedia of the Social and Behavioral Sciences*, 18, Elsevier, 2001, pp.12510-12513; C. Pollit and G. Bouckaert, *Public Management Reform: A Comparative Analysis*, Oxford University Press, 2000.

²F. Fukuyama, *State-Building*, Cornell University Press, 2004, p. 122

³ See I. Galnoor, D. Rosenbloom and Yaroni, *Public Management Reforms in Israel*, *The Economic Quarterly*, 1998 (Hebrew)

⁴ G. Sheffer, *Global and Local Processes and the Decline of Political Institutions in Israel*, 2004.(Hebrew)

⁵ This section is based in part on a policy statement, "The Responsibilities of the State and the Limits of Privatization", produced by a research group under my direction at the Center for Social Justice at the Van Leer Institute in Jerusalem, 2007, (Hebrew)

⁶ H.Barkay, *The Public Sector, the Histadrut and the Private Sector in Israel*, The Hebrew University, 1964, p. 25. (Hebrew)

⁷ Y. Katz, *Privatization in Israel and the World*, Peker, 1997, pp.165-182 (Hebrew); Sh. Ekstein, B. Zilberfarb & Sh. Rosevitz, *Privatization of Companies in Israel and the World*, Bar Ilan University, 1998; see also M.Shalev, *The State's Changing Role in Israel's Economy*, in M. Naor, Ed., *State and Community*, Magnes Press, 2004, pp.20-25 (Hebrew)

⁸ Between 1977 and 1983, the banks in Israel artificially regulated their stock values in relation to the US dollar and the inflation rate, by purchasing them on the stock market. The regulation, which caused considerable gaps between stock prices and their real market value, brought Israel's four largest banks to the brinks of bankruptcy. Cessation of regulation brought about a severe economic crisis leading to nationalization of the banks. A State commission (the Beisky Commission) investigated the episode.

- ⁹ Y. Ze'ira, *From Socialism to Capitalism*, in Naor, op. cit. 2004, pp. 55-56 (Hebrew)
- ¹⁰ J. Wilson, *Bureaucracy*, Basic Books, 1989, p. 349
- ¹² Based on Supreme Court 2605/05, *The Academic College for Legal Studies, Ramat Gan, v. The Minister of Finance; Another Country*, 33, *Constitutional or Unconstitutional? The Privatization of Prisons*, April – May 2006; I. Galnoor, *Perhaps We Should Privatize the Courts Too?*, *Haarets*, 2006 (Hebrew); for a historical study, see M. M. Freely, *The Privatization of Punishment in Historical Perspective*, in W. T. Gomley, ed., *Privatization and Its Alternatives*, Wisconsin University Press, 1991, pp. 199-225.
- ¹² L. Ben-David & Y. Truan, *A Comparative Study of Prison Privatization*, Information and Research Division, The Knesset, 2006 (Hebrew)
<http://www.knesset.gov.il/mmm/doc.asp?doc=m01537&type=doc>.
- ¹³ R. Culp, "The Rise and Stall of Prison Privatization," *Criminal Justice Policy Review*, 16 (4), December 2005, pp. 412–442
- ¹⁴ T. C. Pratt and L. Maahs, "Are Private Prisons More Cost-Effective than Public Prisons? A Meta-Analysis of Evaluation Research Studies," *Crime and Delinquency*, 45 (3), 1999, pp. 358–371
- ¹⁵ For prisoners' rights litigation in North America see www.privateci.org
- ¹⁶ U. Timor, "Privatization of Prisons in Israel," *Israel Law Review*, 39 (1), 2006, pp. 81–104
- ¹⁷ W. Gorham, "Sharpening the Knife that Cuts the Public Pie," *Public Administration Review*, 28, 1968, pp. 236–241
- ¹⁸ See above, and A. Rubinstein & B. Medina, *Constitutional Law in the State of Israel*, vol. 2, Schocken, 2005, pp. 880-912. (Hebrew)
- ²⁰ www.mof.gov.il For a comparison with the 1970's, see I. Galnoor, *The State Budget in Parliament*, Tevel Institute (prepared for the Budget Division), April 1972. (Hebrew) Nevertheless, the budget is still incomplete as it contains obtuse articles, and since a portion of the public expenditure appears in the budgets of the Jewish Agency, the Zionist National Fund and the Keren Kayemet.
- ²⁰ A. Ben-Basat & M. Dahan, *The Balance of Power in the Budgeting Process*, Israel Democracy Institute, 2006, p. 32.(Hebrew)
- ²¹ I. Galnoor, *What Israel Can Learn from British Reforms in Public Budgeting*, Management Bulletin, 6, March 1974, pp. 32-62. (Hebrew) See also A. Ben-Basat & M. Dahan, op. cit., 2006, pp. 177-185 (Hebrew).
- ²² This overview is based on D. Deri & A. Naor, *The Principles of Public Management*, Units 3-4, The Open University, 1997, pp. 154-166 (Hebrew); Galnoor, Rosenbloom & Yaroni, *Public Management Reforms in Israel*, 1998 (Hebrew); A. Kfir & Y. Reuveni, eds., *Administrative Reforms*, Zerikover, 1998 (Hebrew); D. Nachmias and O.A. Gantz, "The Crisis of Governance: Government Instability and the Civil Service," *Israel Affairs*, II (2), April 2005, pp. 281-302.
- ²³ "Improving Governmental Management", Management Bulletin, 4-6, 1974, pp. 122-124 (Hebrew).
- ²⁴ See I. Galnoor, Rosenbloom & Yironi, op. cit., 1998 (Hebrew).
- ²⁵ For example, the "Reform Unit" formed in the Prime Minister's Office under Ehud Barak, 1999-2001, failed to make a mark.
- ²⁶ I. Galnoor, *Creating Effective Public Management in Israel*, a memorandum sent to Prime Minister Benjamin Netanyahu in 1996, Ehud Barak in 1999, Ariel Sharon in 2001 and Ehud Olmert in 2006. (Hebrew)
- ²⁷ See The Israeli Center for Third Sector Research, *The Committee Report on the Functions of the Third Sector* (The Galnoor Committee), 2003. (Hebrew)
- ²⁸ I. Galnoor, *No, Mr. Commissioner*, Yediot Publication, 2003, (Hebrew)