

Public Sector Downsizing in the Cook Islands: Some Experience and Lessons

Kanhaiya L. SHARMA

*Senior Lecturer in Economics
The University of the South Pacific
Suva, Fiji Islands*

Fax: (679) 323 2522, e-mail: sharma_kl@usp.ac.fj

Abstract

An Economic Reform Program (ERP) was undertaken in the Cook Islands in mid-1996 when the economy was in a serious financial crisis due to an unsustainable fiscal expansion as a result of growing wage bill, an expanding welfare system, and surging capital expenditure largely funded by external borrowing. An attempt is made in this paper to understand the process adopted in the public sector downsizing which was a major component of ERP. The extent of the reduction in employment and the wage bill is found while analyzing the growth of the private sector. The process of downsizing involved a forced mass reduction in the size of the public service by 57.2 percent within a year without adequate development of the private sector. As a result large numbers of those laid off have emigrated to New Zealand and Australia for employment opportunities since 1996. A great loss of skills has resulted in deterioration in the quality of services especially in the health and education sectors. The process did, however, achieve the desired result of cutting spending on public servants from 58 percent in 1994/95 to 39 percent in 1997/98 of total budget expenditure. Downsizing should be carefully designed and carried out in phases over a period of time in the context of a particular institutional setting.

Keywords: Cook Islands, public sector downsizing, public sector reform,

Introduction

Public sector downsizing is an increasingly important component of economic reform, both in industrialized and developing countries, in much the same as trade liberalization and financial liberalization were in the past two decades. The reasons underlying the downsizing vary considerably across countries. These include general move toward a more market economy; to reduce excessive bureaucracy, fiscal crisis necessitating to cutback in government spending; and a combination of some or all of these (HALTIWANGER and SINGH 1999).

RAMA (1999) reviewed some international experiences with downsizing from the

studies reported at the World Bank Conference on Public Sector Retrenchment and Efficient Compensation Schemes, held in November 1996. The article addresses five questions: how to identify the redundant workers; how to predict their losses from separation; how to design compensation and assistance packages; how to assess the financial and economic returns to downsizing, and how to deal with downsizing in one-company towns. He concludes that these reform efforts can substantially improve economic efficiency with a well-designed protocol in the context of a particular institutional setting of a country. Rama's synthesis of studies presented in the World Bank conference provides a conceptual framework for analyzing the effects of downsizing. But there are practical problems associated in assessing the costs and benefits for deriving real financial and social gains from downsizing.

There are two ways to downsize: involuntary dismissals, and a voluntary approach. Involuntary attempt could lead to politically unfeasible scenarios. Hence, a voluntary approach to reductions is popular among developing countries. The voluntary approach offers severance pay to encourage the redundant workers to quit without much resistance to downsizing. The main obstacle to this approach is bearing the heavy cost of its implementation. This includes reallocation of many workers to the private sector; average compensation; retraining, and redeployment packages. While the gains from downsizing are potentially large, many workers in the public sectors of developing countries contribute little to aggregate output or welfare.

Since mid 1980's, a number of Pacific Island countries have adopted the neo-classical economic ideology to pursue their growth and development strategies (REDDY 2000). Further, economic policies in these countries pursued deregulation of factor and product markets, and deregulation of the financial market and trade liberalization. These policies emphasize competition at all levels and less government intervention in markets for efficient resource allocation to achieve higher economic growth.

The main purpose of downsizing in the Pacific countries is to make public sector efficient. This can be done by reducing excessive labour force in order to increase its productivity and reduce government expenditure (wage bill). This requires a carefully designed protocol with efficient mechanism of reducing overstaffing. Furthermore, the downsizing operation should not ignore the non-economic environment in a country in which these decisions are made. Social and political institutions play a significant role in determining economic events. Political forces operating in a country probably play a major role in determining the equilibrium level of public sector employment.

Reforms in the Pacific Context

Most of the Pacific Island countries got their independence during the 1970s, which may be described as the "decade of independence" while the 1980s were substantially the "decade of big government" (KNAPMAN and SALDANHA 1999). Govern-

ment expenditure as a percentage of GDP grew to one of the highest in the world, assisted by high aid inflows, which led to fiscal crisis. The failure of output growth to outpace population growth was the fundamental long-term development problem as referred by Knapman and Saldanha. The main cause of the fiscal crisis was economic mismanagement. A range of economic and public sector reforms was initiated in the mid-1990s to promote sustained growth (DUNCAN *et al.* 1999). Thus the 1990s emerged as the "decade of reform" for the Pacific.

The Asian Development Bank assisted 7 of the 12 pacific developing member countries in their reform programs. These countries were Cook Islands, FSM, Marshall Islands, Nauru, Samoa, Solomon Islands, and Vanuatu. The Cook Islands faced a severe economic crisis in 1995-96 due to economic mismanagement over a period of time including fiscal imbalance caused by the excessive wage bill of employees. As a result a comprehensive Economic Reform Program (ERP), including downsizing was initiated in mid-1996. It would be worth noting that all reform programs were triggered by fiscal crisis and involved rather brutal downsizing, as opposed to carefully designed civil service reforms.

Objectives

An attempt is made in this paper to:

- understand the process of public sector downsizing adopted in the Cook Islands;
- find out the extent of employment reduction and wage bill due to voluntary and involuntary layoffs;
- analyze any growth in the private sector to absorb redundant workers released from the public sector;
- discuss some side effects of the downsizing program in terms of its impact on retained and displaced public servants;
- derive some lessons from the Cook Islands experience for other island economies.

The analysis is based on information from government documents; discussions with government officials; laid off workers, and some private businesses.

A Brief Background of the Cook Islands

The Cook Islands comprise 15 islands and atolls spread over an EEZ of about 2 million sq. kms. Two of the islands are currently uninhabited. The Cook Islands has been a self-governing nation in free association with New Zealand since 1965. As a result of this special relationship, Cook Islanders are citizens of New Zealand and have

unrestricted access to reside, work, and draw social benefits in New Zealand and in Australia as well. Thus open access to these two developed nations has had profound implications for migration patterns of Cook Islanders. The country's economic characteristics are similar to other Pacific island nations: limited natural resources; remoteness from major trade centres; diseconomies of scale, and dependence on government-generated economic activity and employment.

Table 1 depicts key indicators of selected Pacific Island countries. Cook Islands is a small island of 237 sq. kms with a population of 18.4 thousand in 2003. It has the highest per capita income (GNI), of about US\$7550 in 2003, among the main islands of the South Pacific. Tourism is the main export earner of the country. Other products include fish and seafood; pearls; fruits and vegetables; perfumes; soaps; crafts, and jewelry. The subsistence sector is about 9 percent of GDP.

Table 1. Key Indicators of Selected Pacific Island Countries.

Country	Land area Sq. Km	Mid - year (2003) Population('000)	GNI/ capita (US\$) 2003	Life expectancy (year 2003)	
				Male	Female
Cook Islands	237	18.4	7550	68.0	74.0
Fiji Islands	18333	831.6	2240	66.0	71.0
Papua New Guinea	462243	5620.0	500	59.0	62.0
Samoa	2935	179.3	1440	67.0	70.0
Solomon Islands	28370	504.2	560	69.0	73.0
Tonga	649	101.4	1490	71.0	71.0
Vanuatu	12190	207.0	1180	67.0	69.0

Source : Asian Development Bank, *Key Indicators* 2005, Manila, Philippines.

The Cook Islands economy achieved the average real rate of growth of GDP to the extent of 5.7 percent per annum during the 1980s and early 1990s (Table 2). The economy experienced recession during the period 1994-95 to 1997-98. The worst years were 1994 and 1997 with negative rate of growth of 4.4 percent. All sectors including tourism were badly hit except construction industry during these years.

Table 2. Average Annual Growth of GDP in Percentage at 1990 Prices - Cook Islands.

Sector	1982-86	1986-90	1990-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Total GDP	5.73	3.27	5.64	-4.37	-0.15	-2.79	-4.21	5.78	9.82	-3.28
Agriculture & fisheries	-1.54	4.57	0.23	-2.52	4.34	12.22	-18.07	-2.75	32.35	-24.05
Mining & manufacturing	20.76	-1.64	-3.38	-6.06	-10.85	6.91	-2.15	21.70	1.55	3.56
Electricity & water	47.22	0.11	14.49	-9.80	-9.32	3.77	-4.62	6.23	-7.17	-17.19
Construction	18.05	-13.41	23.17	32.65	9.52	8.70	18.55	-6.75	27.63	6.96
Wholesale & retail trade	3.58	7.36	6.75	-8.61	1.92	3.72	0.30	16.46	11.49	4.67
Restaurants & Accommodations	14.83	-1.00	21.63	-8.25	2.81	7.01	2.13	-4.42	8.28	10.79
Transport & communication	6.43	0.10	12.94	-3.66	-6.90	3.68	-10.86	64.66	6.71	4.36
Financial services	17.05	9.28	8.93	4.80	-2.47	3.70	7.06	6.75	8.61	7.58
Public administration	6.33	5.44	3.51	-0.89	-4.84	-33.41	-5.64	-3.82	-2.14	-18.90

Source: Author's computations based on data from the Cook Islands Government, *Cook Islands Annual Statistical Bulletin*, Various issues, Raratonga.

Economic Reform Program in the Cook Islands

The Cook Islands was a state-based economy in terms of employment and income generation for a long time. Private sector was less developed. People used to expect that the state would take care of them by providing employment and some social benefits like child benefit payments. Further, the public service was massively over-staffed over a period of time. In fact, it was operated on the basis of political patronage. Large sums were spent on wage bills and welfare payments, and surging capital expenditure mostly funded by external borrowing. At last the economy reached the stage of bankruptcy and could not manage to pay even a month's salary to its employees. This led to forced downsizing since there was no other option.

At the beginning of March 1996 an assessment was made of the country's financial and economic situation. A looming liquidity crisis was identified. It became clear that the government would not be able to meet its financial commitments up to the end of the fiscal year. The critical situation led the government to formulate a comprehensive document, "Path to Recovery - Reform Agenda", expressing its intention for economic reform.

The Path to Recovery document outlined the Economy Reform Program (ERP) viz. public sector downsizing; strengthening financial and economic management; stimulating private sector growth; reforming the leading productive sectors (tourism, agriculture, and marine resources), and addressed sustainability and social equity issues (WICHMAN 1998).

The ERP involved a three pronged strategy:

- achieving and maintaining macroeconomic stability, with a strong focus on attaining fiscal and external sector balances, and the reduction of debt;
- ensuring structural reforms, with policies to reduce the role of Government and to promote private sector-led output expansion in the key productive sectors;
- mitigating risks, especially with respect to social risks.

Process Involved in Downsizing

A National Retreat held in March 1996, was tasked among other things, to consider the speed of public service reduction and cutbacks in government expenditure. The participants included business people; trade unionists; traditional leaders; government officials, and representatives of the wider community. During that retreat it became apparent to the government that they could not afford the luxury of a three-year period to cut back government expenditure. This would have to be achieved within one financial year. A New Zealand funded Secretary and ADB funded team, which arrived in early March, provided technical advice to deal with the crisis.

The following drastic measures were in place by mid-1996 to deal with the down-

sizing:

- Large numbers of public servants were forced to retire. The number of Ministries was reduced from 52 to 22;
- Ten Assistant Ministerial positions were scrapped;
- Most overseas diplomatic positions were eliminated;
- There was a temporary, across-the-board pay cut of 15 percent for members of parliament and public servants, effective from 1st March 1996;
- The wages and salaries of Members of Parliament and public servants were cut for two months (May-June) by a further 50 percent (the wages and salaries withheld were paid back by Christmas 1996);
- Non-personnel costs were reduced.
- Funding for planned international events was reduced or cancelled.
- State-owned hotels and several other state-owned enterprises were put on the market.

Table 3 presents the size of the public service for the pre-reform and post-reform period. Before downsizing in March 1996, 3168 persons were in public service - a peak in public service. In the post-reform, numbers were reduced to 1499 (47.3%) in March 1997; 1341 in September 1998, and then reached a trough of 1303 in May

Table 3. Public Service Size - Cook Islands.

Period	No. of persons		
	Total	Male	Female
Pre-reform peak			
March 1996	3168	N/A	N/A
Downsizing in 1996			
Post - reform			
March 1997	1499	N/A	N/A
September 1998	1341	780 (58.17)	561 (41.83)
May 1999 (Trough)	1303	733 (56.25)	570 (43.75)
January 2000	1360	763 (56.10)	597 (43.90)
December 2000	1462	834 (57.04)	628 (42.96)
December 2001	1477	845 (57.21)	632 (42.79)
December 2002	1771	1038 (58.61)	733 (41.39)
December 2003	1866	1107 (59.32)	759 (40.68)
December 2004	1875	1109 (59.15)	766 (40.85)

Figures in parenthesis indicate percentage share of male and female in public sector employment.

Percentage change in number of persons in public service during a period

March 1996 - May99	- 58.87
May 1999 - Dec2000	+12.20
December 2000 - Dec2002	+21.14
December 2002 - Dec2004	+ 5.87
March 1997 - Dec 2004	+25.08

Source : Author's computations based on data from the Cook Islands Government, Public Sector Surveys, Rarotonga.

1999 - a decline of 59 percent from a peak in March 1996.

After about three years of the downsizing operation, upsizing started in the public service with a rise from 1303 in May 1999 to 1875 in December 2004 - an increase of 43.9 percent during the period. In fact, downsizing was only by 40.8 percent from pre-reform March 1996 to post-reform December 2004. The gender composition in the work force did not change much in the pre-reform and post-reform period. Males were 56 to 59 percent while females were 44 to 41 percent.

Another set of data on numbers of public sector employees before and after restructuring by islands for June 1996 and June 1997 are presented in Table 4. It is apparent that about 49 percent of employees lost their jobs within a year of the downsizing. Most of the people in the outer islands were state employees and the job loss was to the extent of 62 percent.

Table 4. Numbers of Public Service Employees Before and After Restructuring (Salary and Wage Workers).

Island	June 1996	June 1997	Total Jobs Lost
Raratonga	1,699	942	757 (44.56%)
Aituaki	284	114	170 (59.86%)
Atiu	143	54	89 (62.24%)
Mangala	192	76	116 (60.42%)
Mauke	114	45	69 (60.53%)
Mitiaro	64	28	36 (56.25%)
Manihiki	95	46	4 (51.58%)
Nassau	6	4	2 (33.33%)
Penrhyn	137	54	83 (60.58%)
Pukapuka	102	53	49 (48.04%)
Rakahanga	45	21	24 (48.88%)
Total	2,881	1,437	1,444

Source: Cook Islands Government, Cook Islands Public Service Data-excludes Members of Parliament.

It was appropriate to observe trend in government expenditure due to restructuring of public service. Table 5 depicts the share of government expenditure by type during 1982-2004. In the pre-reform period of downsizing (1982/83 to 1995/96), wage bill alone accounted for 52 to 56 percent of total government expenditure. Additionally, employers' contribution was in the range of 2 to 4 percent during the period. In total government spent 60 percent of total expenditure on its employees. In the post-reform period government spending on wages and salaries, including employers' contribution reduced to 39 percent in 2003/04. It was obvious that government was able to reduce its spending by restructuring the public sector.

Additionally, some strategic measures were announced to restore fiscal sustainability by the government in its 1997/98 Budget Policy Statement. The 5 points strategy includes: repaying debt; restoring liquidity; privatization and asset sales; growing the economy without intervention by government in productive sector development;

Table 5. Government Expenditure in Percentage by Type - Cook Islands.

Type	1982/83	1986/87	1990/91	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2003/04
Wages and salaries	51.9	49.8	53.8	56.2	53.5	40.5	38.9	41.3	37.7	37.8
Employer contribution	3.6	4.2	3.2	1.9	2.4	2.2	2.2	1.6	1.2	1.2
Purchases of goods & Services	27.2	24.8	23.3	18.8	23.6	38.4	33.6	30.5	37.9	43.0
Subsidies	6.7	6.5	5.8	5.6	3.1	0.0	0.0	0.0	0.0	0.0
Transfers to households	5.3	5.5	7.9	9.3	12.6	12.6	10.0	11.2	9.7	9.7
Transfers abroad	1.9	1.6	0.8	1.2	1.1	1.3	1.2	1.4	0.7	0.5
Capital expenditure	3.5	7.5	5.1	7.0	3.6	5.0	14.0	14.0	12.7	7.6

Source : Cook Islands Government, *Cook Islands Annual Statistical Bulletin*, Rarotonga, 2005

and establish social equity and national reserve fund. These measures assisted in reforming the tax regime to become fair, equal and simple; privatizing and contracting out activities; adopting and output focus to budgeting; and reducing the size of the public service.

Transition Assistance Project

The Transition Project was an ancillary project funded through the New Zealand Overseas Development Assistance (NZODA) as part of the reform strategy. Its main objective was to alleviate the immediate impacts of mass redundancies and provide services to move surplus public servants to alternative employment during the transitory period.

The specific objectives of the Transition Project were to:

- facilitate the absorption of government employees into the private sector through training, job-search support, private sector partnership schemes and enterprise funding;
- facilitate the establishment of self employment and new small businesses through enterprise development funding;
- address the social and economic impacts on individual surplus servants and their families through the provision of temporary financial support; budgeting advice and counselling services; and
- increase the ability of organizations and communities to manage the impacts of the reform at a local level.

Two inter-linking structures were developed: the Transition Service and the Community Action Program.

Transition Service

The Transition Service was designed to deliver assistance in the form of a 'one stop shop' for surplus public servants and their families. Assistance included:

- the dissemination of information through a resource booklet entitled, *There is life outside the Public Service* and through the PSA news letters *What's Happening?*;
- a three-month benefit payment (family bridging support) to all those declared surplus;
- an employment service which included a vacancy register, job referral service and wage subsidies to employers taking on surplus public servants;
- free training programs in skills required by the public sector or for income generation in primary production; and
- enterprise assistance in the form of loans and grants, small business workshops and on-going business advice.

Community Action Program

The Community Action Program was set up in response to the expected impacts on areas of the community other than the public service. It was designed to provide a forum for developing new ideas and for problem solving, using the skills, knowledge and material resources existing within the Cook Islands community.

These initiatives turned out to be less effective in terms of reducing migration, hardship due to salary cut and redundancies, food prices, and crime rates (Corydon 1997).

Private Sector Development

One of the objectives of ERP was to achieve a higher rate of growth of output by the private sector to be the driving force in the economic recovery. The private sector was negatively affected by the fiscal and financial crisis in 1995; however its production has been remarkably resilient. From 1982 to 2000 average annual growth of output was 5.1 percent, far exceeding the overall rate of growth of real GDP of 2.8 percent (ADB 2002).

The government undertook various policy actions to promote private sector development. These measures are discussed in detail in ADB, 2002. Key policy actions are highlighted.

- Private sector was constrained in its access to domestic loans due to crowding out effect of massive public borrowings. Government freed up loanable resources for the private sector being shifted from a net borrower to a net creditor.
- Labour shortage was experienced in the private sector due to decline in fertility and aging population; internal migration from Rarotonga to outer islands; boom in the tourism and black pearl sectors; and inadequate wages. A few measures were suggested to overcome labour shortage. These include incentives to promote the employment of school leavers, review of minimum wages, and ease restrictions on labour import until labour market constraints lessen.
- Small businesses experienced problems in securing finance especially in terms of delays in loan processing. Establishment of the new Bank of the Cook Islands eased this constraint and increased lending to productive activities.
- Trade and tariff policy regime went thorough moderate reforms as a result of the ERP. Private businesses benefited from changes in import duties, and simplification of tariff structure.
- The Development Investment Board was created to promote trade, investment, and business in the Cook Islands, and monitor direct foreign investment.

Table 6. Employment by Sector, 1991 and 1996.

	1991		1996		Annual Growth Rate(%)
	No.	Percentage	No.	Percentage	
Cook Islands					
Private	2,662	40.3	2,992	57.2	2.3
Public	2,885	43.7	1,559	29.8	-12.3
Other	1,051	15.9	679	13.0	-8.7
Total	6,598	100.0	5,230	100.0	-4.6
Rarotonga					
Private	2,310	50.1	2,530	62.9	1.8
Public	1,728	37.5	1,024	25.5	-10.5
Other	574	12.4	467	11.6	-4.1
Sub-total	4,612	100.0	4,021	100.0	-2.7
Southern					
Private	265	18.7	340	42.7	5.0
Public	887	62.6	341	42.8	-19.1
Other	265	18.7	116	14.6	-16.5
Sub-total	1,417	100.0	797	100.0	-11.5
Northern					
Private	87	15.3	122	29.6	6.8
Public	270	47.5	194	47.1	-6.6
Other	212	37.3	96	23.3	-15.8
Sub-total	569	100.0	412	100.0	-6.5

Source : Asian Development Bank, *Cook Islands 2001 Economic Report : Policies for Progress*, Manila, Philippines, 2002, Table 3

- The Small Business Enterprise Centre was opened to provide a range of services to small business in Rarotonga and outer islands. These include business training, business advice, networking, mentoring, the new ideas forum, and administrative support to small businesses.

There are limited data available to describe trends in private sector employment. Table 6 shows employment by sector for the 1991 and 1996 censuses. Private sector employment grew at an annual growth rate of 2.3 percent during the period when total employment was declining at 4.6 percent per year. Over the same period, private sector employment increased from 40.3 percent of total employment to 57.2 percent. For the southern and northern groups, the employment in private sector grew faster (5 to 7 percent) than in Rarotonga where the rate was 1.8 percent. However it was realized that private sector development was not sufficient to absorb the mass redundancies after the downsizing in March 1996. This was reflected in the large number of emigrants in search of jobs overseas during 1996-98. Effects of downsizing are discussed in the next section.

Effects of the Reforms in the Public Service

The effects of the restructuring in the public service are discussed in terms of impacts on retained public servants; displaced workers from the public service in terms of migration and other social aspects.

Impact on Retained Public Servants

A survey was conducted for social impact assessment of restructuring by Corydon Consultant for NZODA in 1997. 290 of the remaining public service employees were surveyed. Based on some indicators, effects of restructuring are presented in Table 7 (CORYDON 1997). The response show that in spite of increased work pressure and frustration over inadequate resources, the restructuring has had a positive impact on job satisfaction among the vast majority of employees who remained in public service. 74 percent or more were experiencing an increased sense of purpose, had clear objectives and felt they were being encouraged to use more initiative in their work. Almost half of the outer islands staff surveyed reported that the rate of pay had decreased. There was some difference of opinion between males and females on the degree of effects of restructuring.

Table 7. Effects of Public Service Restructuring on Public Servants, by Selected Indicators, Location and Gender.

Effect	Raratonga	Outer Islands	Male	Female	Total
Increased sense of purpose	126 (79.2%)	103 (78.6%)	128 (75.3%)	101 (84.1%)	229
Clearer work objectives	117 (73.6%)	98 (74.8%)	124 (73.0%)	91 (75.8%)	215
Difficulty meeting expectations	92 (57.9%)	74 (74%)	102 (60.0%)	64 (53.0%)	166
Increased job satisfaction	81 (50.9%)	53 (40.4%)	73 (42.9%)	61 (50.8%)	134
Decreased job satisfaction	30 (18.9%)	19 (14.5%)	32 (18.8%)	17 (14.2%)	49
Encouraged to use more initiative	144 (90.6%)	108 (82.4%)	141 (83.0%)	111 (92.5%)	252
Increased work pressure	119 (74.8%)	92 (70.2%)	124 (73.0%)	87 (72.5%)	211
Decreased work pressure	3 (1.9%)	3 (2.2%)	4 (2.4%)	2 (1.7%)	6
Hours of work increased	58 (36.5%)	58 (44%)	76 (45.0%)	40 (33.0%)	116
Hours of work decreased	2 (1.3%)	13 (9.9%)	9 (5.3%)	6 (5.0%)	15
Pay increased	35 (22.0%)	23 (17.5%)	35 (20.6%)	23 (19.2%)	58
Pay decreased	29 (18.2%)	62 (47.3%)	67 (39.4%)	24 (20.0%)	91

Source : Corydon Consultant, *Cook Islands Economic Reforms to April 1997 Social Impact Assessment*, Public Service Questionnaire, May 1997, Table 22.

Table 8. Total Arrivals and Departures of Residents.

Calendar Year	Cook Islands Residents		
	Arrivals	Departures	Excess
1991	5,419	4,536	883
1992	5,956	5,429	527
1993	5,815	4,693	1,122
1994	6,630	6,232	398
1995	6,340	6,172	168
1996	5,932	6,762	-830
1997	6,803	7,979	-1,176
1998	6,923	8,245	-1,322
1999	7,371	8,012	-641
2000	7,491	8,920	-1,429
2001	8,161	9,111	-950
2002	8,692	9,419	-727
2003	9,518	10,221	-703
2004	10,753	11,696	-943

Source : Cook Islands Government, *Cook Islands Annual Statistical Bulletin*, 2005, Rarotonga.

Impact on Displaced Public Servants

One of the objectives of the reform strategy was to retain redundant workers in the Cook Islands after downsizing in the public service. There have, however, been a significant number of people who have left the country since the reforms began.

Table 8 presents arrivals and departures of residents of the Cook Islands during 1991-2004. Till 1995 arrivals were more than the departures and totalled 1122 in 1992. Since 1996 after downsizing there have been continuously more departures than the arrivals. Departures of Cook Islanders exceeded arrivals by 830 in 1996; 1176 in 1997; 1322 in 1998; 1429 in 2000, and 943 in the latest 2004. This gives a clear message that massive downsizing in the Cook Islands led to a large number of emigrants from the country in search of jobs overseas. The private sector could not absorb them as it was expected. Although some transitory assistance measures were implemented to reduce the effects on displaced workers, it seems that they did not work in practice. People could not find alternative jobs and opted to pack and go to New Zealand and Australia for employment opportunities rather than hang on in their islands.

Other Social Impacts

CORYDON'S study (1997) pointed out that mostly young people and skilled people emigrated, and higher-aged group and young children remained. Many empty houses and grounds were not maintained properly. It was difficult to pay the mortgages of the houses. Loss of public service wages of displaced workers; reductions in the wages of some of those remaining in the service, and reductions in child benefit payments made life difficult for the people to manage. The reforms also resulted in a reduction in the number of health professionals and quality of services. Similar effects were also experienced in quality of education after downsizing as per Corydon's study.

In attempting to assess the impact of the reforms after five years there are two striking features of the Cook Islands experience as stated in the Economic Report by ADB 2002. First, there has been a rapid recovery of fiscal balance and second, accelerating rate of emigration from the Cook Islands, affecting most significantly the social vitality of the outer islands.

Lessons from the Cook Islands Experience

It is important to learn some lessons from the experience of the Cook Islands on public sector downsizing.

- In the Cook Islands public sector downsizing was done when the economy was about to collapse. Downsizing should be carried out in phases at its own pace, rather than reducing the size drastically in a short time as was done in the Cook Islands.
- Skill based downsizing is most appropriate. Reduction in the size across the board blindly (e.g. Cook Islands) affects the quality of services in the economy.
- Proper sequencing of development of private v/s public sector is essential. First private sector should be developed substantially before embarking on public sector downsizing. In the Cook Islands displaced workers from the public service could not find alternative jobs in the private sector.
- A voluntary approach to downsizing with a proper package is often recommended as opposed to involuntary. It has to be remembered, however, that those confident of getting another job are the most likely to take the redundancy package leaving behind those with lower skills and ability. Forced downsizing was practiced in the Cook Islands, which resulted in several social problems in the country. But it seems to have led to a more competent public sector.
- Most Pacific countries have accreted excessive public servants, many of which have been employed because of their kinship rather than their ability. Cost cutting through downsizing can free up funds for increased investment in infrastructure development.

Public service reform still remains incomplete in the Cook Islands. Knapman and Saldanha mentioned that public service is still large by regional and international standards in terms of numbers of ministries, employee numbers and especially the wage bill. The latter has fallen by around half as much as the former under ERP, because cuts in public service numbers were concentrated among lower paid staff and because restructuring involved reclassification of many retained employees into more senior positions. Knapman and Saldanha further stated that ministries with a total staff of 700-800 would be an appropriate target.

Summary and Conclusions

The Cook Islands faced a severe economic crisis in 1995-96 due to economic mismanagement over a period of time including fiscal imbalance due to the excessive wage bill of employees. As a result a comprehensive Economic Reform Program including downsizing was initiated in mid-1996. Involuntary approach was used to reduce the size of public service by 52.7 percent within a year. It was a brutal operation due to the financial crisis in the country and not done with the intention of reform. The exercise was done all of a sudden without much information in advance. There were financial and moral shocks to those laid off and it was painful. Private sector was not developed fully to absorb laid off workers from the public sector. A large number of workers emigrated to New Zealand and Australia for employment opportunities. The country lost skills and some sectors like health and education suffered to a large extent. Public sector reforms should be carefully designed and carried out in phases over a period of time rather than doing abruptly in a short time. Further, private sector should be adequately developed prior to downsizing to absorb laid off workers. For Cook Islands the emigration safety valve is crucial.

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