

Summary: Making big decisions for the future

Affording Our Future Conference
Colin James*, assisted by Jess Booker
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I start with three quotes. The first is from a novel by Peter Carey: "You say things about the future but you have not been there so you cannot know." The second is from historian Niall Ferguson: "Is there a single member of Congress who is willing to cut entitlements or increase taxes in order to avert a crisis that will culminate only when today's babies are retirees?" The third is also from Ferguson who likens human society and its mechanisms, such as the financial system, to biological systems which "operate somewhere between order and disorder — on the edge of chaos" and seem to be in equilibrium until "there comes a moment when they 'go critical' ... a very small trigger can set off a 'phase transition' from a benign equilibrium to a crisis". In his book of his BBC Reith Lectures Ferguson calls these events "unknown knows". You can say they will occur but not what, when and not how big they will be.

This summary and the original notes are my own thinking and analysis, not that of the Treasury or the external panel on the long-term fiscal statement. Nor does it constitute advice or advocacy. Comments are welcome at the email address below. There are no footnotes to this summary. For footnotes refer to the full note.

In the 40 years after 1913 there were several of these highly disruptive events: the first world war, expected to last six months, killed millions, destroyed four empires and led to the rise of communism; the 1929 stockmarket crash caused a worldwide economic depression, contributed to the rise of fascism and a devastating second world war; penicillin transformed medicine, splitting the atom transformed extreme war and enabled many peacetime technologies and the transistor revolutionised communications and calculation. If you reach out from 1913 to 1960, to parallel some of the Treasury's projections to 2060, you add the contraceptive pill.

Thus we can be sure that in the 40 years from 2013 there will be several disjunctive and transformative events. In fact, we are living through one now: the global financial crisis, after which we cannot go back to "business as usual". So why bother looking out 40 years, let alone making policy for 40 years hence.

The answer is that by anticipating there will be such events and musing on what they could possibly be, we can build resilience: a solid core to withstand shocks and a flexible surround to absorb, adjust to and survive those shocks.

A Boston Consulting Group paper put it this way: "Good strategy in government involves being clear about goals but flexible about how to deliver them." To do this, companies use foresight and scenario planning techniques. These techniques "can't predict the future but can prepare you for it".

BCG says: "Politicians or civil servants who argue that an inability to plan for the long term is the price of elections are hiding behind a poor excuse. Democracies adapt and elections themselves are a good way of replacing poor management and discarding bad ideas."

Moreover, much endures through shocks, including long-term underlying social and environmental changes such as changing population age structure and climate change. It makes sense, bearing in mind likely disruptive shocks, to set policy so that it reflects such long-run changes and if possible anticipates their future impact so that the eventual fiscal cost is lower.

*P O Box 9494, Marion Sq, Wellington 6141; 04-384 7030, 021-438 434, fax 04-384 9175;
ColinJames@synapsis.co.nz, www.ColinJames.co.nz; Jess Booker is at jess.booker@yahoo.co.nz.

In my note for this conference I looked back through four major policy changes in nineteenth-century Britain to get an idea of what drove those policies. I looked at the abolition of the slave trade, the extension of the franchise, the abolition of tariff protection (which had an echo in New Zealand in the 1980s) and the establishment of the limited liability company.

One driver is political leadership, which both reflects (and follows) underlying change and, at a crucial point in that change, makes a decisive break with the past and present. But political leadership on its own fails unless supported by underlying social and/or attitudinal change. The four major British policy changes were variously accompanied by and reflected the rise of humanitarian values in the wake of the Enlightenment, changing demography, the changing class structure under the impact of industrialisation, new economic theory backed by groups with an interest in applying that theory, commercial efficiency or necessity, including managing debt, and public distress and authorities' fear of disorder. This last, plus humanitarian values, drove the initiatives in our sorts of countries from the 1890s on, and particularly from the 1930s on, to offset income and wealth inequalities arising from industrialisation.

In my note I also looked through three periods of major change in this country. In the 1890s and early 1900s a long economic recession in the 1880s encouraged a rethink of policy settings which coincided with a period of economic expansion which in turn encouraged confident experimentation plus a widespread belief that the new colony could be a "better Britain". The post-1935 establishment of what later became known as the "mixed economy" and the "welfare state" was born of a mixture of economic and social disaster and hope and belief that a more equitable and materially better society could be engineered by government action. In 1984-92 economic reform was driven essentially by economic failure (plus a financial crisis) and an ascendant ideology and the invention of biculturalism coincided with the ascendancy of rights-based thinking about the place of indigenous people and rising activism and self-belief among Maori.

That suggests major reform succeeds if there are deeper drivers. All four of the British nineteenth-century changes and all three of the periods of major policy change in New Zealand reflected some combination of deeper currents: demographic, economic, social, psycho-sociological, intellectual, political-sociological or external (geo-economic, geopolitical or bilateral-national).

The 1984-92 deregulation and adoption of much more market-oriented economic policies illustrated two things about making major policy change. The first, underscored in an OECD examination of major changes in its club of rich countries, is that crisis, the initial reason given by the Labour government in 1984, is not a sufficient basis for lasting reform. Voters cut the Labour government's vote share by 13 percentage points in 1990 and the National government's vote share by 13 percentage points in 1993. That, plus the votes for MMP in 1992 and 1993, indicate that, given the chance in a referendum, voters would have voted out the reforms as a package. The second point, related to the first, is that for major policy reform to endure, there must be public buy-in. Politicians, though elected by the public and in that sense the public's servants, and officials, though paid to do the public's business, do not have a monopoly on policy. Ultimately, policy and policy change are the public's business and the public is not content simply to delegate full authority to elected and appointed officials.

Over the past 20 years this has been increasingly recognised by politicians and officials. There is much more consultation, there are working groups and advisory boards and there has been an experiment with collaborative governance involving all relevant interest groups, in the Land and Water Forum. There are referendums (though these are not suited to dealing

with complex matters). There are opinion polls and focus groups.

Another mechanism is a national convention of the great and the good, used by the United States to federate, and by Australia in 1998 to set a question for a referendum on whether to move to a republic.

These mechanisms widen the range of those involved in the eventual decision. But increasingly there are calls for and provision for wider "citizen participation" in decision-making.

There is a wide range of mechanisms. Among them are:

- Deliberative polling: a large, representative, random sample of people deliberates over two to three days, usually on a national issue. This is used to gauge considered opinion, not make decisions.
- Consensus conferences, developed in Denmark inquire into scientific or technical issues to draft clinical guidelines.
- Citizens juries and "planning cells" have some limited, usually local, use. These are not really juries because they don't have judges or lawyers contesting evidence.
- Citizens assemblies are a more democratic form of convention, being near-randomly selected. The one used in British Columbia to test and draft a proposal for electoral reform, the most sophisticated so far, sat over 11 months and involved: the near-random selection of 160 people, one male and one female from each riding (electorate); a learning phase on six weekends, involving experts (but not politicians) and wide reading which resulted in "these ordinary citizens" acquiring "an extensive knowledge and understanding of electoral systems"; a consultative phase during which members went out to public hearings in 50 meetings, some attended by politicians, coupled with a website which received written submissions and proposals; then deliberation; then a recommendation to the Parliament, which put the question to a referendum which was narrowly defeated because it required 60% to pass and the vote was 57.7%. Polling found the public trusted the assembly as being more like themselves than politicians (though indigenous and ethnic minorities were heavily under-represented).

How useful could these mechanisms be in reaching decisions on major policy change, especially anticipatory policy change so as to offset the trends identified in the long-term fiscal projections? One assessment of the British Columbia assembly found that "citizen political decision-making appeared to be of a remarkably high quality" and those involved "have the capacity to shed their apathy, overcome their ignorance and reason conscientiously about an unfamiliar and complex political issue". But they have not yet been widely tested. And fiscal issues, especially long-term ones, are much more complex than electoral systems. Another observer's assessment is: "While in theory deliberative processes could be designed to guarantee binding decisions, in reality the stakes are often too high to delegate this authority to a group of citizens and the public may not care to assume this level of decision-making authority." For a citizens assembly to be effective on long-term fiscal issues, the model would need development.

Where this approach does seem to get closer to decision-making is at the local level. Switzerland widely uses citizen commissions — a sort of citizens assembly — to sort out such matters as infrastructure projects and where to put waste disposal plants. Can that be translated to the national level?

There does appear to be in our sorts of democracies a growing trend towards, and search for, effective participatory and deliberative mechanisms, to improve communication of, and

education about, policy issues and decisions, require more rigorous explanation to citizens and thus improve the prospect of good decisions and durable consensus. But if misused by politicians and officials, citizen involvement can be a means of cooption or persuasion. And it can be costly, may not actually engage citizens beyond those directly involved and may not be any more representative (and perhaps less representative) than politicians, since the vocations of those involved don't depend on the outcome and might produce a result reflecting the preoccupations or emotions of those who get involved. To be effective, a citizens assembly would have to meet those objections.

With that qualification, I think a citizens assembly or some development of it has the greatest potential for building public involvement in, and buy-in for, pre-emptive change to fiscal settings in anticipation of the impact of the trend to a higher proportion of older people in the population.

Before I do that, here is Jess Booker's perspective. Jess is 26. [For those reading this, Jess's comments are in section 6 of the full note.]

Jess's perspective highlights an important dimension of public buy-in to pre-emptive fiscal decision-making looking out 40 years: that such a decision is multi-generational, involving both transgenerational factors — that is factors that affect and require the support of all generations — and intergenerational factors — that is, factors of fairness of cost and benefit between generations. For buy-in to long-term fiscal policy to be effective, younger generations must be part of any consensus. Social change of the sort that underlay the major policy changes I touched on earlier is not a one-off shift; it is progressive, generation by generation. Younger people's attitudes give us a clue to how that change may evolve.

In that context the multigenerational nature of long-term fiscal issues requires resolution of what emerged as a core issue in the external panel discussions: are we (that is, all of us, across generations) "all in this together", that is, all paying for all of us and all drawing on the benefits (PAYGO, pay-as-you-go); or is each cohort and/or each individual or small group (household or whanau) responsible for paying and reaping the benefit (SAYGO, save-as-you-go)? What is the right balance between the two. A "transgenerational" response might lead us to PAYGO, in essence the conservative, Burkean, notion of a "contract" or "partnership", binding generations to each other in common cause. An "intergenerational" response might lead us to SAYGO, in essence the liberal, Enlightenment, notion of the primacy of individual liberty and sanctity, each generation and cohort taking separate responsibility. In making that choice or in balancing those choices, how will we bind generations together in a durable consensus? More to the point, do we *want* to bind generations together in a durable consensus?

There is some evidence the public would prefer a durable consensus. The evidence from 1984-92 indicates people don't like big policy shocks. And, as I have noted, there is evidence the public (or, more accurately, some of the public, some of the time, on some matters) now expects more participation than just voting in elections and has less respect for elected representatives than 40 years ago. Also, as I have noted, policymakers increasingly recognise the need for public buy-in at least, and involvement at most, for successful policy change (witness the Treasury's public conference on tax in 2009 and this conference).

If so, the issue is whether a mechanism can be developed which works effectively at national level and thereby enhances modern democracy. New Zealand might be the place to do that.

Earlier I said the most promising mechanism is some form of citizens assembly.

But there would be no point to calling a citizens assembly unless it was of high quality, that is, of higher quality than even the British Columbian one. That suggests that, among other

things, it would need to: be randomly selected and of significant numbers (say, more than 100), to ensure it was representative; have a high commitment by those chosen to attend and to fully participate so that any element of self-selection by the most interested or the most busy-bodied was minimised; be extensively informed (much as the Treasury's external panel was), allowing for limited specialised skills; conduct extensive public hearings across the country; deliberate thoroughly (logically with specialised but disinterested facilitators); and be assured by policymakers that its findings would be taken very seriously and in broad terms acted on and that policymakers would keep their distance throughout the process as was the case with the Land and Water Forum. Logically, such an assembly would be repeated every 10 years or so. By the end of 40 years, if it worked well, it would likely become a workable fixture.

That is a very tall order. If such a high-quality citizens assembly were adopted, that would amount, in short, to setting an international standard. That is not out of the question: New Zealand did set international fiscal standards with the adoption of accrual accounting in 1989, the Fiscal Responsibility Act in 1994 and a full balance sheet in 2010 and it has done so in other areas of policy, including biculturalism and open government. Our small political system enables innovative thinking and action more often than its village-like suspicions of the unusual suggest. But getting a citizens assembly operating well on complex fiscal matters would be new territory.

And a citizens assembly in any case could only be supplementary to, and contributory to, clear leadership by officials and politicians. That leadership or lack of it that will be a core test of the 2013 long-term fiscal statement.