

# Making big decisions for the future

Affording Our Future Conference  
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## 1: Bringing the future into the present

The Treasury's long-term fiscal projections are designed to inform present-day policy. They draw attention to existing trends and potential future global and national developments in society, demography, politics, technology and the economy and the fiscal implications of continuing existing policy unchanged through those changes over the next 40 years and beyond.<sup>1</sup> They highlight that the later action is taken to offset an anticipated impact, the greater the policy change may have to be and also potentially the cost, not just in money but also in social cohesion if unusual intergenerational tensions develop as a consequence.

This note is 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.

Such considerations are relevant in the short term only to the extent that such long-term fiscal (and possibly other) costs are projected to be significant. Small adjustments can be made as the need arises on a pay-as-you-go basis and are not the subject of this inquiry. But if large adjustments are projected to be needed in 20 years or longer and it is thought desirable to anticipate those adjustments by changing policy now or in the near term, how might that be done in a representative democracy in which the ultimate decision-makers, the politicians, are subject to frequent elections in which political folklore tell us the determinant issues are proximate and "courageous" leaders are sacrificed to short-term voter self-interest? For example, here is the distinguished Anglo-American historian Niall Ferguson on dire long-range fiscal projections in the United States:

According to the Congressional Budget Office's "alternative fiscal scenario", which takes into account likely changes in government policy, public debt could rise from 44% [of GDP] before the financial crisis to a staggering 716% by 2080. In its "extended-baseline scenario", which assumes current policies will remain the same, the figure is closer to 280%. 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?<sup>2</sup>

The short answer is that voters are not all and/or not always short-sightedly self-interested. Major policy changes have been made here and in other countries of our sort in which voters have submerged their individual interests in the national interest or in the interests of overall economic performance or social cohesion or for altruistic, ethical or moral motives. The issue is not whether such changes can be made but under what conditions: what are the drivers, what are the enablers and how much does it depend on leadership?

That leads to a review of how major, long-sighted or at least long-lasting policy change has been made in the past in this country and in Britain (which is the progenitor of this country's system of democracy and economic organisation), how such policy change has been made in

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<sup>1</sup> The Public Finance Act requires Treasury projections in the Statement on the Long-term Fiscal Position to look out at least 40 years. In fact, most of Treasury's current projections look out to 2060 and in some cases go beyond that date. This paper will refer to a 40-year timeframe.

<sup>2</sup> Ferguson, Niall, "Complexity and Collapse", *Foreign Affairs*, March/April 2010, p21.

other representative democracies, especially those we consider closest in form and practice to ours, and how it might be made now, to anticipate and offset future fiscal impacts.

The context for this inquiry is that long-term fiscal perspective. Most policy is an adjustment to address a specific, proximate issue — year-to-year or parliamentary term-to-term — or a response to a specific economic or social shock or influence. Nevertheless, at times a response to what is taken to be a proximate issue turns out in effect to be a response to a deeper and longer-timeframe issue. For example, the response to the specific crisis or crises in the peripheral states of the Eurozone may substantially and near-irreversibly reshape the zone's administrative and organisational rules in such a way that the European Union is materially and essentially different, amounting to a step-change in its evolution. This illustrates the value of making such change with as clear as possible a view of potential, possible and probable futures.

The European Union's current convulsion illustrates that one impetus for major policy change is a disjunctive event which bends or ruptures historical trends, in this case the post-2007 global financial crisis (GFC). Other impetuses can include a transformative event (usually new science), a significant or profound social, demographic or economic change, international pressure, a fashionable ideology or forceful political leadership. Usually, it is some combination of two or more of those, often magnified by interaction between or among them.

Major change can follow many different processes. But whatever process is followed, to be successful and durable a policy change must lead at some point to consensus or at least broad public acquiescence amounting to consensus by default. Without that, policy is unstable. (This applies in autocracies as well, though the timeframes of apparent, even though actually unreal, stability may be quite long and are "resolved" by regime change or revolution.) But no consensus lasts forever. Exogenous pressures and influences and internal social, demographic and generational evolution at some point alter the underlying conditions and require another policy adjustment.

Thus any policy settings, including fiscal policy settings, must be resilient, that is, have a strong core which endures through shocks and a surrounding flexibility which enables shocks to be absorbed, responded to and transcended or survived and enables adaptation to changing conditions.

The GFC has removed any doubt about those needs. The GFC is a disjunctive event which has forced significant immediate changes in policy, especially fiscal policy, and in household and business behaviour, particularly with reference to debt, and will force more changes over time as initial measures fail to restore the pre-existing "business-as-usual". Thus, the Treasury's 2013 long-term fiscal projections are being prepared at a time when the future global economic and political operating environments are more uncertain than usual — or, perhaps more accurately, more obviously uncertain. (A natural disjunctive event, the Christchurch earthquakes, added another dimension of disruption, though fairly readily quantifiable and remediable within a definable timeframe.) To the GFC might be added uncertainties generated by climate change<sup>3</sup> (and the international response or lack of it), pressures on resources, notably water, and potential inter-state tensions, plus continuing and often rapid and transformative scientific and technological development, all of which might significantly or radically alter the operating environment. And, better known though less predictable than is commonly thought, are changes in the age structure of the population.

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<sup>3</sup> This reference does not make a judgment on the accuracy or otherwise of the International Panel on Climate Change but, as it is officially accepted by the government, this paper takes it as an operating assumption.

A 40-year projection is also by definition multigenerational (transgenerational and intergenerational). Making multigenerational policy is not straightforward. In a democracy future generations — those not yet born and those still children — do not vote, except to the extent that living generations take them into account and vote on their behalf (a sort of "virtual" vote). Past generations — those who have died — also do not vote, except to the extent that tradition influences the votes of living generations (another "virtual" vote). Among the living and voting generations there are different and competing values and priorities and thus expectations and hopes of and needs from fiscal settings, which in a representative democracy shape and constrain politicians' decisions on policy and can overweight the present at the expense of the future and generate perceptions of intergenerational inequity.<sup>4</sup> Some see this as a breakdown of an implied social contract or partnership.<sup>5</sup>

The implied solution to this limitation of representative democracy, a government of Platonic philosopher-kings (or benign dictators on the Lee Kuan Yew model), is not an option in this country — at least in the near term and, most probably, over the next 40 years.<sup>6</sup> So this paper prosaically assumes some form of representative democracy will be the mechanism through which decisions will be made, or at least finalised, on policy to address issues raised by the 40-year projections.

Those projections are being made against the backdrop of the GFC, after which the social, economic and political landscape, the context for fiscal decisions, will be qualitatively different. Also, because disjunctive events occur periodically, long-range projections must assume the possibility, even probability, of another disjunctive event during that 40 years. In addition one or more transformative events are likely, which will also affect the context for policy. Disjunctive and transformative events require fiscal policy to be resilient in the sense described above.

So, first, this inquiry will ask why should governments attempt long-term policy when the landscape will almost certainly change — and suggest an answer to that question. It will scan some past major policy change here and in similar representative democracies and the processes and techniques for making the change and having it accepted as normal. By way of comparison it will scan more specific policy changes in the same light.

As with all human affairs, there can be no definitive answer. The aim therefore is to suggest some ways of framing the open debate that fiscal policy requires in a modern society and especially over long timeframes.

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<sup>4</sup> An interesting discussion of this point in the context of climate change is by Malcolm Bull, "What is the rational response?", *London Review of Books*, 24 May 2012.

<sup>5</sup> Edmund Burke, as quoted in Niall Ferguson, *The Great Degeneration: How Institutions Decay and Economies Die* (Allen Lane, London, 2012), p43: "... one of the first and most leading principles on which the commonwealth and the laws are consecrated is, lest the temporary possessors and life-renters in it, unmindful of what they have received from their ancestors or of what is due to their posterity, should act as if they were the entire masters, that they should not think it among their rights to cut off the entail or commit waste on the inheritance by destroying at their pleasure the whole original fabric of their society, hazarding to leave to those who come after them a ruin instead of an habitation — and teaching these successors as little to respect their contrivances as they had themselves respected the institutions of their forefathers ... Society is indeed a contract ... the state ... is ... a partnership not only between those who are living but between those who are living, those who are dead and those who are to be born." Ferguson applied the quote to "the enormous intergenerational transfers implied by current fiscal policies" which he saw as "a shocking and perhaps unparalleled breach of precisely that partnership".

<sup>6</sup> Unless the Treasury is taken to be staffed with philosopher-kings.

## 2: The future is unknowable, so why bother?

"You say things about the future but you have not been there so you cannot know."—Peter Carey, *His Illegal Self*.

Any 40-year span of recent history, the timeframe of the long-term fiscal projections, has been marked by disjunctive and transformative events. It is logical to expect the same in the 40 years from 2013. Thus the central path identified in any long-term forward planning is likely to be diverted at one or more points, possibly markedly.

This does not mean that there are not continuities and trends. Life goes on, including many incremental changes, such as the changing nature of the "family" and the constitution of households, the role of women and the nature of education in response to the changing nature of "work". It is more likely than not that most of the economic and fiscal management issues detailed in other papers for this conference will be relevant in 40 years despite global and local shocks (though the framing and emphasis may change). And, unless there is high inward migration similar to that which occurred after 1840 or there is a highly destructive pandemic or other disaster (both possible), it is more likely than not that demographic structure will broadly rebalance in the way other papers have detailed with significant fiscal implications. Also, the geopolitical and geo-economic rebalancing of the past 30 years is likely to continue, albeit with changes of direction and speed, and that rebalancing will set fiscal and other economic and social parameters. But disjunctive and transformative events will influence lifestyle, fiscal parameters and demographic trends.

A **disjunctive event** either suddenly accelerates social, political and economic change, rather as an earthquake suddenly repositions tectonic plates after a long buildup of pressure and reshapes the surface landscape, or irrupts from outside, much as a tsunami does, or is the result of a sudden breakdown of order in the complex system that is human society. Afterwards, the social and economic landscape looks different, often very different, and while much of what is on the landscape looks familiar, it, too, is often deeply changed.

A **transformative event** is a scientific discovery or technological, political, business, organisational or way-of-thinking innovation. It changes the quality of life or the way people live or see the world around them, often for better but sometimes for worse. Transformative events are the work of what United States economist Richard Florida has called the creative class.<sup>7</sup>

Such events are by their nature unforeseen and unpredicted, though historians in retrospect habitually discern observable forces and pressures preceding a disjunctive event and a transformative event may be theorised, imagined or fantasised in advance. Transformative events can contribute to triggering disjunctive events.

Both falsify forecasts. Any policy aiming to anticipate and respond to changes over 40 years needs to be continually flexible and adjustable in the light of such events. Any fiscal policy must also be resilient, to resist, absorb, respond to and transcend or survive shocks.

The 1914-18 war was a disjunctive event. In 1913 war did look imminent as a result of an escalation of tensions and military buildups but when it began in 1914 it was widely expected to last six months and to have a limited effect on the power balance in Europe. Some high government officials did expect a longer war but no one predicted it would last as long as four and a-quarter years, cost millions of lives, transform warfare, destroy four empires and

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<sup>7</sup> Florida, Richard, *The rise of the Creative Class. How it's transforming work, leisure, community and everyday life* (Basic Books, New York, 2002) and, more recently, *The Flight of the Creative Class: The New Global Competition for Talent* (Harper Collins, New York, 2007).

weaken a fifth and redraw Europe's map of nation-states. No one predicted the totalitarian states that arose out of the ashes of three of those empires: one in the form of fascism in Germany and Austria (and in Italy and, in a militaristic form, Japan), which precipitated a second, even wider-ranging and more devastating war; and a second in the form of communism in Russia, which founded a new empire that in time divided Europe and spread to China, Mongolia, North Korea and North Vietnam.

All that was within 40 years of 1913. In retrospect historians have discerned tectonic forces building to the geopolitical earthquake of 1914 over three-quarters of a century. For example, the mechanisation of European economies was deeply changing those societies, creating a growing urbanised class of factory workers and inserting a new, large middle class between that stratum and the traditional ruling elites, weakening the political power of those elites. An early manifestation of that change was a rash of revolutions in 1848, which were apparently relatively easily contained, coopted or reversed by the ruling castes and/or their allies but which subterraneously altered attitudes and aspirations in a growing segment of each population and, as a result, undermined the old political orders and, with that, the stability of the European order settled at the Congress of Vienna in 1814.<sup>8</sup> There were also foretastes — in the United States and New Zealand civil wars and other wars — of the industrialisation of war that confounded 1914-18 generals.

But that was all divined in retrospect: in 1913 no one predicted the radical impact of the contest of misguided imperial wills. Niall Ferguson has argued that it was actually the sudden *collapse of a complex system*, akin to a biological system. Such systems, he argues, are "made up of a very large number of interacting components that are asymmetrically organised" and "operate somewhere between order and disorder — on the edge of chaos" ... They 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".<sup>9</sup> After 1913 the international order did not restabilise until the early 1950s at the end of the Korean war and that new (apparent) equilibrium in turn lasted only 40 years.

Another historian, Norman Davies, has put it this way: "Historical change is like an avalanche. The starting point is a snow-covered mountainside that looks solid. All the changes take place under the surface and are rather invisible. But something is coming."<sup>10</sup>

The 1929 stockmarket crash might be also be considered a disjunctive event. A major change in production through electrification and the assembly line and faster and more widespread communications contributed to and magnified a financial asset bubble. When that bubble burst it generated not the usual recession and return to normal but a banking collapse, then a worldwide economic depression (which contributed to the rise of fascism) and a cascade of protectionist policies. This in turn intensified the depression and prompted in the mid-1940s international agreement to create the International Monetary Fund and the General Agreement on Tariffs and Trade to guard against a repetition. Within nation-states governments expanded their role in order to ameliorate the extremes of the business cycle

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<sup>8</sup> There may be a parallel in North Africa and the Middle East post-2011.

<sup>9</sup> Ferguson, *op cit*, p22. On p25 of that article he wrote: "The political and economic structures made by humans share many of the features of complex adaptive systems... Whether the canopy of a rain forest or the trading floor of Wall Street, complex systems share certain characteristics. A small input to such a system can produce huge, often unanticipated changes — what scientists call the amplifier effect... Causal relationships are often nonlinear, which means that traditional methods of generalising through observation (such as trend analysis and sampling) are of little use. Some theorists of complexity ... say that complex systems are wholly non-deterministic, meaning that it is impossible to make predictions about their future behaviour based on existing data. When things go wrong in a complex system the scale of disruption is nearly impossible to anticipate."—

<sup>10</sup> Barber, Tony, "Lunch with the FT: Norman Davies", *Financial Times*, 19 October 2012.

and reduce inequalities of opportunity and of wealth and income outcomes: that was the welfare state in adolescence. Along the way the depression severely weakened the British Empire and installed the United States as the pre-eminent economic and military power of the "western" world which meant de facto the whole world. That was all within 40 years of 1913 and 20 years of 1929.<sup>11</sup>

Transformative events in the 40 years after 1913 included: the discovery of penicillin and DNA's double helix; the splitting of the atom; the invention of the transistor and the computer; a fashion event, the bikini (a symbolic indicator of deep changes in mores to come)<sup>12</sup>. All had profound effects on economic and social life. Some could be imagined, fantasised or conceptualised by 1913. None were predictable in their reality. Nor were their consequences.

A New Zealand forecaster in 1913 would have been stargazing or daydreaming to predict within 40 years aerial topdressing, social security and a national state health system and 14 years of a Labour government, all transformative. A Maori in 1813 could not have predicted the disjunctive Treaty of Waitangi.

Similarly, anyone looking ahead 40 years from early 1973 would not have predicted two disjunctive events, the collapse of the Soviet empire and the post-2007 global financial crisis (GFC), and their impacts. (Some thought the bombing of the World Trade Centre in New York in 2001 "changed the world" but it was a dramatic, not a disjunctive, event.) Nor could someone in 1973 have confidently predicted (as distinct from hoping for) the sweeping adoption of neoliberal economic policies across the "Anglo" and some other "western" economies in the wake of the 1973 oil crisis — which was arguably also a disjunctive event — and subsequent collapse of the Bretton Woods system of fixed exchange rates based on gold, which together undermined confidence that governments could shape events. Likewise they would have been most unlikely to have predicted the marketisation of the Chinese economy (and a free trade agreement with New Zealand), the internet and its spawn, the social media pandemic and the computerisation of manufacturing and many services, all transformative. In New Zealand the transformative resurrection of the Treaty of Waitangi and the invention of biculturalism might have been imagined but not predicted in its reality.

The point for policymakers is that, while there are trends in the evolution of societies, political systems and economies, there are also occasionally events which distort, divert, accelerate or stall those trends or open new and out-of-the-ordinary possibilities.

That marks the starting point for the 2013 long-term fiscal projections: a sudden collapse of large parts of the global financial system and with that the erosion of some certainties of the past four decades. It was clear well before 2007<sup>13</sup> that the United States Federal Reserve was encouraging, or at least allowing, a massive expansion of money supply, that private

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<sup>11</sup> It might be argued these are not two distinct events but that the second was in part a consequence of the other, as the 22 February 2011 Christchurch earthquake was in part a consequence of the initial earthquake on 4 September 2010, though on a different fault. Similarly the GFC has been followed by many aftershocks, some similar in intensity to the original shock.

<sup>12</sup> If we look out 47 years from 1913 to 1960 (the span from 1913 to 2060), there were also the launching of the first space satellite in 1957 and the contraceptive pill (approved for use in 1960).

<sup>13</sup> Roach, Stephen 3, "Think Again: Alan Greenspan", *Foreign Policy*, January/February 2005. The introductory paragraph ends: "When Greenspan steps down next year he will leave behind a record foreign deficit and a generation of Americans with little savings and mountains of debt. Has the world's most revered central banker unwittingly set up the global economy for disaster?" Colin James, "Should prices always go up or is there a time for a fall?", *New Zealand Herald*, 11 January 2006: "Some revere Greenspan as a guru. Others say he leaves behind a property bubble, a seriously unbalanced American economy and, to a large extent because of that imbalance, a seriously unbalanced world economy."

household debt was building dangerously in "western" economies (most dangerously in the United States but most spectacularly on a per capita basis in Iceland) and stoking an enormous financial asset bubble. It was also obvious that China had greatly expanded the world labour supply by joining the global manufacturing system with a vast low-wage workforce, drastically reducing consumer goods prices and hollowing out "western" manufacturing.<sup>14</sup> A rebalancing of soft and economic power was visibly and palpably under way. But, though some predicted a crunch, no one predicted the scale and impact of the GFC before it broke or even at the time. A "benign equilibrium" went to "crisis" in short order.

Since early 2009 it has been obvious that there can be no speedy "recovery" to "normal" or "business-as usual": high levels of public and private debt and serious banking problems in the GFC-originating economies will take a long time to unwind or inflate away<sup>15</sup>, during which time the global economy will to a significant extent depend on China and other "emerging" economies to generate GDP growth. The GFC gave the geo-economic rebalancing, and with it the geopolitical rebalancing, a hefty kick along. This new order has not yet stabilised so there is no new "normal". It is unclear what "business as usual" will be through the rest of this decade, let alone through the next 40 years.

Moreover, given the recurrence of disjunctive and transformative events through the past 200 years, there is good reason to expect more in the next 40. Among some possibilities:

- Climate change (if the International Panel on Climate Change is correct) begins to have significant effects in the second of the four decades in some countries (sea level rise, for example) and affecting food production and water availability. In the third decade those effects intensify, potentially triggering famines and disease.
- Water shortages become more frequent and acute internationally, boosting demand for New Zealand products but also causing food shortages and causing tension, especially between China and its southern neighbours, including India, which might involve military action (though "military" may be in cyberspace as much as in physical form). Water is vital for both food and industrial production. — *or* rapid development and adoption of new water management techniques fixes water shortages (though this may be after periods of fluctuating supplies).
- Tension and hostilities in the Middle East<sup>16</sup> suddenly disrupt oil supplies in such a way that, or at a future time when, fossil fuels supplied by shale oil and gas and new technologies such as fracking cannot offset the disruption. — *or* rapid development of renewable energy sources transforms energy-dependent activities (though maybe delayed by the shale oil and gas boost to fossil fuel supplies).
- A virulent pandemic decimates the global population or the population of some regions.
- The long aftermath of the GFC and reduction of debt lead to national attempts to insulate economies and populations from the intrusive and destabilising effects of

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<sup>14</sup> Between 1870 and 1914 rapid falls in transport prices promoted a period of global integration, most notably across the Atlantic, coupled with mechanisation of agricultural and manufacturing production, delivering high productivity growth. Wholesale prices in the United States fell about 1.5% a year — Chris Farrell, *Deflation: What happens when prices fall* (Harper Collins, New York, 2004). Farrell drew a direct parallel with the 1990s/2000s.

<sup>15</sup> In its 2012 annual report, the Bank of International Settlements said that most developed-economy countries would need to run budget surpluses of more than 2% of GDP for 20 years to government debt-to-GDP back to levels of 2007 — "World economy caught in vicious cycle", *Financial Times* 24 June 2012.

<sup>16</sup> For an analysis of the pervasive instabilities in the Middle East, see Agha, Hussein, and Robert Malley, "[This Is Not a Revolution](#)", *New York Review of Books*, 8 November 2012, Vol 59, No 17 .

"hyperglobalisation", with unpredictable and uneven effects on economies and the global economy. This could be an outcome of a rise of populist and extremist political parties in protest at economic constraints, already evident in much of Europe and the United States, and, in autocracies, rejection of market liberalism as an inappropriate "western value".

- China experiences serious internal disturbances. Possible triggers: economic slowdown and/or turbulence, the impact of radical new production technologies, a restive and aspirational younger-generation middle class, serious pollution, the rapid ageing of the population. These either bend the economic trajectory off-track and/or are offset by authorities with aggression along China's borders which might possibly draw the United States into conflict, and/or Chinese authorities initiate more assertive or aggressive action abroad to secure access to raw materials and fuels.
- India goes through a series of economic, social and political crises which cause it to take unpredictable and potentially seriously destabilising stances vis-à-vis its neighbours.
- A crisis in Indonesia destabilises the south-east Asian region.
- The world divides into mutually competitive and sometimes hostile blocs and that undermines the multilateral systems (such as they are) and poses hard choices for small countries.
- New technologies trigger the rapid development of renewable energy sources (helped by the breathing space for fossil fuels supplied by shale oil and gas) which transforms energy-dependent activities after 2033; and/or rapid development and adoption of new water extraction and management techniques overcomes water shortages after 2023.
- New medical technologies (for example, diagnostic tools, DNA analysis at birth pinpointing vulnerabilities, nanotechnology, cell-specific interventions) transform health services and the state of health of those in middle and old age and thus reduce those cohorts' demand for and need for expensive health interventions) and also begin to lower instead of raise the cost of health services in net terms. These technologies enable people to work longer (that is, to "retire" later) and also live longer in better health and so, along with changing societal attitudes, reduce the cost of end-of-life interventions (on the basis that the older one is when near death, the less aggressively doctors intervene in the last years).
- The transformative effect of new goods and services production methods (computer 3D "printing", artificial intelligence, for example) drives another upheaval in and rebalancing of the world economy and, as a result, global politics.
- When generation Y emerges into power (from the 2020s on) in business, the bureaucracy and politics, its different values have the same transformative or disjunctive effect on governments and policies as the baby-boom generation's values did when it came to power in the 1980s. Ditto for the following generation (in the 2040s).
- New Zealand's desirability as a green-ish, water-blessed, low-density-population haven grows strongly and the population by 2033 is 10 million, with a radically different (younger?) age structure from that now forecast; or alternatively New Zealand turns inward to keep out would-be immigrants (plus, concomitantly, their money).

None of the above is a forecast. There are many other possibilities. They are an illustration of what can be imagined. Quite probably, none of the shocks and transformations that will actually occur are on that list. The point is that it is hazardous to project trends into a distant future and assume policy can be fixed at the outset. History suggests New Zealand and the world are likely to look very different in 2053 from 2013. So might 2033. Even by 2023 there



may well be some changes that require decisions made in 2013 to be revisited.

That might suggest focusing on the predictable short term and not trying to plan for or make allowance for more distant events that might or might not happen.

Actually, the whiplash in the fiscal parameters in 2008-09 suggests otherwise. Anticipating that there are outlier possibilities enables contingency planning which in turns improves resilience in the face of the unpredicted.

Take the run-up to the GFC-generated fiscal whiplash in 2008. Repeatedly in the early and mid-2000s New Zealand's fiscal revenue outran annual forecasts. By the 2005 election the possibility that there had been a structural change in the economy had become seductive, to politicians, officials, commentators and many voters. This intensified political pressure (perceived or real) to cut taxes and/or raise spending and played a large part in the election platforms of the two major parties and some of the smaller parties. Had the public and the politicians (and official advisers) known the GFC was coming, the 2005-08 fiscal loosening might not have occurred or might have been modest. Had the public and politicians factored such a possibility into their planning as a contingency, some absorptive capacity could have been built into fiscal (and other) policy. The resultant fiscal (and other) adjustment forced by the GFC would have been less difficult.

There is a parallel, realised in 2010 and 2011 in Christchurch. Earthquakes are as unpredicted and irregular as disjunctive socio-politico-economic events. But householders pay into a fund, the Earthquake Commission, to meet part of the cost of remedying damage from such an event even though most of those paying will never draw on the fund. The commission's fund eased Christchurch's adjustment. Having experienced the GFC economic earthquake, politicians, officials and voters might logically ponder whether similar contingency planning for the unknowable has fiscal (and other) value.

Planning for outlier possibilities helps build resilience and so the capacity to resist, absorb and survive shocks. Over recent decades it has become more common for firms and some government agencies to scan the possibility of major disruptive — disjunctive or transformative — events and to have thought about it, so that if one happens at least some contingency planning has been done.<sup>17</sup>

At the same time, wise firms and governments also work out what they most expect to happen over three, five, 10 or 20 years. They can then take early action to counter adversity or take advantage of opportunity.

One way of looking at this is suggested in a recent paper by the Boston Consulting Group (BCG).<sup>18</sup> The paper argued that: "Governments have become flexible about *what* they should do but rigid about *how* to do it. Good strategy in government involves doing the opposite: being clear about goals but flexible about how to deliver them." BCG noted a widespread retreat from planning among politicians through the past 30 years: "Governments no longer saw their job as choosing a direction but instead as fostering systems in which the direction would emerge from the interaction of citizens". Note: the interaction *of* citizens, from which

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<sup>17</sup> In an environmental scan looking out 10 years I did with Statistics New Zealand through the second half of 2006, I rated as a 25% probability: "Imbalances unwind messily; recession or sharp slowdown in US triggers world recession" and as a possible "shock" "a full-scale world recession, triggered by terrorism, a messy unwinding of the imbalances or natural/medical disasters." Other possible shocks included: "The Middle East explodes/implodes and/or revolution in Saudi Arabia"; and "Major earthquake devastates Wellington"; both had some relation to recent actual events. So, too, did another 25% probability: "Significant earthquake in less populated area".

<sup>18</sup> Baker, Craig, James Purnell and Martin Reeves, *Adaptive Strategy in Government*, Boston Consulting Group, May 2012.

the government would take relevant cues, not the interaction of governments *with* citizens. This assumes a constant tendency towards equilibrium, a working hypothesis adopted by economists from physics, whereas "the system is never in equilibrium or necessarily even tending toward it". It also assumes societies are complex adaptive systems which cannot be controlled. BCG argues instead that: "Societies are identical neither to machines, which can be engineered" — by inference the presumption that underlay the interventionist, planned welfare state — "nor to biological systems, which evolve by themselves. Instead, they combine aspects of both and hence need a mixture of direction and adaptation".

That mix, BCG argues, includes foresight and scenario planning techniques used by many companies, some for decades. These techniques "can't predict the future but can prepare you for it". Then different types of policies can be applied to prepare for and manage through uncertainties: "no-regrets initiatives", "hedges against key risks", "boundary or handrail issues" and "core bets".

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."

The BCG paper is not the first or last word on taking the long view in preparing for and dealing with inescapable and unpredictable future turns of events. It is noted here as an illustration of the sorts of thinking many analysts apply to preparing for the future.

In fact, some central government agencies have been using versions of foresight, scenario and future scanning techniques. So have some territorial authorities, to provide context for the 10-year plans they are obliged to prepare and operate by. Roger Dennis, a Christchurch-based consultant on "large-scale change" tells of having begun work in 2009 with the Canterbury District Health Board on a 10-year forward plan which improved its capacity to handle the earthquakes in 2010-11 even though an earthquake was not a specific contingency included in the planning.<sup>19</sup>

So, even though the future is inherently unpredictable and trends can be cut short or bent way off course, that does not mean a government and its public cannot, or should not bother to, set long-term objectives and policies consistent with those objectives according to the best guesses — provided there is also a capacity for flexibility to adjust to changed circumstances.

That is the decision-making context for the 2013 long-term fiscal projections: to prepare for the most likely eventuality well before it happens and to keep in mind the possibility of shocks and to think about how to manage them if they occur and adapt policy accordingly.

Moreover, as noted at the start of this section, there will be many continuities in lifestyle, fiscal parameters and influences and demographic trends.

The 40-year fiscal projections in 2006 and 2009 indicated heavy future health and superannuation costs associated with the "ageing" of the population, the rise in the ratio of over-65s to those of working age and the greater longevity of the over-65s. If this scenario eventuates, what should be done now and/or eased in over time? How should we go about agreeing on what to do and when to do it? What do history, the experience of similar countries and recent experiments tell us about how to do that?

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<sup>19</sup> Presentation to a "Showcase IRL" seminar organised by Industrial Research Ltd, 10 July 2012.

### 3: What drives major policy change

Policy change is a response to a perceived inequity, legal inconsistency, regulatory gap or oversight or administrative need (funding, efficiency and effectiveness) or it adjusts citizen-to-citizen or government-to-citizen interactions by defining or redefining rights and duties and by enhancing public and individual security. Policy change can be effected by a change in the law or a change of government practice.

Most policy change is specific and incremental, though over time incremental changes may accumulate into a large change. Major policy change aims to effect, or at least initiate, a break with the present.

The default policy position is no change. For any change the impetus for any change must be sufficiently strong to build some momentum. Major policy change occurs only if the impetus is compelling.

Most major policy change responds to one or more of:

- external pressures, forces and change, including war and international security, geopolitical and geo-economic change;
- treaties signed with other countries, including free trade agreements which can significantly affect the profile and volume of economic activity, or with global or multinational organisations and regulators which can dictate domestic law and regulation (for example, of air traffic);
- changes in intellectual or ideological fashion;
- economic and other opportunity or stress, including fiscal stress;
- trends or changes in demography (including ethnic and age makeup), society (including disruptive changes) and psychosocial attitudes and even altruism;
- major popular and populist movements, if led effectively;
- major changes in the relative size and influence of interest and pressure groups and the emergence of new ones; or
- anticipated events or changes in society, the economy or the external environment, for example, arming when there is a threat of war and the establishment of the New Zealand Superannuation Fund, the "Cullen fund", in 2001 to partly pre-fund public pensions in the 2020s when the ratio of over-65s to "working-age" people was projected to grow sharply.

The impetus may be intense and concentrated in time — a crisis — or may build up and/or accumulate over decades.

Take four major policy changes or initiatives in the nineteenth century in Britain, from which New Zealand's political and legal systems, majority population and majority belief and value systems derived: the abolition of the slave trade; the 1832 Reform Act and its successors, widening the franchise; adoption of free trade; and legislation for the limited liability company. Each was driven by a combination of factors.

The impetus for the *abolition of the slave trade* was the adoption of Enlightenment liberal humanitarian values emphasising liberty and the individual human being. Steven Pinker sees it<sup>20</sup> as one manifestation of a long psychosocial shift away from violence as an everyday means of organising communities and polities. Others have distilled an altruistic dimension,

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<sup>20</sup> Pinker, Steven, *The Better Angels of our Nature. The Decline of Violence in History and its Causes* (Allen Lane, London, 2011), pp153-7.

as in this comment by David Brion Davis: "Since ... abolishing the slave trade and slavery was generally contrary to economic self-interest (the historian Seymour Drescher<sup>21</sup> has shown that Britain's abolition of its own slave trade in 1807 was an act of "econocide"), one can argue that abolitionism produced the greatest moral achievement in human history."<sup>22</sup>

Slavery was a normal part of organised society, justified in Greek philosophy and Christian religion. The British turned it into an industry to staff its expanding empire: slaves were captured or bought in Africa, transported across the Atlantic and sold and slave-produced items were transported back to Britain. By 1783 these products were 80% of Britain's foreign income. Quakers began to campaign for abolition in 1787. After several attempts William Wilberforce succeeded in 1807 in getting his Slave Trade Act passed, in effect by subterfuge (purportedly strengthening an 1805 Order-in-Council curtailing the supply of slaves to newly conquered colonies). While there was not a widespread public clamour for abolition, committees for abolition had formed, campaigned for pro-abolitionist parliamentary election candidates and got up numerous petitions to Parliament.<sup>23</sup> Their motives were the liberal principles of the Enlightenment and religion.<sup>24</sup> This appeal was effective in Parliament among MPs who did not have a direct interest in the trade or in the slave colonies.<sup>25</sup> Over the next 15 years humanitarian sentiment grew, intensified by reports of inhuman treatment of slaves in the West Indies and the brutal suppression of a slave rebellion in Jamaica in 1831 on which a parliamentary committee reported in 1832. This sentiment was given greater voice by the widening of the franchise in the 1832 Reform Act, which abolished many of the traditional "West Indian" seats and created 42 new boroughs of which 40 "possessed all or most of the features of 'ideal abolitionist' constituencies". About 16 anti-abolitionist MPs lost their seats.<sup>26</sup> It helped that the West Indies sugar trade was by then less important in the British economy.<sup>27</sup>

The Pinker thesis of a decline in violence in democratic societies and the progressive rise of the influence of humanitarian values is one explanation for the abolition of slavery. In modern New Zealand it might at least partially explain changes in: attitudes to war (the harsh disciplinary regime of 1914-18 was not tolerated for the 1939-45 war and New Zealand took an egregious, and alliance-busting, stance against nuclear weapons in the 1970s and 1980s); punishment (the death penalty was progressively abolished in 1941, 1961 and 1989); civil disobedience (the 1951 emergency regulations would not be acceptable now in a similar standoff between employers and employees); and the banning of excessive smacking of children in legislation of 2007.

The **1832 Reform Act** marked a significant shift from a political and governmental system dominated by the aristocracy and landowners toward one reflecting the growing numbers and economic influence of the middle classes. Around half a million additional people were enfranchised and boundaries were redrawn to better reflect the distribution of population. There were three main drivers: reaction to the French revolution (conservatives wanted to

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<sup>21</sup> Drescher, Seymour, *Econocide. British Slavery in the Era of Abolition* (University of Pittsburg Press, Pittsburg, 1977).

<sup>22</sup> Davis, David Brion, "Should You Have Been an Abolitionist", *New York Review of Books*, 21 June 2012.

<sup>23</sup> Drescher, Seymour, "Whose Abolition? Popular Pressure and the Ending of the British Slave Trade", *Past and Present* 143, May 1994, pp136-66.

<sup>24</sup> Davis, David Brion, *Slavery and Human Progress* (Oxford University Press, Oxford, 1984), pp129-30.

<sup>25</sup> Austen, R A, and W D Smith, "A reinterpretation of the British Slave Trade, 1806-07", *The English Historical Review*, 1972, 87 (343), pp304-32.

<sup>26</sup> Gross, I, "The abolition of Negro Slavery and British Parliamentary Politics 1832-33, *The Historical Journal*, 1980 23 (1), pp65-66 and 84.

<sup>27</sup> For an exhaustive historical account of slavery, see Thomas, Hugh, *The Slave Trade: The History of the Atlantic Slave Trade 1440-1870* (Papermac, London, 1998),

forestall popular uprising,<sup>28</sup> liberals wanted a wider democracy<sup>29</sup>); the increasing economic power and numbers of the industrial and merchant middle class, which demanded improved representation<sup>30</sup>; and an increasing interest among Whigs in education, economics and governmental reform.<sup>31</sup>

It took two years and three bills to pass the reform. The first narrow defeat, in the House of Commons, provoked public riots. The second defeat, in the House of Lords, provoked mayhem and fears of revolution (à la France), a run on the banks and calls for taxes not to be paid. The third bill passed after Tory Lords were threatened with the creation of enough peers to swamp them.

The 1832 act was the start of a long democratisation of the franchise. Continuing industrialisation and its concomitant, a vocal middle class seeking improved representation, the creation of a large working class which shifted the balance of population from country to town and the rise of the Chartist movement and then the Reform League prompted reform in 1867, this time initiated by a Conservative government keen to keep order in a time of economic recession. One analysis of the drivers of the 1867 act: "(t)he victory of the north in the American civil war demonstrating the viability of democracy; the death of (Conservative Prime Minister Lord) Palmerston, making it possible for new principles and personalities to assert themselves; and the economic depression, inspiring demands for political reform."<sup>32</sup>

The 1867 act logically led to more extensions of the franchise in 1884 (to all men over 21), 1918 (to women over 30), 1928 (women over 21) and 1969 (all over 18) as social conditions changed and voting came to be seen as a universal right. It also influenced democratisation and the widening of the franchise in the British Empire and Europe (except in New Zealand, which had already legislated universal male suffrage in 1879 and female suffrage in 1893<sup>33</sup>).

The ***abolition of the corn laws and adoption of low tariffs*** in 1846 were driven by a combination of economic theory, interest group pressure, good political organisation and public distress, all reflecting changing demographics, class structure and economic transformation — plus decisive and courageous leadership from Prime Minister Robert Peel.<sup>34</sup> The public distress (given voice in periodic riots) arose from an 1815 distortion of the laws governing the price of grain which had aimed to prevent "grain from being at any time either so dear that the poor cannot subsist or so cheap that the farmer cannot live by growing of it". The 1815 legislation set a high tariff on imported grain to protect local production, in part to ensure self-sufficiency in food at a time when the population was growing rapidly. But, though it was adjusted several times, it caused hardship in a population for the great bulk of whom grain was the bulk of their food. Manufacturers, who were rapidly expanding their share of the economy and were gaining some influence in Parliament though still

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<sup>28</sup> Evans, E J, *The Great Reform Act of 1832*, (Routledge, London, 1983).

<sup>29</sup> Wasson, E A, "The Spirit of Reform, 1832 and 1867", *Albion: A Quarterly Journal Concerned with British Studies*, 1980 12(2), pp164-74.

<sup>30</sup> Phillips, J A, and C Wetherell, "The Great Reform Act of 1832 and Political Modernisation of England", *The American History Review*, 1995 100(2), pp411-436.

<sup>31</sup> Wasson, *op cit*; Evans, *op cit*.

<sup>32</sup> Himmelfarb, G, "The Politics of Democracy; the English Reform Act of 1867", *Journal of British Studies*, 1966 6(1), pp97-138.

<sup>33</sup> Though New Zealand was slower to lower the age below 21: 20 in 1969 and 18 in 1974.

<sup>34</sup> This is drawn primarily from Schonhardt-Bailey, Cheryl, "Free Trade: the Repeal of the Corn Laws", accessed in [isites.harvard.edu/fs/docs/icb...files/Schonhardt%20Bailey.pdf](https://isites.harvard.edu/fs/docs/icb...files/Schonhardt%20Bailey.pdf), 7 July 2012. Among others, Bailey cites: Smith, C, *Tracts on the Corn Trade and Corn Laws*, 11.72, as quoted in Fay, C R, *the Corn Laws and Social England* (Cambridge University Press, Cambridge, 1932, p34; Howe, Anthony, *The Cotton Masters, 1830-60* (Oxford University Press, Oxford, 1984; and McCord, Norman, *The Anti-Corn Law League 1838-46* (George Allen and Unwin, London, 1958).

outnumbered by landowners, resented the tariff, formed common cause with the increasing working class and campaigned for repeal from the late 1830s. The campaign was spearheaded by Richard Cobden<sup>35</sup>, who devised a theoretical argument for unilateral free trade. Peel initially opposed repeal, though did lower tariffs on manufactured goods. He suddenly switched in 1845 and drove through a repeal bill which also cut other tariffs. He split the landowner-dominated Conservative party which he headed: 112 voted with him, 241 against. But the policy held and was progressively adopted by European countries over the next quarter-century.

The tariff cuts of the 1840s has some echoes in New Zealand in the deprotection and deregulation of the economy in the 1980s by a decisive inner cabal of ministers in a party traditionally against free trade and free markets, the Labour party, which seriously split as a result of the reforms. It was backed by a pressure group (in this case of farmers) and implemented an economic theory.

The impetus for legislating for *limited liability for companies* was commercial and administrative need in an economy which was industrialising fast and in which manufacturing companies were beginning to expand beyond the family or partnership size and operate nationally or internationally, especially throughout the empire. After the Bubble Act of 1720, a charter had been required from Parliament to incorporate a company. From the 1820s demand for incorporation boomed with a booming economy. Especially after the Bubble Act was repealed in 1825 the government began to grant incorporations en masse but with unlimited liability which restricted investment to the very wealthy. This both limited access to capital and so the development of firms and opportunities for a growing middle class to invest in them. In 1855 limited liability was enacted for all but banks and insurance companies which were legislated for in 1856 and 1862.<sup>36</sup>

This was a major change in commercial organisation, to serve essentially practical ends but also challenging a strong moral principle that a person should always be liable in full for his (or her) debts. It accompanied a large change in attitude to how a default on debt should be addressed: the pre-existing method was to throw the debtor into a prison until he (or she) could pay (a notion descended from binding a debtor over as in essence a slave to the lender) or died.

To these might be added the range of *initiatives to offset income and wealth inequalities* arising from industrialisation. The United States anti-trust acts in the first decade of the twentieth century broke up monopolies which had made some families extremely rich; regulation of business and legal protection of unions followed there and elsewhere. Progressive taxation of income and a big rise in overall taxation were widely introduced and then increased through the first half the twentieth century; so, too, were income support and free education which reduced destitution and greatly improved the opportunity for children of poor people to earn higher incomes.

The drivers were humanitarian concern and fear of disorder — that is, the measures were intended not to transform or replace capitalism than to adjust it to preserve order and it was guided or initiated mostly by better-off people who had more interest in preserving order than overturning it. The alternative was feared to be communism or socialism, for which there was growing support. There are echoes of those same concerns now across developed-economy

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<sup>35</sup> <http://www.libertarianism.org/history/cornlaws2.html>, accessed 7 July 2012.

<sup>36</sup> Eade, T, and M Gillman, "The development of the corporation in England, with emphasis on limited liability", *International Journal of Social Economics* 1995 (22(4)), pp20-32; Forbes, K F, "Limited liability and the Development of the Business Corporation", *Journal of Law, Economics and Organization*, 1986 2(1), pp163-77.

countries where income and wealth inequalities have been growing over the past three decades, in part through what might be categorised as successful rent-seeking<sup>37</sup>, to the point where disorder is once again feared by those who want to preserve, not replace, capitalism.<sup>38</sup> How this is resolved will have fiscal implications.

***In New Zealand*** since 1840 when British law was imposed there have been three periods of major policy change. These anticipated, led, mimicked, adapted or intensified changes elsewhere in the western world, the timing and particulars of the changes reflecting New Zealand conditions and aspirations.

The first was in the ***1890s and early 1900s***. It followed a long economic recession in the 1880s, which encouraged a rethink of policy settings, and coincided with a period of economic expansion, which encouraged confident experimentation. There was also a widespread belief that the new colony could be a "better Britain", acknowledging and valuing its British origins and connections but generating a society which was less encumbered by tradition and in which opportunity for self-advancement was more widely and equitably spread. The word "progress" was in vogue.

The 1890-1912 Liberal government reflected these beliefs and ambitions, at least for its first 10 years. It was supported by scattered and varied socialist political movements and nascent labour unions. To some extent it responded to their aspirations though was not beholden to either.

This combination of emergence from recession, colonial ambition and emerging labour ambitions prompted the government to initiate significant social and regulatory policy changes. That it did so with popular support was reflected in its large parliamentary majorities, so large that after the 1902 election there was initially no official opposition.

Among its policy initiatives were: the Industrial Conciliation and Arbitration Act to regularise bargaining and setting of wages and predicated on the notion that an honest day's work should pay wages that enable the worker and family to live in modest comfort; votes for women on the same basis as for men (though women still could not stand for Parliament); the breakup of the large estates so that there could be opportunity for small-holders<sup>39</sup>; a means-tested state pension for those of good character who reached the age of 65; and a modest public housing scheme for low-income families.

A visiting French scholar termed this "socialism without doctrine"<sup>40</sup>. It was pragmatic but aimed to improve individual and social conditions.

The second period of major policy change, under ***the 1935-49 Labour government***, also came out of economic adversity. The post-1929 worldwide depression generated very high unemployment and widespread business and farm failures in New Zealand which, for many, discredited the orthodox economic policies applied by Labour's conservative predecessors.

Labour by 1935 had developed from its originating mix of radical socialism and pragmatic industrial unionism into a moderate social democratic party. This coincided with a small but significant flowering of writing and art, which indicated there might also be a parallel

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<sup>37</sup> See Stiglitz, Joseph E, *The Price of Inequality* (Allen Lane, London, 2012).

<sup>38</sup> "Inequality and the world economy: True Progressivism", For richer, for poorer" and "As you were", *The Economist*, 13 October 2012.

<sup>39</sup> Brooking, Tom, *Lands for the People? The Highland Clearances and the Colonisation of New Zealand: A Biography of John McKenzie* (Otago University Press, Dunedin, 1996).

<sup>40</sup> Métin, André, *Le Socialisme sans Doctrines: La Question Agraire et la Question Ouvrière en Australie et Nouvelle Zélande* (Librairie Félix Alcan, Paris, 1910), quoted approvingly in André Siegfried, *Democracy in New Zealand* (Victoria University Press reprint, Wellington, 1982), p90.

potential for independent policy thinking and experimentation.

Labour did that. It protected local business (and so jobs) from foreign competition, alleviated farm debt, nationalised some major enterprises and heavily regulated much of the rest of economic activity. It put a floor under income through compulsory unionism and "social security" benefits to ameliorate hardship and a higher pension. It built quality houses for those on modest incomes to rent. It universalised access to education and health care. It increased taxes to pay for all that.

This was the foundation of what later became known as the "mixed economy" and the "welfare state". It was major policy change, born of a mixture of economic and social disaster caused by a disjunctive event and of hope and belief that a more equitable and materially better society could be engineered by government action. Its focus was a guarantee of the individual's capacity to work and, once in work, to earn a reasonable living for a family — what might be called the "guaranteed job".

The third period of major policy change was under a Labour, then a National, government between **1984 and 1992**. There were two elements: ***economic and social policy reform***; and the invention of ***biculturalism***.

The impetus for economic and social reform was a combination of economic failure (plus a financial crisis) and an ascendant ideology in the wake of what was arguably a disjunctive event, the 1973 oil crisis which broke the Bretton Woods system of fixed exchange rates. Falling terms of trade, balance of payments current account deficits, budget deficits and rising debt and rising unemployment exposed the rigidities of a highly regulated and highly protected economy at a time of rapid economic globalisation. There was heavy pressure on the fixed exchange rate which exhausted official foreign exchange reserves. That forced a quick devaluation of the currency when the Labour government took office in July 1984 and left no option but to deregulate.

The policy changes which followed<sup>41</sup> were dramatic and extensive and included: the drastic lowering of import protection, floating of the exchange rate, radical tax changes and an independently managed monetary policy; much more transparent fiscal management; widespread deregulation; removal of nearly all subsidies for industry and agriculture; commercialisation of government trading departments; targeting of some income support and co-payment for some services such as medicines; introduction of a version of private sector management and accounting into the public sector; and an independent foreign policy.

This was a time when neoliberal (or neoclassical) economic theory had won wide acceptance among economists, academics and commentators in western countries and, in New Zealand, among a younger group of economists in the Treasury and Reserve Bank. Theory (verging on ideology among some of its supporters) married economic necessity and decided the policy response.

In fact, even if there had not been economic stress and financial crisis, policy changes similar to those of 1984-92 would have been implemented (though probably with less haste and less ideological purity).<sup>42</sup> The generation born post-1945 which came to power progressively from the late 1970s idealised and pursued "freedom", which it had expressed in various forms

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<sup>41</sup> There had been some liberalising moves before 1984: for example, some relaxation of import licensing on "intermediate" goods (inputs for manufacturers) in 1979 and the 1983 Closer Economic Relationship free trade agreement with Australia (for which there was a growing constituency within New Zealand but which was actually driven by Australia).

<sup>42</sup> James, Colin, "If Talboys had said yes to the plotters in 1980", in Stephen Levine, (ed) *New Zealand as it might have been* (Victoria University Press, Wellington, 2006), pp177-192.



in a "values revolution" in the 1960s and which made it much more comfortable with neoliberal economics than its parents. It found its parents' regulated social and economic environment stifling.<sup>43</sup>

Biculturalism emerged out of demands by a younger generation of Maori activists for redress of breaches of the Treaty of Waitangi and adherence to the Treaty in government policy, administration and action. This was most visible in occupations of land alleged to have been taken in breach of the Treaty but took many forms, including, for example, the right to take fish according to article 2 of the Treaty. It gained more weight in court rulings, then in legislation and over time led to more standing for iwi and hapu in decision-making in a range of areas and in the power structure generally and also more official, then public, respect for Maori culture, which acquired equality in status with general culture.

This was at a time when indigenous rights were gaining traction in international rights discussions and eventually in the United Nations: thus was action married to theory and ideology.

Also, as with neoliberalism, the generation coming to power was open to this ideology. It had strong views about "rights", which made it more receptive to Maori claims of indigenous rights.

These three periods were a time when a number of drivers of change coincided and rapid, condensed policy change resulted. But society and attitudes change continuously.

The three periods of major policy change reflect an evolving society and attitudes and changing pressures and aspirations. They were times when a number of drivers coincided.

Major policy change does also occur outside those periods. Some examples:

- State-run no-fault accident compensation (ACC) and the transformation of social security into social welfare both resulted from royal commissions, chaired by conservative judges, in the late 1960s/early 1970s. They reflected three decades of social democratic advance such that political scientist Keith Jackson could say even the conservative National party was social democratic. ACC negated the tort law of compensation for personal injury with a quasi-welfare system of blanket coverage. The social security royal commission was predicated on income support which would enable everyone to fully participate in society. A range of other measures flowed from this thinking, including, in the 2000s, paid parental leave, working-for-families tax credits for families with children and earned income, interest-free student loans and the expansion of early childhood education.
- The Official Information Act (OIA), enacted by National government in 1982, reflected a growing public expectation of involvement in the governing process (beyond triennial elections and membership of political parties and pressure groups) and redress of damaging action by the executive (the Office of the Ombudsman, established in 1962, was a first step). Both require access to information held by departments and ministers. While there are criticisms of the OIA as still falling short of the ideal, it has opened up government to a degree near-unimaginable 40 years ago.
- The anti-nuclear policy formalised in 1985 developed out of the high personal costs of the two world wars, a growing anti-war (particularly anti-Vietnam war) sentiment among a new generation and a growing environmentalist movement. Despite (or because of)

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<sup>43</sup> But note that older generations by and large held a different view, as indicated in the election votes in 1990 and 1993 on p23, section 4.

United States isolation of New Zealand when it refused to accept nuclear-powered and nuclear-armed warships, support for the policy grew to the point where in 1992 a National government shelved a proposal to allow at least nuclear-powered vessels to visit and became in the 1990s something the majority considered part of the national identity. It also forced on New Zealand an "independent" (non-aligned) foreign policy which became embedded (at least until 2008). This independence reflected also a much stronger sense among the baby-boom generation that New Zealand was a fully distinct culture and no longer a distant offshoot from Britain.

- The Resource Management Act (RMA), a world first in applying to decisions on resource and land use the criterion of environmental outcomes, was another reflection of the environmentalist sentiment, which also turned up in a (dubious) claim to be "clean-green" as part of national identity: it was conceived by Labour but enacted by National. Likewise, a conservative National government signed a commitment on greenhouse gases and then softened but did not abolish measures introduced by a Labour-led government to combat climate change. The RMA included much wider provisions for public consultation, reflecting growing public expectations of involvement in decision-making. Likewise, the 2002 Local Government Act insisted on widespread formal consultation with citizens.
- Legislation in 2004 for civil unions (formal recognition in law of marriage-like arrangements including, notably, of homosexual couples) reflected the long liberalising trend from the 1960s (again a baby-boom phenomenon). A bill extending this to allowing all couples to marry was in Parliament as this was written and had the numbers to pass. The converse of this emphasis on individual freedom was a society in which inequalities grew and, along with that, crime. Penal policy from the late 1980s on became more repressive as people felt less safe. There is now some evidence this trend is beginning to reverse.
- In 1992-93 voters approved two referendums to change the voting system. This was not evidence of a public interest in "fairer" voting systems, though it did come after increasing votes for parties other than National and Labour (which between them got 99.8% of the vote in 1951 but only 69.7% in the last first-past-the-post election in 1993) and was reconfirmed in a referendum in 2011.<sup>44</sup> The proximate reason was out-of-character behaviour in government of Labour in 1984-87 (adopting market-dominated economic policies) and National 1990-93 (a conservative party went radical). A deeper driver for a more diverse electoral system was that the makeup of society had become much more diverse and had significantly loosened major party allegiances by the 1970s.
- An example of unstable policy is exhibited in the many revisions of state pensions in the past 40 years. The incoming National government in 1975 made them much more generous as a substitute for the previous government's contributory system. The 1984-87 government taxed them. Post-1990 National-led governments changed the arrangements several times and post-1999 Labour-led governments made them more generous again but also introduced pre-funding of 2020s pensions (the Cullen fund) and a contributory system with compulsory employer contributions (KiwiSaver).
- Public sector reform also reflects public attitudes. Example one: frustration with the nepotistic system in the first decade of the twentieth century led to a royal commission and the adoption of a merit-based, politically neutral public service in 1912. Example two:

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<sup>44</sup> The combined National-Labour vote in elections from 1949 to 1969 averaged 92%. In elections from 1972 to 1993 that average was 82%.

growing expectations of better service was an important element in the 1988 reforms which focused the public service much more on the end-user.

The OECD has analysed major policy changes in a number of countries, focusing particularly on pensions and health services.<sup>45</sup> Examples included:

- Pension reform in France in 2003: this reduced inequalities between private and public schemes. It was resisted by public sector unions (some public servants could retire on full pension at 50) but eventually prevailed with the public through effective communications backed by good research of long-term costs (both public and private retirees got 70%-75% of wages) and consistent leadership from the government, including extensive consultation and some concessions, helped by disarray among opposition parties and a long phase-in. There had been earlier minor changes in 1993 and 1995 and a report by an independent commission on the long-term implications without reform. But note the recent reversal of a modest attempt to raise the qualifying age for public sector pensions.
- Pension reform in Poland 1996-99: an independent institution proposed the reforms (with World Bank backing), two successive governments backed it, the economy was growing strongly which took the edge off the changes (which included a significant rise in the age of entitlement) and older workers' rights were grandfathered.
- Pension reform in Italy 1994: despite some public appetite for reform based on the unsustainability of a very generous scheme, the reform failed for a variety of reasons, including a fragile government, a unilateral approach, poor communications, lack of independent backing (a commission report was not followed and economists did not back the proposed version), a failure to distinguish between social insurance and social assistance, a lack of equalisation between women and men, failure to address union concerns (3 million joined union protests) and public mistrust of the government.
- Social Security reform in the United States 2005: a proposal to partially pre-fund and also cut social security (pension) benefits failed. The Administration did not build Congressional support, even among Republicans, and relied on a publicity tour rather than a sustained information campaign. It ran into sustained opposition from unions and those standing to lose and a strong public preference to keep the system as it was. Contrast the welfare reforms of 1996 under the presidency of Bill Clinton, which built on a general consensus of the need to move from the status quo for fiscal reasons and action by some states to limit welfare (some state governors backed the Clinton reform), coupled with an improving economy which softened the impact and both a Congressional majority (centrist Democrats plus Republicans) and compromises with opponents.
- Health reforms: Finland (2001-07) centralised a very decentralised system and shortened hospital waiting times, with advice from, and "ownership" by health professionals; Korea rolled 370 insurance companies into one national organisation, reducing costs, and making drug use more cost-efficient by removing from doctors to specialists the dispensing of drugs; Sweden 1990-2002 initially used a fiscal crisis to reduce payments for sickness (as percentages of wages), opposed by unions, and make the first 14 days the responsibility of the employer, opposed by employers, but subsequent governments progressively backed off most of those changes and an attempt to reopen the question in 2000 failed. There is also Obamacare, narrowly passed after major compromises and not wholly allowed to stand by the Supreme Court; the insurance companies essentially maintained their control.

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<sup>45</sup> *Making reform happen - lessons from OECD countries* (Organisation for Economic Cooperation and Development, Paris, 2010).

Fiscal concerns were a common factor in all of the OECD reforms — and New Zealand's major policy changes of 1984-92. These created a window of opportunity<sup>46</sup> for would-be reformers but they succeeded only to the extent the public took on board the fiscal issues (either as a result of public debate coupled with personal experience and/or political and other leadership) and to the extent that the government had a clear plan, preferably devised by an independent body trusted by voters, built a coalition of support, consulted, compromised (but not of core items) and persisted. Most of these factors were present in Britain's initial decision in 2007 to raise the age of entitlement to its public pension.<sup>47</sup> A raft of other well-off countries have also raised the entitlement age or indexed it to life expectancy.<sup>48</sup>

On the face of it, the fiscal concerns factor suggests crisis is a basis for successful policy change. The OECD study notes that crisis can enable a government to act without a specific electoral mandate but the changes will endure only if there are visible, quick payoffs and if the public accepts that the crisis is genuine. Also, the OECD study suggests, waiting for a crisis to open a window for change is risky because there is less financial scope to meet upfront costs to ensure reforms work, it can obscure long-term needs and objectives and it can lead to capture by some agencies (as some would say the Treasury and Reserve Bank did in New Zealand in 1984).

That suggests that major durable reform succeeds better if there are deeper drivers. All four of the British nineteenth-century examples of major policy change 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 same goes for most of the New Zealand specific policy changes noted above.

When those currents are running, policy changes are secure — until the currents change. That is the case now across the globe, specifically in Europe and North America and more specifically in New Zealand. That suggests major policy change might be possible over the next decade or so.

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<sup>46</sup> Sir Roger Douglas as Finance Minister used explicitly to talk of the window of opportunity a financial squeeze opened for the 1980s policy changes which he spearheaded. In the wake of the 1987 stockmarket crash, he thought he had another window of opportunity, this time for a flat tax, but Prime Minister David Lange, backed by a (silent) majority in the Labour caucus, shut the window.

<sup>47</sup> Under legislation passed in 2007, men's and women's qualifying age is being harmonised and was set to rise from 65 to 66 in by 2024-26 and 68 by 2046. In legislation of 2011, under conditions of fiscal crisis, the rise to 66 was brought forward to 2020.

<sup>48</sup> "What's happening to pension ages in OECD countries", Commission for Financial Literacy and Retirement Income, September 2012, <http://www.cflri.org.nz/research-and-reports/retirement-income>.

#### 4: Big policy change and the people

The purpose of politics is to influence or manage behaviour. The purpose of policy change is to change behaviour. In a representative democracy the behavioural change intended by a policy change will occur only if there is broad agreement with the policy.

That broad agreement may develop before a policy change — that is, policy may endorse a change that has already occurred in the way a majority behave and is in effect requiring the minority to sanction the majority. A recent example was the 2007 amendment to the Crimes Act to outlaw aggressive physical punishment of children. Most parents had long since stopped or nearly stopped doing that and schools likewise had mostly stopped strapping and caning pupils. Though the bill enacting the change aroused vigorous opposition, that was from a minority and the subsequent administration of the new law reduced that minority to the point where there is now very little outspoken opposition. It may also be starting to change the minority's behaviour. At the least, it has focused attention on what the majority considers acceptable behaviour. In 1967, a bill to outlaw whacking of children would have seemed to most people an aberrant preoccupation of their MPs.<sup>49</sup>

Policy change of this sort is often incremental. Thus the bill decriminalising homosexuality in 1986 (the Homosexual Law Reform Act) was followed by the Civil Union Act in 2004 giving same-sex couples closely similar rights and obligations by way of civil unions to those heterosexual couples had by way of marriage and on 29 August 2012 an 80:40 vote to give a first reading to a bill extending full marriage rights to same-sex couples. The abolition of slavery is still not complete: the notion persists in many societies that one person may own, or have quasi-ownership of, another person. It took the United States until the civil war in the 1860s to formally abolish slavery on a national basis there<sup>50</sup> and another century to extend to blacks full civil rights, including to vote. Many jurisdictions still have not eradicated work practices that are akin to slavery; some labour practices on fishing boats are in that category and are only now being outlawed by this country. Also in this country a husband could lawfully rape his wife until the 1960s and a wife's property was her husband's until the 1970s; in many societies this is still the case.

The Homosexual Law Reform Act gave legal sanction to behaviour already occurring and increasingly open. Police had long since recognised a change in public attitude to that behaviour by rarely prosecuting couples under the existing law. An openly gay candidate, Ian Scott, had stood for Labour in Eden in 1981.

Incremental change can be over long periods. Thus nine decades elapsed after Britain's 1832 Reform Act before there was universal suffrage, without a property qualification and including women (1918), another decade after that (1928) before women qualified at 21, the same age as men and another four decades after that before the voting age was lowered to 18 (1969). Swiss women did not have voting rights until 1971.

Policy change can also give legal effect to change which the majority has made it clear it wants. An example is the 1967 change to the hours when alcoholic drinks could legally be sold in bars, extending closing time from 6pm to 10pm. There had already been policy change at the margin, for example, in allowing alcoholic drinks to be sold if the purchaser

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<sup>49</sup> An excellent account and analysis of that sort of change in the context of sex scandals at the BBC and child abuse, is in O'Hagan, Andrew, "Light Entertainment", *London Review of Books*, 8 November 2012, pp5-8.

<sup>50</sup> Some states in the United States beat Britain. "From 1777 to 1804 Vermont, Massachusetts, New Hampshire, Pennsylvania, Rhode Island, Connecticut, New York and New Jersey all either abolished slavery or adopted laws for the gradual emancipation of all slaves" — Davis, David Brion, "Should You Have Been an Abolitionist?", *New York Review of Books*, 21 June 2012.

had a "meal ticket" indicating either an intention to eat a meal on the premises or that a meal had been eaten. There was widespread frustration with and contempt for the law, evidenced in a semi-formalised system of after-hours drinking in bars. Politicians nevertheless moved cautiously, enacting the change only after endorsement in a binding referendum on 23 September which passed by nearly a two-thirds majority. An indication of the change in public attitudes was that on 9 March 1949 a referendum on licensing hours had been defeated three-to-one.

The 1967 alcohol legislation was the forerunner of a multiple liberalisations of alcohol sales and consumption, including a lowering of the age, all-night licences and the sale of wine and beer in dairies. Alcohol law is also an example of a reversal of public attitudes: a bill tabled in 2012 and still in debate as this was finalised proposed to limit outlets among other changes tightening alcohol sales.<sup>51</sup> This followed public and media interest in the personal and social damage and cost caused by misuse of alcohol and a report from the Law Commission proposing much farther-reaching restrictions.

Similarly, after having been widely adopted in liberal-capitalist societies, the limited liability company form is now being questioned in some quarters as inappropriate for banks because it in effect gives licence to speculate with the public's money, with seriously damaging results in the United States and Europe when the speculation went bad after 2007. A milder version of that rethinking is the re-regulation of banks in European, North American and Australasian jurisdictions.

No policy is ever set in stone. The long liberalisation over the past 200 years is not irreversible. Anti-terror legislation has gone in the anti-liberal direction (and led to an embarrassing mishandling of evidence by police in surveillance of suspected terror activities by Tame Iti of Tuhoë and others in 2007). The United States sanctioned torture of suspected Islamist terrorists after the attack on New York and Washington using hijacked planes on 11 September 2001 and this year has been killing selected terrorist leaders by bombing them with "drones".

Sometimes there is not broad agreement at the time of the policy change. Then a policy change endures only if a majority in time comes to favour the change or at least acquiesce in it.

The 1984-92 deregulation and adoption of much more market-oriented economic policies, was a major policy shock. Only a small minority voted for the measures in 1984 and 1987 and even in 1990 majority opinion wanted at least a halt to the process. In the 1990 election the vote for the ruling Labour party's vote share fell 13 percentage points; in the 1993 election the ruling National party's vote share fell 13 percentage points. In 1992 and 1993, in the wake of a Labour government having initiated and a National government having continued the deregulation, the majority expressed its opposition by voting for a change in the voting system to the mixed-member proportional system which had the effect of denying either party power on its own in future. Two parties which explicitly opposed the deregulation, one drawn mainly from Labour (the Alliance) and one from National (New Zealand First) drew 18.2% and 8.4% the vote respectively in the 1993 election, the last under the old system. In 1996, the first MMP election, the combined vote for Labour and National dropped to 62.0%, the lowest by far in the six decades over which they had been the two leading contenders for government.

That illustrated four factors about the 1984-92 policy shock. One is that crisis, which was the initial reason given by the Labour government for its deregulation, is not a sufficient basis for

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<sup>51</sup> But not to accept either of two amendments which sought to raise the minimum legal purchase age from 18.

lasting reform: the 1990 and 1993 election votes and the vote to change the voting system in 1993 is a good indicator that if it had been possible to hold a realistic vote on the reforms as a package, the outcome would have been negative. The second is that a policy shock, by suddenly removing long-established and therefore long-recognised signposts and markers, disorients voters, who are then unlikely to support the new policies. Greek voters' response in May-June 2012 to the policy shock in response to the Euro crisis is a case in point. The third, also reflected in Greece, is that a policy shock by definition cannot be presented as "normal" and voters are likely to seek out and support populist alternatives to the established parties.

The fourth factor in 1984-92 was leadership (or political will): first, a government which determinedly pursued radical policy change (despite thereby transgressing some of its fundamental principles), followed, second, by another which continued the policy direction (despite the fact that radicalism was at odds with its conservative, middle-road tradition), then, third the leading figures in both major parties broadly agreeing (though with differences on detail, including some large detail) not to reverse the reforms and proving able to hold majorities in their parties, though only just in Labour's case, until the new settings became the norm.<sup>52</sup> There was at the apex of politics, that is, a party-political consensus, one between the two major parties. Since there could be no government that was not dominated by one of the major parties, the majority of voters saw little option but to acquiesce. Over time that acquiescence morphed into acceptance by a broadening proportion of the population, which firmed over time with generational change (an example of transgenerational attitudinal evolution. Nevertheless, when in 2011, 19 years after the last major reform initiatives, a National-led government proposed a pale version of one of the deregulatory measures, the sale of up to 49% of four energy state-owned enterprises and the selldown to 51% of its 74% holding in Air New Zealand, opinion polls found persistent and consistent large majorities against the policy.<sup>53</sup> That opposition was despite a year-long campaign by National through 2011 and remained strong through 2012, qualifying National claims of a "mandate".

Contrast the post-1935 construction of social security and the mixed economy. After the disjunctive shock of the world economic depression the electorate was open to major policy change on the ground that the orthodox policies did not seem to be working, either for the country or for voters as individuals. The National party initially opposed Labour's measures, especially the introduction of social security income support after the 1938 election, but over the 14 years of Labour's period in government came to accept the broad thrust of social security (including universal access to secondary education and primary and hospital health care and provision of subsidised housing for the less well off) and the higher tax rates, import quotas and greater regulation of wages and business that went with it. The difference between the two main parties was on detail, particularly the extent of regulation, and when National returned to power the changes it made were limited.

National's acceptance of the broad policy framework mirrored broad acceptance by a public which prized security and stability after two world wars and a depression. Business and those who were better off also bought into this stability and into a general notion that stability required transfers by way of regulated wages and taxes from business and the well-off to employees and the less-well-off. Again, emphasise "broad": there were differences both between the parties and in the electorate at large. But few wanted or advocated a return to the pre-1935 policy settings. This broad acceptance of the mixed economy plus social security

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<sup>52</sup> It should be noted that in both the post-1984 and post-1990 Labour governments the principal drivers of economic policy change were the Finance Ministers, Sir Roger Douglas and Ruth Richardson.

<sup>53</sup> National said that in its focus groups, when the full argument was presented, opposition diminished — *private conversations with National MPs*.

was also broadly true in Europe and even in the supposedly more free-market United States.<sup>54</sup>

If crisis-driven policy can be unstable, so, too, can policy which divides the electorate, especially if between roughly equal blocks. That can generate policy seesaws. These reflect either a divided electorate which alternately elects governments led by parties sympathetic to one side or the other on a particular policy or competing interest groups in behind competing governments. Examples since 1984 are labour law, alternately favouring employers and employees, and accident compensation, which expands to cover more people more generously under Labour and contracts under National to reduce levies on employers, individuals and vehicle owners. This may happen with climate change policy, reflecting the different ideologies of Labour-and-Greens (reflecting environmental lobbies) and National-and-ACT (reflecting business lobbies, including farming, and climate change sceptics).

That leaves open the question of whether policy can be anticipatory — whether it can address a problem, challenge or opportunity which has yet to materialise and the dimensions and impact of which are therefore difficult to quantify and which may not materialise at all or materialise in a very different form from that perceived in the present.

Climate change is an obvious example.<sup>55</sup> Others include (and this is only an indicative list): resource sustainability here and abroad, especially water (and so food production) and minerals; the impact of new forms of economic globalisation on the distribution of work; the impact of 3D printing and other new forms of production technology for goods and services; the geopolitical and security implications of the rise of China; and the implications of gene technology among other emerging forms of treatment of illness, disability and physical inequalities. All have the potential to profoundly alter the fiscal trajectory over the next 40 years.

Particularly pertinent to that fiscal trajectory is the "ageing" of the population. This is assumed to generate higher levels of "dependency" on a "working-age" population which is projected to form a smaller proportion of the total population. The presumption is that health costs and income support (superannuation) for this larger "aged" group will rise to the point that they are too onerous for those who will be of "working age".

The policy argument for anticipatory policy change is that (as with climate change) it is less onerous to take early action than to change policy only when the costs begin to mount; policy change made deliberately and over time is also more likely to be durable than policy made under fiscal pressure or in crisis. The policy argument against anticipatory policy change is that action may not be necessary because circumstances might change and there is an opportunity cost in taking needless action.

This focuses policy on the probability that population projections will be accurate. A number

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<sup>54</sup> Noted, for example, by Nicholas Lehman, reviewing books on inequality by Timothy Noah and Charles Murray, in "Is there a politics of inequality", *New Yorker*, 23 April 2012: "The United States never had a BBC or a National Health Service [as in Britain], but other, now diminished or vanished features of American society had some of the same effects. Before the late nineteen-seventies, corporations were not managed for "shareholder value" to the extent that they are today, and many of them offered de-facto lifetime employment and generous benefits and pensions. The more regulated and localized American economy had all sorts of inefficiencies and trade barriers that created safe harbors for institutions like banks, department stores, insurance companies, fixed-commission stock brokerages, and middlemen in supply chains." Then he cites an article by Harvard economist Benjamin Friedman in *The National Interest*: "Americans supported a large expansion of government during the New Deal only because the Great Depression had an unusually wide impact: "Americans had a sense of everyone's going down together—a condition certainly not shared in the most recent financial crisis, nor in the general stagnation of incomes and living standards that set in more than a decade ago."

<sup>55</sup> As noted in section 1, I take the International Panel on Climate Change's general findings as an operational assumption. The reference here is not an implicit or explicit endorsement, which I am not qualified to make.



of factors could distort population growth and composition, including disease, migration and birthrates.

It focuses policy also on the probability that health care and superannuation cost projections will be accurate. There is, for example, an argument that near-end-of-life health costs may fall because baby-boomers generally have lived a better-fed, healthier and less physically wearing childhood and working-age life than the previous generation and so will live longer and more healthily, which would reduce costs for those in their seventies, and moreover that physicians will likely intervene less vigorously for someone near end of life who is over 85 than for someone near the end of life at 75. Attitudes to near-end-of-life interventions are changing and may focus more on palliative care and less on interventions to extend life at all costs. Technology and workforce organisational change may at some point reduce health care costs in net terms and reverse the current net-positive effect. What is "working age" may change without the need for formal policy change: 70 may be the new 65, that is, more people will want to work past 65 for a variety of reasons, not least the cost of sustaining themselves once they stop earning, which may require greater capital accumulation than in the past if we are entering a prolonged period of low interest rates and uneven global economic growth rates.

These sorts of questions raise significant challenges for developing long-term anticipatory policy. What are the mechanisms for that?

## 5: Mechanisms for policy change and public engagement

There are many ingredients in policy change: in the recognition of the need for or desirability of change; in the conception and development of policy; in its implementation; and in the acceptance and adoption or not by the public or publics to which it is intended to apply. This is especially so with major policy change.

What are the mechanisms for policy change? The short answer is that policy change is made by elected politicians, either through executive decisions or through parliamentary legislation. Except for some powers delegated to officials to deal with technical or functional matters, policy passes through the political process, either in the cabinet or in Parliament. But no policy is durable in a modern representative democracy without the eventual implicit or explicit approval of most of the public.

Moreover, a feature of modern representative democracy is that parliamentary representation is not sufficient.<sup>56</sup> Increasingly, the public (or, more accurately, some of the public) expects to participate in decisions in some way at some times and to some degree or expects at least be listened to or acknowledged. Increasingly, mechanisms are being constructed, tested and used to develop, refine and validate policy change. Without that validation, policy change may not be durable.<sup>57</sup>

Policymaking therefore is complex. Many types of mechanisms are involved.

One mechanism is mainly *political*. Politicians initiate a policy change to give effect to a party ideology, value, interest or election commitment. A powerful figure in a government might act on a personal conviction. A cabinet usually responds to at least some of the requests of friendly, persistent or needy interest groups, firms, organisations or constituents.

This highlights the role of *leadership*. Any major policy change requires leadership, either by political leaders or as a result of political leaders responding to leadership from outside the formal political system.

Government ministers also have two main areas of discretion where they can make significant policy change. One is in the organisation of the public and state services, as evidenced in the Better Public Services programme initiated in 2011. The other is in the conduct of foreign policy, including trade and defence, which usually reflects the inclinations and values of the lead party in power. The 1984-90 Labour government, for example, in effect ended the alliance with the United States, a momentous change in foreign policy. But even in this area there are limits. Parliament, through the foreign affairs, defence and trade select committee, now at least glances through all treaties before they are ratified and any treaty that needs a domestic law change must pass through Parliament which can reject it, as it did in 2007 in the case of the proposed agreement with Australia to set up a joint agency to supervise medicines and medical devices. It is unlikely a government would now declare war without consulting Parliament except in extreme urgency and then would almost certainly seek subsequent parliamentary approval.

Even a policy derived from ideology or conviction goes through two checkpoints. One is analysis and advice from officials and/or outside experts. The other is scrutiny by Parliament, which in the case of legislation or a specific inquiry includes an opportunity for public submissions from interest groups and individuals. And ultimately the public as a whole

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<sup>56</sup> This may be a partial explanation for declining election turnouts over the past 50 years (though there is no hard research evidence this is so). Voting is more a delegation of authority than a form of participation.

<sup>57</sup> King, C.S., Feltey, K.M. and Susel, B.O. (1998). "The Question of Participation: Toward Authentic Public Participation in Public Administration" in *Public Administration Review*, 58(4). pp317-326.

pronounces on a policy, through opinion polls and elections, sometimes through referendums and sometimes through informal means such as protest meetings or direct action. The executive decision in the 2012 budget to increase class sizes to finance more spending on training teachers and principals and introduce pay-for-performance foundered on parental protest.

Some policy originates in reports from expert commissions, such as the Law Commission, the Electoral Commission, the Privacy Commissioner and the Commission for Financial Literacy and Retirement Income, or royal commissions, which were the genesis of the accident compensation scheme in 1974 and the transition from a bounded social security system to a much more ambitious social welfare system in the 1970s. These channels are an effective way to deal with a complex and politically contentious issue: they can be used to bury or neutralise an issue, as with genetic modification in 2002-03, or resolve it, as the Electoral Commission was charged with doing in its review of MMP in 2012<sup>58</sup>. A royal commission gives credibility to a policy proposal because it is perceived as having no political motivation and also follows extensive public hearings. The other commissions are also broadly seen as independent of party politics.

A great deal of policy originates with *officials*. They have two duties: as state servants to ministers; and as public servants to the general public. The first duty requires them to give frank advice based on dispassionate analysis but ultimately to carry out ministers' lawful decisions made with due process. The second duty requires them to continually analyse existing policy and its effectiveness and propose improvements based on analysis (and, as far as practical, evidence) and also to look ahead, to keep abreast of international thinking and keep an eye on long-term trends, challenges, opportunities and issues which outlast individual governments. That duty to the public requires officials to anticipate policy change needed to take opportunities and offset risks, as the long-term fiscal projection does. Officials are the enduring element of the executive and therefore indispensable to good policy development.

But 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.

One result is that policy change is now subject to far more *consultation* than 40 years ago. That consultation is with experts in the case of technical matters like law and accounting, with iwi on matters directly affecting them (as in ministerial consultations over the Treaty of Waitangi clause in the Mixed Ownership Model Bill) and with the general public through departments or select committees, which occasionally hold hearings through the country as on the legislation for the 2011 electoral system referendum. All but the most urgent legislation goes through select committees.

Some consultation is now mandated by law, particularly for local authorities in their planning and some other activities. The Local Government Act also includes provision for community boards which in concept are aimed at a degree of citizen influence over suburban or locality matters, though the practice falls short of the concept.<sup>59</sup> The Brisbane City Council has a

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<sup>58</sup> The Electoral Commission reported on 29 October 2012. The Minister of Justice said she would consult other parties to seek consensus on amending legislation. A more constitutionally correct alternative would be for the government to draft legislation to give effect to the commission's recommendations and take that to Parliament. Elections logically belong to the people, not to politicians or political parties.

<sup>59</sup> The functions of community boards are to: "represent and act as an advocate for the interests of the community; consider and report on any matter referred to it by their council and any issues of interest to the

"Your city, your say" online system which citizens can opt into which feeds "updates about projects and how to get involved", with regular information, invitations to forums, discussion groups and surveys and "opportunities to participate in online consultation".<sup>60</sup> Some 16,000 have opted on. This has been emulated in nearby local authorities. Online systems in some United States local jurisdictions channel directly to authorities residents' requests (to fix potholes and the like) and other communications.

As part of the wider involvement of citizens in the policy process at national level, governments have been experimenting with methods of assembling information, analysing it and proposing policy. The Labour-led government of 1999-2008 set up a taskforce to suggest how to improve capital markets. The post-2008 National-led government expanded that and introduced "*working groups*" in which academics, professionals, economists and officials work together to rethink a policy area and suggest changes. The tax working group in 2009 published papers for general discussion and then presented options to a one-day public conference before reporting to the government. That was the foundation of the 2010 budget tax changes. A similar but less rigorous process was used to suggest changes to the welfare system: its major finding, accepted and subsequently partially acted on by the government, was to assess actuarially the long-term cost of a benefit and the return on an investment in a prospective or actual beneficiary which obviated that. A Better Public Services Advisory Group of five departmental chief executives and three outsiders, produced a report in November 2011, published in March 2012, to refashion public service practice, some of which the government began to adopt in 2012.

In July 2009 ministers mandated a Land and Water Forum to develop the basis for water policy through "*collaborative governance*". This brought together all 58 organisations with an interest in allocation and management of water, ranging from environmental groups and outdoor sports groups, through businesses and local authorities to farmers and farm-products processors and including major iwi representing the iwi leadership group on water and with officials present. The mandate from ministers was to reach consensus on water flows, pollution, allocation and transfer of use rights and decision-making and management mechanisms. The principle of this "collaborative governance" experiment, adapted from Scandinavian practice, was that the forum would try to reach consensus, that while it was deliberating ministers would not deal directly with any interest group, firm or individual and that, if consensus was reached, ministers would adopt that as the foundation for government policy. That encouraged all groups to stay in the discussions because, while as part of the forum they would not get all they wanted, they would get at least some of what they wanted but if they left the forum their influence would fall to zero. The forum reached agreement on many points, enough to base policy on, with disagreement on only a few points. Most interest groups welcomed the final report, as did most political parties. Whether the government will follow through with legislation based on the report was not known at the point of writing.

These innovations in policy formation offer mechanisms for generating durable policy on difficult issues. A variation of the working group approach — an external review panel — is being used in developing the 2013 long-term fiscal projections. Given the complexity and political contentiousness of anticipatory policy change, the "collaborative governance" mechanism could conceivably be used after those projections are published to develop a

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community board; make an annual submission to their council on expenditure; maintain an overview of services provided by their council within the community; communicate with community organisations and special interest groups in the community and undertake any other responsibilities delegated by their council." —

<http://www.lgnz.co.nz/lg-sector/community-boards/index.html>, accessed 10 October 2012. There are only 116 for the whole country, indicating very limited interest or reflecting the boards' very limited roles and relevance.

<sup>60</sup> <http://www.brisbane.qld.gov.au/about-council/contact/your-say/index.htm>, accessed 10 October 2012.

broader consensus on policy for health care and superannuation as the population ages. In fact, the drift of public opinion during 2012 indicated a growing public openness to, and even expectation of, early anticipatory policy to address the higher costs in 2020.

The virtue of "collaborative governance" is the broad buy-in. This greatly improves the potential for the resulting policy change, even if it is major change, to endure through changes of government. There is an added virtue: iwi were involved in the Land and the Water Forum and so iwi cultural, economic and other perspectives and needs were explicitly incorporated. That takes the process beyond a simple interest-group tradeoff and involves representatives of a "public", that is Maori.

A mini-version of this approach was used in 2011-12 to try to reach consensus on the extension of dairy farming in the Mackenzie Country. Another variation, funded by the Ministry for Primary Industries, was the Agricultural Emissions Dialogue Group (AgDialogue), which brought together economists, scientists, officials and farmers under the aegis of Motu Economic and Public Policy Research to tease through the implications for agriculture of climate change and possible actions.

But collaborative governance of this sort does not involve the general public, whose views are not wholly expressed through interest groups any more than through political parties. Nor are all Maori represented by iwi leaders, who in any case have direct access outside the forum (and any other channel) to negotiate with senior ministers as the "Treaty (of Waitangi) partner".

To involve the public and get the validation such involvement confers requires other techniques. It is not possible to bring all citizens together in a face-to-face meeting, as in ancient Athens. Nevertheless, there have been many experiments.

It is now generally accepted that some issues — leading examples are the voting system, major elements of the constitution — should be decided by *referendum*. In essence, this amounts to approving or rejecting a proposition defined by Parliament. A referendum decided in 1992-93 whether MMP should be introduced and another in 2011 ruled on whether it should be replaced. But referendums are still rare in New Zealand: the Labour-led government refused a referendum on the abolition of legal appeals to the Privy Council in London in 2002, stating disingenuously that its replacement by a new Supreme Court located in Wellington was a matter of court organisation when actually it was a significant, arguably major, constitutional change.

This reticence to refer matters to referendums, coupled with dissatisfaction with political decision-making in the late 1980s which many felt were not mandated by voters, prompted elements within the National party to push for and get legislation for non-binding citizens-initiated referendums. None have been acted on, including those which returned large majorities.<sup>61</sup> Still, if a citizens-initiated referendum on asset sell-downs were to be held, and, if held, were to succeed, that would probably be taken by the public to invalidate the government's claim to a 2011 election mandate for the sell-downs.

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<sup>61</sup> In 1999 "Should the size of the House of Representatives be reduced from 120 members to 99 members?" passed 84.5%-15.5%; and "Should there be a reform of our justice system placing greater emphasis on the needs of victims, providing restitution and compensation for them and imposing minimum sentences and hard labour for all serious violent offences?" passed 93.2%-6.8%. In 2009 "Should a smack as part of good parental correction be a criminal offence in New Zealand?" failed 87.4%-12.6% but the vote was in effect meaningless since even most who backed the anti-whacking law change agreed a "smack" should not be a crime. In 1995 "Should the number of professional firefighters employed full time in the New Zealand Fire Service be reduced below the number employed on 1 January 1995?" failed 12.2%-87.8%.

One possibility is to follow Swiss and United States examples. In many states of the United States binding referendums ("propositions" or "initiatives") can be initiated by a certain minimum of citizens. Switzerland extensively uses referendums to decide questions which in New Zealand need only a bare majority of Parliament. This "direct democracy" has the merit of ensuring popular support and commitment, though if the margin is narrow, as with the first MMP referendum in New Zealand, calls for relitigation may attenuate that validating function. Also, "direct democracy" can be very slow: witness how long it took women to get the vote in Switzerland.<sup>62</sup> Unless there is comprehensive education of the voting public and intelligent public debate, decisions, especially on complex topics, can be uninformed and suboptimal or unworkable. Worse, it can render the Legislature dysfunctional, as in California where there is a cap on taxes which stopped the government from funding some public services the public wants, though when faced with a crisis that threatened large cuts in the education budget, a proposition for a temporary tax on better-off people passed in the 5 November elections.<sup>63</sup> One interesting sidelight of that proposition and the other nine on the ballot paper was a finding in a poll that 48% of voters were more motivated by that referendum to vote than by the opportunity to choose between contending candidates for the presidency.<sup>64</sup>

Apart from salutary lessons drawn from the unintended consequences of some United States referendums, critics argue that complex issues cannot be reduced to the simple form in which a referendum question must be stated and that it is impossible, or at least impracticable, to sufficiently educate the general public to elicit an informed decision. The complexity of discussions at meetings of the external panel for the 2013 long-term fiscal statement illustrate how difficult it would be to fit the issues into to a referendum format.

An alternative option is to convoke a *national convention*. This was how the United States Constitution was initially agreed (by way of indirect elections from the states to a convention) and how Newfoundland decided whether to join Canada in 1946. The Australian government called a convention in February 1998 to draft a referendum on whether Australia should abolish the monarchy in favour of a republic. Politicians were a minority at the convention. But politicians convoked it and decided who would attend. A national

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<sup>62</sup> GESCHICHTE-SCHWEIZ.CH, <http://history-switzerland.geschichte-schweiz.ch/chronology-womens-right-vote-switzerland.html> accessed 17 June 2012, re referendums to get women the vote in Switzerland, resisted nationally until 1971 and in some cantons until 1990: "The example of women's right to vote shows that democracy is not generally more progressive as other forms of government. If a majority of the population is well accustomed to certain basic rules and if these rules work reasonably well common people even tend to stick more to these *reliable rules* than members of parliament and government would do - even if these rules are very unjust for some individuals or even major groups. On the other hand, *changing rules* alone is only the one half of the process of change - the new rules must be known and accepted by a broad majority of the population to become effective. Direct Democracy does help to raise a discussion on rules in the families, at work and in other places ordinary people meet each other. Experts are forced to explain the necessity for change not only to a small number of people (members of government and parliament) but to everybody. This is very helpful to ensure that (almost) everybody will understand the need for change."

<sup>63</sup> California's governor, Jerry Brown, promoted proposition 30 on the 7 November 2012 ballot, to impose a seven-year 3% surtax on incomes of the richest 1% in the state. He stated: "When I was governor last time, personal income was \$165 billion and the top 1% earned 8% of it. "In recent times the top 1% has earned 22% of personal income, which is now \$1.9 trillion." "Stark tax choice for Californian voters", *Financial Times*, 25 October 2012. The proposition passed with 54% on the initial count.

<sup>64</sup> "Poll: Enthusiasm for ballot measures motivated state voters", *Los Angeles Times*, 14 November 2012, <http://latimesblogs.latimes.com/california-politics/2012/11/uscla-times-poll-proposition-30-initiative-california.html>, accessed 15 November 2012.

convention, in other words, tends to be of the "great and the good".<sup>65</sup> If the national convention approach were used to resolve major long-term fiscal options, its findings would carry more weight if the membership was seen to be representative of the broader public.

This should not be confused with an unofficial gathering given the "convention" name, such as the women's convention in New Zealand in the 1970s.

Another form of expression of public opinion is the *parliamentary petition*. This still leaves the decision in the hands of the politicians but can at times force their hand. This was the case in 1970 when a large petition against raising Lake Manapouri as part of a hydro-electricity project persuaded the government to forgo the extra electricity it would have provided and leave the lake at its natural level.

Much faster and cheaper are *public opinion polls and focus groups*, which are extensively used by political parties and interest groups to gauge and, within limits, mould public opinion. Polls are referendums without responsibility and usually based on limited knowledge and without the public information campaign that precedes a well-run referendum. Moreover, it is becoming increasingly difficult to assemble a fully random sample of voters because a declining proportion of the population has landlines, it is more difficult to ensure a representative sample through cellphones and more than half those contacted refuse to take part, which may also skew the sample<sup>66</sup> — though a well-conducted face-to-face survey can provide useful information. A focus group is a sort of "jury": an issue is discussed for one or two hours, with information progressively inserted into the discussion so that over time the group comes to a more considered opinion than is possible in a poll. But focus groups are not representative of the public as a whole.

Polls and focus groups are informal. Intermediate between those and political legislatures (and conventions) are mechanisms to involve citizens in some part of the decision-making or in some way, either semi-formally or formally.

There is a wide variety of such mechanisms.<sup>67</sup> One scan lists: citizens juries, planning cells, deliberative polling, consensus conferences and citizens panels.<sup>68</sup> Another lists: focus groups, citizens juries, consensus conferences, cooperative discourse, dialogue groups, stakeholders workshops, participatory expert workshops, reflection forums, deliberative interviews, voluntary agreements, eco-audits, policy simulation exercises, deliberative foresights, concerted environmental management, mediation, regulatory negotiation, consultative forums, deliberative conflict resolution processes and environmental negotiations.<sup>69</sup>

In those lists there are two important words. One is "deliberative". One commentator argues that: "The essence of democracy is now widely taken to be deliberation, as opposed to voting,

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<sup>65</sup> This distinguishes a national convention from an unofficial gathering called a "convention" (such as the women's convention in New Zealand in the 1970s). These are more akin to the anti-slavery societies noted in section 3.

<sup>66</sup> The Pew Research Centre for the People and the Press, one of the world's most longstanding and most reputable polling organisations, says it now "can't reach 38% of those it wants to interview because they're seldom in or no longer have land telephones. And even when contact is made only 14% agree to answer questions. Other organisations admit to similar difficulties" — Andrew Hacker, "Can Romney Get a Majority?", *New York Review of Books*, 27 September 2012, volume LIX, number 14.

<sup>67</sup> Dr Velentina Dinica of the School of Government, Victoria University of Wellington, assisted with some pointers in this part of this section.

<sup>68</sup> Abelson, Julia and others, "Deliberations about deliberative methods: issues in the design and evaluation of public participation processes", *Social Science and Medicine* 57, (Elsevier, 2003), p242.

<sup>69</sup> Van den Hove, Sybille, "Between consensus and compromise: acknowledging the negotiation dimension in participatory approaches", *Land Use Policy* 23 (Elsevier, 2006), p11.

interest aggregation, constitutional rights or even self-government."<sup>70</sup> This involves, according to another: "...a particular sort of discussion — one that involves the careful and serious weighing of reasons for and against some proposition..."<sup>71</sup>

The other important word is "participatory".

**Citizens juries** and **planning cells** have been used in the United States and Germany respectively. Juries have been used at state level in agriculture, water and welfare policy and at the national level on health care reform, the budget and candidate ratings. They number from 12 to 24 and meet over several days. Planning cells are typically 25 randomly selected citizens who meet several times. In neither case do the participants make decisions; their role is to reach conclusions which are presented to the media, interested groups or a sponsor. Variations have been tried in emerging-economy countries and developing-economy countries.

One criticism is that the juries do not parallel actual courtroom juries: they involve only the jurors and witnesses and do not feature lawyers contesting evidence or judges.

**Consensus conferences** were developed in Denmark to inquire into scientific or technical issues and have been used to develop clinical guidelines. Typically, they meet in small groups with experts to work towards consensus which they then present to experts, media and the public. The goal is "not to reach a kind of objective scientific truth but to feed into the political channels and clarify public opinion".<sup>72</sup> They have been running for 20 years, "have received due political recognition ... are closely followed by the media, there is always a great attendance of public and a lively public discussion about the issue and the recommendations of the panel afterwards".<sup>73</sup> But note that they are used for tightly defined issues, not large, multi-decadal issues.

**Deliberative polling** assembles a large, representative, random sample which deliberates over two to three days, usually on a national issue. Again, they are not used to make decisions but they do present much more considered positions on significant topics, for example in Britain on crime, the monarchy, the future of Europe and the health service.

A Japanese deliberative poll was conducted with 127 people (from a random nationwide sample of 3000) at Keio University 28-29 May 2011 on the topic, "Pension system, a generational choice", an issue of obvious relevance to the New Zealand long-term fiscal projection. They first met in small groups with experts, then in a plenary, totalling 10 hours deliberation. Among the conclusions were that the consumption tax should be increased and used for social security" and "we should take future generations into account more than the current generation".<sup>74</sup> Support for both of those propositions was greater when participants were asked after deliberation than when they were asked before the poll.

A Victoria University survey of attitudes to climate change-driven sea-level rise found that different information elicited different responses according to whether any information was given and, if so, whether a reference year of 2050 or 2100 was used and whether projections

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<sup>70</sup> Dryzek, J S, *Deliberative democracy and beyond* (Oxford University Press, Oxford, 2000), p1, as quoted in Abelson *op cit*.

<sup>71</sup> Fearon, J D, "Deliberation as discussion" in J Elster (ed), *Deliberative Democracy* (Cambridge University Press, Cambridge, 1998), p1, as quoted in Abelson *op cit*.

<sup>72</sup> Zurita, Laura, "Consensus conference method in environmental issues: relevance and strengths", in *Land Use Policy* 23 (Elsevier, 2006), p21.

<sup>73</sup> Zurita, *op cit*, p21.

<sup>74</sup> Nemoti, Seiki, "New method to intensify democracy", *Asahi Shimbun*, 5 June 2011.



were moderate or extreme, "though effects were usually small". "People were generally more concerned and more supportive when they received information."<sup>75</sup>

A more ambitious version of citizen deliberation is the *citizens assembly*. (This might be seen as a more democratic form of national convention.)

Citizens assemblies have been used in British Columbia and Ontario in Canada (mandated by the provincial Parliaments) and in Holland (mandated by the government) to come up with recommendations on electoral reform.<sup>76</sup> The British Columbian assembly followed the most exhaustive process of the three, over 11 months: near-random selection of 160 people, one male and one female from each riding; a learning phase on six weekends, involving experts 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; culminating in 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 members of the public trusted the assembly as being more like themselves than politicians (though indigenous and ethnic minorities were heavily under-represented). The other two assemblies also resulted in no change for other reasons.<sup>77</sup>

How useful could these mechanisms be in reaching decisions on major policy change, especially anticipatory policy change? One assessment of the British Columbia assembly found that "citizen political decision-making appeared to be of a remarkably high quality"<sup>78</sup> and "have the capacity to shed their apathy, overcome their ignorance and reason conscientiously about an unfamiliar and complex political issue".<sup>79</sup>

But they have not yet been widely tested on national issues and all three assemblies on electoral systems did not result in change. Moreover, while electoral systems are complex, they are not as complex as fiscal issues, especially long-term fiscal issues, as the external panel sessions have demonstrated. Hence the assessment of one observer: "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."<sup>80</sup> If it were to be effective on long-term fiscal issues, it would need development.

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<sup>75</sup> Evans, Laurel, Taciano L. Milfont, and Judy Lawrence, "Perceptions of sea-level rise in Wellington City and Kapiti Coast districts" (School of Psychology, Victoria University of Wellington, online, upcoming late 2012): "When focused on extreme projections, people anticipated greater sea level rise, felt that sea-level rise was a more serious problem for them personally, and showed greater support for adapting to climate change and for individual adaptation options, such as accommodation and retreat. They also perceived sea-level rise as a nearer-term threat when information was framed to focus on 2050 and the more extreme projections. Importantly, more "extreme" information always resulted in more concern and support from respondents."

<sup>76</sup> The British government used what it billed as a citizens assembly to build initial support for raising the superannuation age. But informal comments to me from a participant indicate it was managed by the government and so does not warrant description as a citizens assembly in the sense it is used here — certainly not on the British Columbia model, where politicians kept at arm's length except in some of the public hearings.

<sup>77</sup> Hayward, Janine, University of Otago, unpublished paper. [It had been hoped to include a reference to a paper by Guy Lodge of the Institute for Public Policy Research in Britain but it had not been received before this was finalised.]

<sup>78</sup> Vander Ploeg, Casey G, "Constituent Assemblies as Vehicles for Change", in Gordon Gibson (ed) *Fixing Canadian Democracy*, Vancouver, The Fraser Institute, 3002, p222, as quoted in Hayward.

<sup>79</sup> Warren, Mark E, and Hilary Pearse, (eds) *Designing Deliberative Democracy: The British Columbia Citizens' Assembly*, Cambridge University Press, Cambridge, 2008, p6, as quoted in Hayward.

<sup>80</sup> Abelson, *op cit*, p247.

Where this approach does seem to get closer to decision-making is at the local level. *Citizen commissions* are widely used in Switzerland to resolve differences over such matters as where to site a waste disposal plant or infrastructure projects.<sup>81</sup> A New Zealand example that attracted international academic attention was a planning project in Wanaka in 2002 to develop a plan for 2020: a steering committee met various community groups and held two public meetings and then a small group met over five days, at times with public present, to develop the plan which was presented to a public meeting.<sup>82</sup>

Nevertheless, even if a citizens assembly (or jury) is not yet a proven vehicle for decision-making at national level, could it be useful in shaping public opinion? Note the *media interest* in Denmark's consensus conferences. If the media were to take an interest, that might generate wider public interest and if the assembly was seen to be representative and not beholden to any political party or interest group, its deliberation and recommendations might get traction. Had the ill-fated class size issue in 2012 referred to above been worked through an assembly or jury process over six months or so, it might not have crashed in the face of hostile public opinion or alternatively, it might have been rejected, which would have saved the government the embarrassment.

Nevertheless, an assembly (jury) is probably not enough on its own and would need reinforcing. For example, the shift in public opinion on climate change stimulated by Al Gore's film, *Inconvenient Truth*, in 2007 wore off when sceptics got media coverage and as economic stringency hit household budgets. In the absence of firm political leadership the same could happen to the outcome of a citizens assembly on long-term fiscal issues.

On the other hand note that media coverage of the public debate had generated by mid-2012 poll majorities for a rise in the pension qualifying age.)

And there does appear to be a growing trend in our sorts of democracies towards and search for effective participatory and deliberative mechanisms. They can open a channel for better communication of, and better education about, policy issues and decisions, at the same time requiring more rigorous explanation to citizens. (Though, if misused by politicians and officials, they can be a means of cooption or persuasion.<sup>83</sup>) On the other hand, they 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.

One checklist of settings for effective and efficient citizen participation is: "careful selection of a representative group of stakeholders; a transparent decision-making process to build trust among the participants; clear authority in decision-making; competent and unbiased group facilitators; regular meetings; and adequate financial resources".<sup>84</sup>

In summary, given (a) the centrality of competent and prudent fiscal management to a well-functioning economy and in turn a well-functioning society, (b) the lessons from Europe in 2011-12 of the damaging consequences of imprudent fiscal settings, (c) the challenging fiscal implications of current and projected demographic trends, (d) the importance in the

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<sup>81</sup> Anonymous, "Let's Make a Deal" in *Pictures of the Future*, twice-yearly magazine on research and innovation issued by Siemens, Spring 2012, pp50-53.

<sup>82</sup> Bond, Sophie, and Michelle Thompson-Fawcett, "Public participation and New Urbanism: A Conflicting Agenda?", *Planning Theory and Practice*, Vol 8 No 4, December 2007, p456-9.

<sup>83</sup> Roberts, N. (1997). "Public Deliberation: An Alternative Approach to Crafting Policy and Setting Direction" in *Public Administration Review*, 57(2), pp 124-132. This could be said of the British example cited above.

<sup>84</sup> Maitlis, S. and Ozcelik, H. (2004). "Toxic Decision Processes: A Study of Emotion and Organisational Decision-Making" in *Organisation Science*, 15(4). pp 390.

face of such challenges for policy decisions to be both timely and durable and (e) the importance of public buy-in if major policy decisions are to be durable, there is an argument for some inventive thinking about citizen participation — though that can be only an addition to, not a substitute for, the leadership all major policy requires.

New Zealand has a reputation for inventive policy, both in three periods of major change and in a range of policy innovations between those periods. So it is not inconceivable that this small country could develop a new way of making big policy decisions which involves citizens and thus improves the legitimacy and durability. New Zealand was early in widening the franchise. Is there a compelling reason why it cannot develop the model for twenty-first century democracy?

## 6. A generation Y perspective

Jess Booker, 26.

In 2013 the New Zealand Treasury will once again look ahead to the future and ask what will life look like in 40 years time? Between now and 2053 an ageing baby boom generation will place significant long-term strain on our health and superannuation spending. This generation will live longer than any generation before it, with the 65+ population peaking in the late 2020s. The population bulge will exacerbate the already disproportionate amount of government funding that goes towards the baby boomers, whilst slowing economic growth due to the lower cohort of workers. This working age group will be made up primarily of New Zealanders from generation Y. It will be this generation, my generation, that will be expected to bear the large burden of these costs.

The 2013 long-term fiscal statement will reinforce messages that were in both the 2009 and 2006 statements; that over the next few decades we are going to need to make tough choices about bearing the cost of an ageing population. In 2006 this information did not shock. We knew 40 years ago in 1973 that birth rates were significantly declining and that the baby boom had come to an end. It should have been easy to foresee then that a long-term financial problem was building in this country and others in the western world. If a universal pay-as-you-go pension scheme was to remain largely unchanged then there would be significant generational inequity when the baby boom generation "cashed in" at retirement.

As a member of generation Y, this question strongly resonates. We become "generation why": why, if we have long foreseen the issues stemming from the baby boomers' retirement, has no solution been found in the last 40 years? Previous attempts to find a solution have been readily shunned, largely by the governing and/or voting baby boomers. This included Sir Robert Muldoon's scrapping of the compulsory superannuation scheme in 1975 and the 92% referendum vote against a compulsory savings scheme, before my generation was even able to vote. Now in 2013 generation Y finds itself in a position of expecting to both pay for the burgeoning retiring population and having to save for its own retirement through the introduction of the KiwiSaver scheme.

Paying for the cost of the baby boomers' retirement is now a particularly salient issue for generation Y in 2013. It highlights both the stake that our generation has in the next 40 years, and the responsibility that falls upon us to get things right. The task of achieving this for my generation is great, especially given that our starting point is so fundamentally different from the benign conditions that the baby boom generation enjoyed in 1973; full employment, (virtually) free tertiary education and a new promise social justice (and not one of social responsibility) that was being articulated by the third Labour Government.

Having built their livelihoods on these benign foundations 40 years ago, the baby boom generation finds itself with some of the lowest elderly poverty rates in the OECD, with home-ownership rates for those aged 70-74 and over still hovering near 80%. The baby boom generation has been done well for itself but it leaves a significantly less benign legacy for my generation. In 2013 we are no longer a nation of full employment; instead there is a concerning level on unemployment, particularly for Māori and Pasifika youth. A tertiary education no longer brings with it the promise of a job (let alone a highly-skilled, highly-paid one) but a guarantee of significant debt. Ask a member of generation Y how many people they know from their cohort who have brought their own home and they could count them on one hand. That number becomes even lower when you ask them how many have done so without the help of Mum and Dad. Most worrying are the social inequalities that have grown over the last 40 years. Generational inequity and social inequality were not familiar terms in 1973. Today we know them all too well.

The Treasury's long-term fiscal statements provide an opportunity to think deeply about what sort of nation we want to be in 2053, what sort of economy and society. This is not a question that the baby boom generation should answer. It is fundamentally a question for my generation. We need to articulate a vision for 2053 and bear the responsibility for turning it into reality in 40 years time. We have the capability to do so; my generation is full of talented, creative and passionate people. Over the next 40 years we should work to develop and foster industries that will attract and retain the creativity and talent amongst generation Y (and its successor generation zero). This will mean that we must work hard to shift away from an unsustainable over-reliance on our natural resources. We want to ensure that *every* New Zealander has the opportunity to be part of that thriving, leading economy. As a starting point in 2013, that means equipping every New Zealander with the ability to have those opportunities.

In 2012 not every member of generation Y (or generation zero) has those opportunities. It is not a coincidence that Maori and Pasifika youth unemployment is high when a disproportionate number for those children leave school without the skills and qualifications that will enable them to participate successfully in the economy. This is a sad indictment on Norman Kirk's 1973 vision of social justice. We knew in 1973 of the definitive relationship between socio-economic background and educational attainment. Yet in 2013 Māori and Pasifika still make up a significantly disproportionate size of our poorest communities. This goal, whilst large, provides us with a starting point in 2013.

The vision for generation Y is clear but turning vision into reality will be difficult. We must first find a way of expressing our expectations, hopes and demands. This will not happen through marches on Parliament, through town hall meetings or through letters to a newspaper. This will happen through social media, the way that my generation and the generations after it will get, share and communicate information. Information is the key. In 2007 the Electoral Commission found that the majority of young non-voters chose not to vote because they were either overwhelmed and intimidated by the political process or were frustrated and distrustful of politicians. Vehicles like Facebook, Twitter and You Tube can be used to engage the next generation in the political and decision-making process. These vehicles help to convince my generation that they have a stake in shaping the society and economy for 2053.

In fact talented and passionate Young New Zealanders are beginning using these forums to begin to effect change. Keith Ng's recent *OnPoint* blog about privacy issues at Work and Income customer kiosks will likely lead to significant changes to the system. Facebook has also become a cheap and accessible vehicle to assist young New Zealanders to reach out to their peers and draw them back into the conversation has been powerful. The *JustSpeak* forum on issues within the justice system is another great example of passionate young New Zealanders reaching out to their peers to draw them into debates on issues that critically affect them.

But it is unlikely that generation Y can achieve the changes that it seeks on its own or through the forums social media enable. The older generations must come on board as well. In 2013 and in the next decade to come most of the decisions made about the next 40 years will be made by those from generations above us, who do not have the same stake as generation Y in 2053. Therefore the focus on the long-term fiscal projections in 2013 should not be to rehash the same old issues we saw in 2006 and 2009. The message is not new. We should collectively look to think about how to engage the younger generations in decision-making and how we can work together towards a vision for 2053.

That is the responsibility of the baby boomers. The responsibility of generation Y is to take opportunity and turn our vision into reality.

## 7: What to do next

The future is a different, uncertain and unknowable place. To navigate the disjunctive and transformative events likely in the next 40 years will require national resilience, that is, agreement on the core national values and principles coupled with flexibility to absorb, respond to and transcend or survive shocks. It will also require political and policy resilience. Such resilience is enhanced by contingency planning to take account of the fact that there will be disruptive events.

But the fact there will be disruptive events does not negate the value of planning for foreseeable trends and credibly possible events. This is especially the case if those trends and possible events point to higher costs of acting later than acting sooner. Moreover, the OECD study cited in section 3<sup>85</sup> suggests crisis is not a sound starting point for durable policy, even for good policy.

Thus the long-term fiscal statement must take seriously identified trends and possible events. And it must take into account transgenerational and intergenerational factors because a 40-year span reaches across generations.

Prominent among the trends identified in the papers presented to the Treasury's external panels are changes in the age composition of the population which will lower the ratio of those aged 18-64 to those 65 and older (and, for that matter, 70 and older). These changes deliver a lower dependency ratio of under-18s but, under current policies, much higher costs of pensions and health care for older people. These costs could conceivably be at least partially offset by large-scale immigration of younger people seeking a stable, peaceful and "liveable" environment or fleeing stressed societies, which cannot be ruled out (on both geo-social and domestic policy grounds). Also technology and/or lifestyle and/or health care practices might soften the health care costs curve. But the central scenario is one of rising costs, which must be financed or ameliorated. That implies higher taxes and/or cuts in public pensions and public health care and in other public services and/or greater private and personal funding of pensions and health care and maybe other services.

That may build tensions between generations if older people feel they have not been given their due in accordance with an "all-in-this-together" ethos that pay-as-you-go public services reflect and/or if younger people feel they will be entitled to less than older people, both during their lifetimes and in old age and must themselves pay or save individually for more of those services through their lifetimes (see section 6).

This illustrates what is arguably the core issue in long-term fiscal considerations: are we "all in this together", that is, all paying for all of us and all drawing on the benefits (PAYGO); or is each cohort and/or each individual or small group (household or whanau) responsible for paying and reaping the benefit (SAYGO)? That is the difference between "transgenerational", which in essence is the conservative, Burkean, notion of a "contract" or "partnership" (see footnote 5, p3), binding generations to each other, and "intergenerational", which in essence is the liberal, Enlightenment, notion of the primacy of individual liberty and sanctity, separating generations and cohorts from each other.

That issue came up repeatedly during the external panel discussions. It is, of course, not a sharp division or an "either-or": there are elements of both in the current arrangements. It is a matter of emphasis and has particular relevance to the high-cost PAYGO-heavy pensions and health systems where intergenerational issues are keenly perceived.

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<sup>85</sup> Likewise the experience of the Labour and National parties in post-crisis-reform elections in 1990 and 1993 (see p22), even though eventually the policies did endure.

There is also a generational mindset shift. Those under 40 think differently about the physical environment, ecosystems and climate change from the baby-boom generation.<sup>86</sup> There is some reason to think they will carry that different thinking into their 40s and 50s and also to think differently then about wider policy issues, including fiscal settings, taxation, social support and economic organisation. If so, many factors over the next 20 years will influence the way they think and develop policy as, with age, they become influential and make policy decisions.

Among those factors is that there is likely to be less scope for state-supplied services than has been assumed to be the norm over the past 40 years in developed "western" societies. This is being driven by a number of factors, including:

—the globalisation of finance, work and people over the past 30 years and most likely over the next 10 and perhaps the next 40, which in a variety of ways limits the capacity of nation-states to run internationally egregious tax and spending policies;

—the rebalancing of the global economy from economies in nation-states which for 40 years have run high-tax-high-spending fiscal policies to economies in nation-states which have far less developed social support systems and which, as they do build social support systems to offset unsustainable inequalities, are unlikely to expand them to "western" economies' peak levels, which will require New Zealand to recalibrate its assessment of the optimal, desirable and possible levels of taxation and state spending against a different, and less generous, set of comparator countries<sup>87</sup>; and

—an expectation among those now in their 30s and younger that all goods and services are customised to their needs and wants, which implies diverse funders and providers and new and evolving methods of access and delivery.

Against this must be set issues of inequalities of income, wealth and opportunity which have grown in both developing-economy and developed-economy nation-states over the past 30 years and are being exacerbated by the global relocation of work and the changing nature of work (including the replacement of relatively well-paying factory-type or other manual jobs with lower-paying service jobs) and which will over time be politically unsustainable.

Longer-term policy will need also to take into account now and progressively over time changing availability, pricing and access to natural and other resources, coupled with the impact of climate change and sea-level rise, all of which will have fiscal impacts, on both the revenue and spending sides. And technology may affect the feasibility of some forms of taxation: one example might be the impact on GST of internet retailing.

Then note the many influences that generate policy change, outlined in sections 3 and 4: changing external and local circumstances, human values, mores, beliefs and intellectual fashions, social change and political movements, interest groups, leadership and, at times, crisis. Some drivers build up over long periods of time and prompt and underpin major change. Some reverse: anticipatory policy change is particularly open to the possibility of reversal if history does not follow the anticipated course.

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<sup>86</sup> The reference to age 40 is indicative, not precise: some under-40s and even under-30s share over-50s' mindsets; some over-40s or even over-60s share under-40s' mindsets. The choice of 40 indicates a tendency rather than defines a category.

<sup>87</sup> Among others, see Tanzi, Vito, "The Economic Role of the State in the 21st Century", *Cato Journal*, Vol 25 No 3, fall 2005, who has updated his analysis in *Government versus markets* (Cambridge University Press, London, 2011), reviewed by Hamish McRae, "One for the masters of the universe", *The Independent*, 10 October 2011. Tanzi has argued an optimal taxation level of 35% of GDP. This compares with around 25% in New Zealand in 1973, a difference which raises questions about the value of setting a precise number on taxation.

There are also many mechanisms for policy change, as outlined in section 5. Increasingly, they involve bringing outside experts, interest groups and lay people into the process. There is some 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 triennial elections and have less respect for elected representatives than 40 years ago. On the other side of the political ledger 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 one). But, while mechanisms for such involvement work in some places at local level and on some specific issues and are useful in forming durable public opinion, they have yet to be developed into a reliable tool for final decision-making.

Nevertheless, New Zealand might be the place to make one of these work at the national level for policy decision-making and thereby enhance modern democracy.

The Treasury's convening of an external panel, commissioning of papers in a variety of disciplines in addition to economic analysis, dissemination of summaries of those papers to promote media and other commentary and convening of a public conference, with papers to be published, clearly invites wider participation in the long-term fiscal debate than the traditional privileged interaction between officials and ministers.

In the case of superannuation, this has been reinforced by reports and conferences, notably stimulated or organised by the Commission for Financial Literacy and Retirement Income. There has been significant media interest and one privately-commissioned public opinion survey (the source of which cannot be named in this note) has demonstrated significant public awareness and expectation of policy action.

That may be enough, coupled with political and other leadership, to generate the sort of movement in public opinion that would underpin anticipatory policies to put fiscal settings on a sustainable basis before they reach crisis point. Political leadership and changing public mores and opinion have wrought big, even improbable, policy change at times in the past, as outlined in section 3.

If not, there is an argument for some more formal involvement of the public through a convention or assembly — not least, because major policy change is durable only if the public buys into it. Well-conceived and well-executed, that would ease the pathway for politicians to take early decisions and thereby avert the sort of crisis-triggered (and therefore painful) decision-making as the demographic trends impose higher costs. Past experience with such mechanisms have exposed shortcomings that might deny full public buy-in. The challenge for New Zealand, if it decides to involve the public more widely through such mechanisms, will be to develop and refine them so they become effective.

Of all the mechanisms canvassed in section 5, the most promising would be either a national convention or a citizens assembly. Of those two the more transparently representative citizens assembly would be more appropriate, because it is more democratic than a convention appointed by the government or Parliament. Switzerland has shown this can work effectively at local level. It worked well in British Columbia<sup>88</sup> on electoral reform, a complex issue, and only did not result in policy change because politicians set a 60% threshold for change which was narrowly missed. Fiscal matters are far more complex and may be thought therefore to be beyond the capability of "ordinary" citizens but analysis of such mechanisms suggests there is no compelling reason why a well-constituted assembly could not gain a good understanding of the issues and produce a sensible, politically saleable and sustainable outcome. A bonus might be positive media interest, as in the Danish consensus conferences

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<sup>88</sup> See p33 above.



(see p32).

But there would be no point to calling a citizens assembly unless it was of high quality, arguably 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; to be extensively informed in much the same way 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 that its findings would be taken very seriously and in broad terms acted on by policymakers, who would keep their distance throughout the process as was the case with the Land and Water Forum. Logically, such an assembly would also not be a singular event but 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: in fiscal matters New Zealand did set international standards with the adoption of accrual accounting in 1989, the Fiscal Responsibility Act in 1994 and a full balance sheet in 2010 and as it has done at times in other areas of policy, including biculturalism and open government. New Zealand's small political system enables that sort of thinking and action more often than its stultifying village-like suspicions of the unusual suggest. But getting a citizens assembly operating well on complex fiscal matters would be new territory.

It is not for this note, which is an inquiry only, to advocate or not a citizens assembly or any other decision-making mechanism or any particular set of decisions. A citizens assembly in any case could only be supplementary to, and contributory to, clear leadership by officials and politicians. It is that leadership or lack of it that will be a core test of the 2013 long-term fiscal statement.