

# Good cause for optimism: 1912 and 2012

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A "young professional" in the public service in 1912 had good cause for optimism. The Public Service Act, which enacted most of the recommendations of the Hunt Royal Commission, had created a merit-based system with standardised conditions of employment, pay and pensions and hiring, firing and promotion decided by the Public Service Commissioner. That gave security and independence. There were yearly pay rises for new entrants (cadets), a capable officer could earn a respectable sum by his thirties (this was an overwhelmingly male service), there was annual leave and "liberal sick leave on pay" and the opportunity to earn professional qualifications.<sup>1</sup>

Moreover, this was in service of a government in a young dominion whose public believed in "progress", based on turning forest into farms and selling the products to Britain, secure in the arms of the greatest empire of all time — and better fed and in better living conditions than in Britain itself. New Zealand was one of that era's "emerging economies", that is, it was on an upward path. It had recently pioneered some social policy innovations. A young professional could be part of that expansion and uplift, engaged in making a "Greater Britain" or at least a "Better Britain".<sup>2</sup>

Three years later that comfortable certainty began to disintegrate and 20 years later optimism was in short supply. Gallipoli in 1915 and the murder on the western front in servitude of British generals, recession and then uneven economic times in the 1920s and, after 1929, the United States-generated world economic depression damaged communities and undermined morale and belief in that "Better Britain". Cabinets were humdrum, hidebound and, by 1932, bemused and bewildered. In the early 1930s public servants' pay was cut, unemployment rolls blew out, farmers walked off farms and there seemed no rescue. The government, loyally served by its staff and slave to the myopic economic and fiscal wisdom of the times, seemed, and even presented itself as, powerless.

There was an exception in the public service: W B Sutch had different ideas. In the cabinet Gordon Coates tried to think outside the iron box of orthodoxy. And waiting on the opposition benches was a party with an ideological belief in the power of the state which by 1935 had toned down its revolutionary socialism into a sort of practical decency — "applied Christianity", one of its leaders called it.<sup>3</sup>

Thus, from 1936 there was cause again for optimism among young professionals in the public service. They were to build the Labour party's fair society, with opportunity for all — that is, to midwife the birth of the welfare state and the mixed economy which had at its core the guaranteed job. By the late 1940s the new orthodoxy was embedded to the extent that two decades of conservative government after 1949 reversed little and even expanded some of its activities.

The state at that time took a quarter of the economy in taxes and was threaded through society. Public servants were not a marginal necessity, to manage the state's monopoly of

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<sup>1</sup> *The Public Service, a career for boys*, (Public Service Commissioner, Wellington, 1920), p6, instanced in <http://www.teara.govt.nz/en/public-service/3/3>

<sup>2</sup> Belich, James, *Making Peoples: A History of the New Zealanders* (Allen Lane, Auckland, 1996), p449

<sup>3</sup> Sinclair, Keith, *Walter Nash* (Auckland University Press and Oxford University Press, Auckland, 1976), p20: "To [Walter] Nash, socialism was quite literally applied Christianity".

force, provide a basic education and alleviate the worst distresses and raise the necessary funds to do that. Public servants were integral to economic and social life. Among those who joined, or rejoined, the public service in the late 1940s were some of the best minds in the country who 20 years later were at least as important as, and arguably more important than, the leading businessmen. And they had a bundle of new theories on which to base policy prescriptions: John Maynard Keynes pre-eminently but also in the 1950s and 1960s John Kenneth Galbraith plus a host of political theorists and political sociologists, including C Wright Mills and Seymour Martin Lipset — and, at home, an American who started Victoria University's politics department in 1939, Leslie Lipson.<sup>4</sup> When a royal commission reviewed the public service in 1962, 50 years on from 1912, the changes were modest.

Professor Keith Jackson could plausibly describe the country at that time as social democratic — and include the National party. "Planning" was still respectable: in 1968-69 the National party, in government, convened an "indicative planning" conference which ran for most of a year and set targets for sectors and recommended policy changes to achieve them. A conservative judge chaired a royal commission which in 1967 recommended socialising workplace accident insurance and compensation and another conservative judge chaired a royal commission which in 1972 said the aim of the social security system should be to "ensure . . . that everyone is able to enjoy a standard of living much like that of the rest of the community and thus is able to feel a sense of participation and belonging to the community" and "improve by other means and as far as possible the quality of life" and so "the objectives of the social security system may quite properly be expanded to cover a much wider field of public welfare than hitherto".<sup>5</sup> The incoming Labour government of 1972 was armed with a book-length manifesto of social programmes which it set out to implement, secure (it thought) behind import and foreign exchange controls.

This was social democracy at its apogee. There was an implicit assumption that if politicians and public servants tried hard enough, they could, through the instruments of the state, perfect society. Full citizenship was the state's duty and purpose.

To underline this ambition, the language was changed. The economic notion of "welfare" was adopted into the social intervention vocabulary. "Security" was no longer enough, as it had been in 1938. Henceforth every citizen's "welfare" was the state's responsibility (as well as the individual's and the family's). This large ambition was the intellectual milieu in which Helen Clark imbibed her social democracy. Over the next decade the government expanded its taxation from a quarter of the economy to more than a third.

In fact, by the early 1970s, as Helen Clark was in transition from rural Presbyterian conservatism to social democratic and peace idealism, the intellectual tide was turning. No sooner had Daniel Bell asserted in 1960 "The End of Ideology", a book written as even United States Republicans settled into the mixed economy and social security, than Milton Friedman reasserted in 1962 the central economic role of markets and posited the control of money supply as governments' primary economic management role.<sup>6</sup> In this thinking the state — and public servants — had many shortcomings, which were later explored in theories of agency, contract and moral hazard (public servants were said to develop vested interests in their programmes, counter to citizens' advantage). Essentially, these analyses argued that those running governments (public services), however well trained and well-meaning and

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<sup>4</sup> Lipson, Leslie, *The Politics of Equality: New Zealand's Adventures in Democracy* (as reissued by Victoria University Press, Wellington, 2011).

<sup>5</sup> Report of the Royal Commission on Social Security, pp65-66.

<sup>6</sup> Bell, Daniel, *The End of Ideology* (Harvard University Press, New York, 1960). Friedman, Milton, *Capitalism and Freedom* (University of Chicago Press, Chicago, 1962)

however much acting on available evidence, often got it wrong. It was better that citizens got on with their lives with minimal, or at least less, intervention by governments.

This intellectual scepticism was magnified by a disjunctive event, the 1973 oil crisis, which triggered the collapse of the Bretton Woods system of fixed exchange rates and pushed developed economies into "stagflation", a combination of low GDP growth, high inflation and high unemployment which Keynesian analysis could not readily explain and which defied (and defiled) that celebrated New Zealand invention, the Phillips curve.<sup>7</sup> That undermined the core assumptions of the mixed economy and the presumption that governments could, through intelligent planning and intervention, be wise guardians of the public interest and economic welfare. The alternative "neoliberal" or "neoclassical" proposition, as it came to be labelled, assumed that optimum societal outcomes would emerge spontaneously from the interaction of autonomous citizens and that optimum economic outcomes would emerge from the interaction of those autonomous individuals in markets which tended always to equilibrium. Governments' role was to set the rules and those rules should be light-handed so as not to impede markets' efficiency.

In the late 1970s that market ideology took hold in governments in our sorts of countries, first in the late 1970s in United States, then Britain and in the early-to-mid-1980s in Australia and New Zealand. This precipitated the second great post-1912 reorientation for public servants. Markets were held to be much better at allocating resources than governments, so regulation of markets should be greatly reduced and their moderation should rely much more on information and the automatic self-regulation of competition. New Zealand markets should join global markets through de-protection of imports and removal of tax and other subsidies. Budgets should be balanced and the government should be smaller.

The government was accordingly re-engineered to look and operate more like a set of businesses: the "commercial" departments were made into business corporations and the "core" public service agencies were instructed to focus on "clients" and given specific mandates, which required the breakup of many agencies, to separate policy from operations and regulation. The agencies were headed by plenipotentiary "chief executives" on fixed terms and written contracts with ministers to deliver "outputs" for a price and thereby to pursue "outcomes", with strategic result areas and key result areas spelt out. They, and so also their staffs, were accountable to the board, that is, the cabinet, and through the cabinet to the shareholders, that is, the public. The prescriptive public service rule book — which went into marvellous detail, such as how to park cars on hills — was replaced by edicts from the chief executive's office.

This resulted in big efficiency and effectiveness gains, which were of great value to the government and to the public. But there were also some wasteful inefficiencies and the loss of much institutional knowledge. Cut-down policy ministries lacked direct experience of what they were making policy for; operational agencies developed their own policy sections; agencies retreated into "silos", jealous of their jurisdictions.

At the same time ministers began acquiring bigger staffs which included professional communicators, political advisers and policy advisers who were not from the public service. There had always been competition for ministers' ears on policy matters, principally from interest groups, and in the 1960s the government often looked like an arbitrator among the interest groups, some of which were also in a sense "represented" in the public service by

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<sup>7</sup> Bill Phillips, a New Zealand economist, famously (or notoriously) demonstrated in 1958 an empirical inverse relationship between inflation and unemployment. For a discussion in a New Zealand context, see [http://www.reservebank.govt.nz/research/bulletin/2002\\_2006/2006sep69\\_3hargreaveskitehodgetts.pdf](http://www.reservebank.govt.nz/research/bulletin/2002_2006/2006sep69_3hargreaveskitehodgetts.pdf).

particular departments such as agriculture and industries and commerce. But after the 1980s reforms interest groups could no longer expect a hearing from ministers for special pleading; they had to make a national-interest case. Government agencies, too, were expected not to act as advocates for their sectors but to devise policy on national-interest grounds. That opened space for the new breed of professional ministerial adviser.

The 1980s reforms took time to shake down. The reformers assumed function would automatically follow form but it did not work out like that. The separately managed entities were supposed to achieve lofty "outcomes", many of which required cross-agency cooperation, which fragmentation made difficult or near-impossible. This was no surprise: public services can't be left to the "market" to sort out because for the non-commercial activities there isn't one — and the objectives are far more complex than simple figures in a quarterly profit-and-loss account or annual balance sheet. A roundtable at the Institute of Policy Studies in the late 1990s encountered that non-transferability when it fished unsuccessfully for a public service formula to match Schumpeter's "creative destruction", a core element of successful market capitalism.

In other words, there was unfinished business. The system was unstable, as evidenced in a flow of inquiries, reports, reviews, reorganisations and even acts of Parliament. And now the public service in another period of deep change, the third since 1912.

That is in part because the operating environment has changed. The world is in rapid and deep change, crystallised in the global financial crisis, the GFC. This, like the 1914 war, the 1929 stockmarket crash and subsequent world depression and the 1973 oil crisis, is a disjunctive event. These occur from time to time because human society is, to quote historian Niall Ferguson, a complex adaptive organism and such organisms are inherently unstable: a seemingly unexceptional event (like the shooting of an Austrian duke) can trigger sudden chaotic change, the timing, nature and course of which cannot be predicted in advance. Financial systems, which operate on debt, are such organisms.<sup>8</sup> Hence the GFC, which is just the latest in a long line of sudden, destructive convulsions in financial markets.

The first thing to say about the GFC and about the certainty there will be more such convulsions in the next 50 years is that disjunctive events are not a reason for public servants and politicians to retreat into fatalistic incapacity. That would not be serving the public. What the public needs from its servants is resilience, a capacity to anticipate there will be such events, the better to respond when they happen even if their form and timing cannot be predicted.<sup>9</sup> Top firms do that sort of contingency planning, along with projecting forward business as usual. So do top governments: Singapore is one. New Zealand is not one, witness its blithe indulgence of the 1990-2007 debt binge and dismissal of the warning signs of stellar balance of payments deficits, an even more stellar country debt and a yet more stellar house price bubble.

The second thing to say about the GFC is that it is indicative of much wider and deeper change.

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<sup>8</sup> It is possible to discern in advance imbalances and elements of instability, as, for example, a small minority did in expecting a longish conflict in 1914, or another small minority did in noting the massive rise in debt in developed economies and the resultant geo-economic imbalances. But those who expected a longer war in 1914 than the populist "home by Christmas" line did not predict the catastrophe that unfolded or the changed geopolitical world at its end. Nor did those worrying about the pre-2007 imbalances predict the course of the GFC and the likely 10-20-year rebalancing which has yet, in effect, to start.

<sup>9</sup> For one take on this see my 2012, referenced in Colin James, "Rethinking how to do government", Management Magazine, August 2012 ([http://www.colinjames.co.nz/management/Management\\_column\\_12Aug.htm](http://www.colinjames.co.nz/management/Management_column_12Aug.htm)) and in paper to be published as part of the Treasury's 40-year fiscal projections, November 2012

One element of that change is that it has accelerated the global economic and political rebalancing that ends the west's 500-year ascendancy in economic power, global security and ideas, both of science and technology and for social, political and economic organisation. Not least, the developed economies will likely need up to 20 years to amortise their debt. And there will be tensions during the rebalancing, exacerbated by periodic shortages of, and competition for, resources, especially of water, which may involve serious intrastate civil disorder and interstate military conflict which itself is likely to take new forms. Climate change is potentially another contributor to disorder.

A second element is the economic opportunity for New Zealand in the rapid global urbanisation, which is adding large numbers to the global middle classes who want safe high-protein foods.

A third element, which links the first two, is what some commentators are calling hyperglobalisation, a new and intense phase of globalisation of supply chains and a "global commons" of work. This circumscribes the scope for independent national sovereign policy for big countries as well as small ones.

A fourth element, which enables and in part drives the third, is an intensifying interconnection of individuals and societies through digital technology. Developments in the past five years alone have been astonishing and much more is to come.

Outgrowths of this fourth element are, fifth, new technologies which seem set to radically change and relocate manufacturing, conceivably (though not necessarily) offering opportunities for even small countries, and which, on the dark side, are likely to enable cyberterrorism and cyberwarfare, posing serious security issues.

And, sixth, the intertwining of nanotechnology, biotechnology and genetics promise striking advances in therapeutics. Major advances in energy technology are also highly likely.

Within New Zealand the population will continue to Polynesianise, Asianise and age, the economy and society will continue to Australasianise, even if the political systems and foreign policies remain distinct. The abundance of water and energy, the relatively light effect of climate change, the distance from global mayhem, coupled with strong political and legal institutions, the good education system and the adaptive, inventive and tolerant population and high ranking in broader measures of prosperity may make this country a highly desirable place to outsiders for investment and domicile.

My point in traversing this brief and highly selective list is that, as in 1912, in this year, 2012, there is good cause for young professionals in the public service to be optimistic. We are in an interesting, intriguing, scary and energising patch of change, at least as big as those that followed 1912: the worst of times and the best of times. For those public servants with wit and resilience this could be as good as it gets. It could also be the time when a great deal goes bad.

And there is an irony in which resides a challenge.

Neoliberalism instructed governments to get smaller. Globalisation tells states their sovereignty is limited and geo-economic rebalancing tells New Zealand its future comparator countries — those in Asia — will have smaller social assistance and "fairness" adjusters, even when they are much richer, than our old comparator North Atlantic countries. But the rise of generation Y tells us that services, including education and health services, must be easily accessible and customised. Moreover, to ensure continuing prosperity, countries will need somehow to ensure children are educable and to educate them, which implies a more active and even intrusive state (in very early childhood) — certainly a more ambitious one.

Thus it is an irony of the neoliberal interlude that governments became more, not less, ambitious. In the late 1990s Jenny Shipley, having proclaimed herself a "radical conservative", declared an ambition to "break the cycle of disadvantage". The early 1970s assumption that if governments tried hard enough society could be perfected was discarded — but has been replaced by a 2010s assumption that the quest for the prosperity promised in the globalised economy requires a degree of policy inventiveness and sophistication, based on science and rigorous analysis and tested by tough assessment, that 1970s public servants and politicians would have boggled at: examples might be to think of a cohesive society as infrastructure, to be invested in and maintained, if the scourge of inequality is to be deracinated, and thinking of ecosystems as infrastructure if both material aspirations and environmental needs are to be met.<sup>10</sup> This prosperous society of the 2010s requires experimentation and risk-taking, uncommon attributes and activities in politics and administration which value entrepreneurialism more in the abstract than the reality. It requires new organisational forms and cooperation and partnerships that conflate public and private.

Governing now is far more complex than 40 or even 25 years ago. And it must be done in the glare of instant blogging and news-entertainment and with far more accountability through official information and the ombudsman and in a suspicious and active legal system. This, in short, is the "better public services" era — except that the report that goes by that name is a tentative sketch, not a blueprint.

Riding these waves of change will require constant and rapid adaptation by citizens. To devise and manage the corresponding policy settings will require supersmart, agile brains and daring personalities in the public service.

That is you. In 2012 a "young professional" has good cause for optimism. Have fun.

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<sup>10</sup> This notion is developed in Colin James, "The opportunity state", address to the Australia New Zealand School of Government forum, 2 December 2011, [http://www.synapsis.co.nz/speeches\\_briefings\\_index.htm](http://www.synapsis.co.nz/speeches_briefings_index.htm), 2011