REFORMS IN THE PUBLIC ADMINISTRATION SYSTEMS IN NEW ZEALAND

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Summary

This chapter provides a brief overview of New Zealand's public management reforms. It begins by providing historical context; New Zealand as a colonial society with a weak private sector with an expectation that the state would have the main responsibility for providing infrastructure (physical, financial). It describes a state with a high level of government intervention leading, in the early 1980s, to a position of extreme rigidity.

It then considers political and intellectual factors; New Zealand had a unicameral parliament with a two party system giving great power to the ruling party. As government intervention in the economy increased in the late 70s and early 80s, so the intellectual debate swung in the opposite direction, in favour of liberalisation.

Senior ministers in the labour government elected in 1984 were convinced of the need for change and began a process of radical reform both of the public sector and the wider economy. If there was a single theme, it was accountability. Trading activities were to be restructured along commercial lines, with corporatisation and ultimately privatisation as the objective. The scope of corporatisation extended to areas such as research and development and the public health (hospitals) system.

The core public sector was restructured. Permanent secretaries became chief executives operating under contract. Government moved from cash to accrual accounting, with separate balance sheets and accounts for government departments, and a capital-charging regime. With the objective of minimising intra-departmental conflicts of interests, a number of departments were restructured in order to separate out policy and service delivery activities.
In assessing the impact of public management reforms, the clearest gains have come from those activities that were closest to the market. Applying market based principles in areas such as health and research and development has produced mixed results as has the shift to placing chief executives under contract and separating policy from service delivery.

The labour party which led the reforms of the 1980s was out of government for much of the 1990s but returned to office in 1999. Since then, a revisiting of the reforms process has taken place with initiatives including a rejection of further privatisation, a return to part elected boards replacing state owned companies in the health sector and an increased emphasis on restoring a "whole of government" emphasis within the public sector, with a shift from managing for outputs, which characterised the late 80s and the 90s, to managing for outcomes.

1. Introduction

This chapter explores New Zealand's experience with New Public Management, outlining the main features of the changes which were put in place from 1984. It begins by putting the reforms within the context in which they took place and the "evils" which they were intended to address. Political factors influencing the reform process, the intellectual framework which underpinned them, the nature of the principal reforms themselves, and what New Zealand experience offers are explained.

2. Context

The European settlement of New Zealand is conventionally dated from 1840, the year in which the British Crown signed the Treaty of Waitangi with the Chiefs of a number of the Maori tribes who were the indigenous inhabitants. At the time, the Maori numbered approximately 100 000 and European settlers approximately 2000. From early days, there was heavy reliance on the state to act as a direct provider or enabler of services which, in other societies, would have been provided by local government, by religious or charitable organisations, or by private initiative.

Historian and former Cabinet Minister, Michael Bassett, in a work on the role of the state in New Zealand, comments:

"Settlers were possessed of what might be called pragmatic pioneer experimentalism. From earliest days the line between what was their own responsibility and what could reasonably be expected of the Government was blurred. If authority was close at hand, settlers did their best to take advantage of it".

Through the nineteenth century, government intervention was pervasive. It became involved in the establishment of banking, insurance and trustee services, the development of roads, railways and ports, the provision of hospital services (in partnership with local government) and the establishment of state education from primary through to university level.

Because successive governments had attracted immigrants from Europe on the promise of employment, a number of state initiatives, such as a major public works program in the 1880s financed by overseas borrowing, were justified in part by an acceptance that government had an obligation to ensure employment. A further factor was the belief that, given the limited resources of the colony, needed infrastructure would not be put in place, or put in place in a timely manner, unless government provided both the lead and much of the finance.

The pattern of looking to government to intervene, pragmatically, to assist with the economic and social development of the country, persisted through much of the twentieth century. New Zealand was developing as a significant agricultural producer with Britain (the "mother" country) as its principal market for a relatively narrow range of products, comprising primarily butter, cheddar cheese, wool and sheep meat. Government intervention heavily regulated not just these exports but much of economic activity, with apparent success. In 1939, by one estimate, New Zealand enjoyed the highest level of real income in the world.

Despite occasional questioning, New Zealanders had come to accept a central role for the state in managing virtually all aspects of economic activity. This notion, however, began to break down as New Zealand's economic performance declined. By the mid-1970s New Zealand was locked into what the country's leading independent economic commentator, the New Zealand Institute of Economic Research, described as "the deepest and most prolonged post-war recession amongst the industrial capitalist countries".

The National Government, which came to office in 1975, showed initial signs of recognising the need for comprehensive deregulation if the decline in New Zealand's economic performance was to be reversed. However, the complexity of the interlocking regulatory arrangements then in place, and the reluctance of the Prime Minister and Minister of Finance, Robert Muldoon, to take decisions which might have a short-term adverse political impact, saw his government revert to heavier and heavier regulation. This was accompanied by growing isolation, with the Prime Minister increasingly both ignoring advice from officials and withholding that advice from his own ministers whilst he attempted, through a series of increasingly draconian measures, to stave off the need for reform. Graham Scott, Secretary to the Treasury at the time, subsequently described the position thus: "... government interventions and controls in the economy were more pervasive and rigid than in any other developed economy. The regime of controls was parallel in significant respects to the control regimes in Eastern Europe at the time insofar as they affected prices, wages and other incomes". They included a freeze on wages, prices, dividends, rents and interest; comprehensive exchange controls; import licensing and tariffs to protect domestic manufacturers; and significant regulation over the direction of capital investment.

The Treasury itself, in the briefing papers prepared for the incoming Labour government in 1984, had this to say:

"A feature of New Zealand's policy is a heavy reliance on particular forms of intervention in the economy, and a tendency to rely on specific controls rather than general policy instruments. It is clear that many of these interventions are not achieving their objectives and are frustrating the achievement of higher living standards. Why has this occurred? The account of recent history illustrates how the Government has responded to the consequences of unbalanced policies by increasing reliance on interventions designed to suppress the symptoms rather than address the underlying causes of our economic malaise. Other interventions are an overhang from past policies and have ceased to promote—or have even come to undermine—the objectives they once had. For whatever the reasons they were instituted, many malfunctioning interventions are difficult to remove because they have attracted those groups who are able to organise their affairs to benefit from these interventions and who have come to see the advantages they derive from them as a right. The list of interventions that could be questioned is long and reaches into every corner of the private and public sectors of the economy."

The attendant problem was that the core public service itself was not well structured for accountability. Departments were funded on an input basis; government accounts were kept on a cash rather than an accrual basis; there was no distinction between funding for current consumption and funding for capital investment; detailed financial control was exercised by the Treasury; this was accompanied by State Services Commission controls over personnel and administrative matters. As a result, permanent heads did not have the powers required for effective and efficient management. On the other hand, they typically had a range of responsibilities which had within them the potential for major conflicts of interest. The most common example was the combination of operational and policy responsibilities within one department, enabling what came to be described as "producer capture" of the policy process.

3. Political Factors

The Labour government that took office in 1984 had nine years in opposition to develop an alternative approach to the role of government. Although there was a degree of division within the party, an important group (David Lange, who was to be Prime Minister, Roger Douglas, his Minister of Finance, David Caygill, Minister of Trade and Industry, and Mike Moore, later director general of the World Trade Organisation) reached the view that it was no longer feasible for New Zealand governments to try and regulate their way to prosperity and full employment. While wanting to continue with the Labour Party's traditional role of protecting the interests of the less well off members of society, it realized that, in order for government to have the resources to do so, it first needed to create a healthy economy. Although this key group had some understanding of just what might result from their wish for a new direction, this was not clearly articulated in Labour's 1984 election manifesto. Subsequently, a number of critics of the reform process have argued that Labour deliberately concealed its intentions from the electorate in the belief that, if they were known, then the electorate would not have accepted them.

A second and critical political factor was the structure of the New Zealand political system. Elections took place in single member constituencies on the "first past the post" system. Without exception, in recent decades this produced a majority single party government. The New Zealand political system was highly centralised with a unicameral legislature of fewer than 100 members. The Prime Minister and senior ministers controlled the cabinet, the cabinet controlled the party caucus, and the government party controlled parliament. The result has been dominance of parliament by the executive, and an ability for governments to force through major legislative changes with little or no effective opposition. This enabled a reforming government to legislate very substantial changes in a very short time frame, though none of this may have been foreshadowed in the campaign leading to office.

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Biographical Sketch

Peter McKinlay is a graduate of Victoria University of Wellington in law, economics, public policy and public administration.

After working in the public sector in the 1970s and early 1980s, primarily in Treasury, he became a consultant specialising in public policy, strategy and corporate governance, the fields in which he still works.

He has published a number of articles on New Zealand's public management reforms in peer reviewed and other journals and authored or edited three books in the field.

Although his main publications focus has been on central government and its reforms, he is better known for his work on local government, the area in which most of his more influential work has been undertaken.