Public sector structural reforms

A failed counter revolution?

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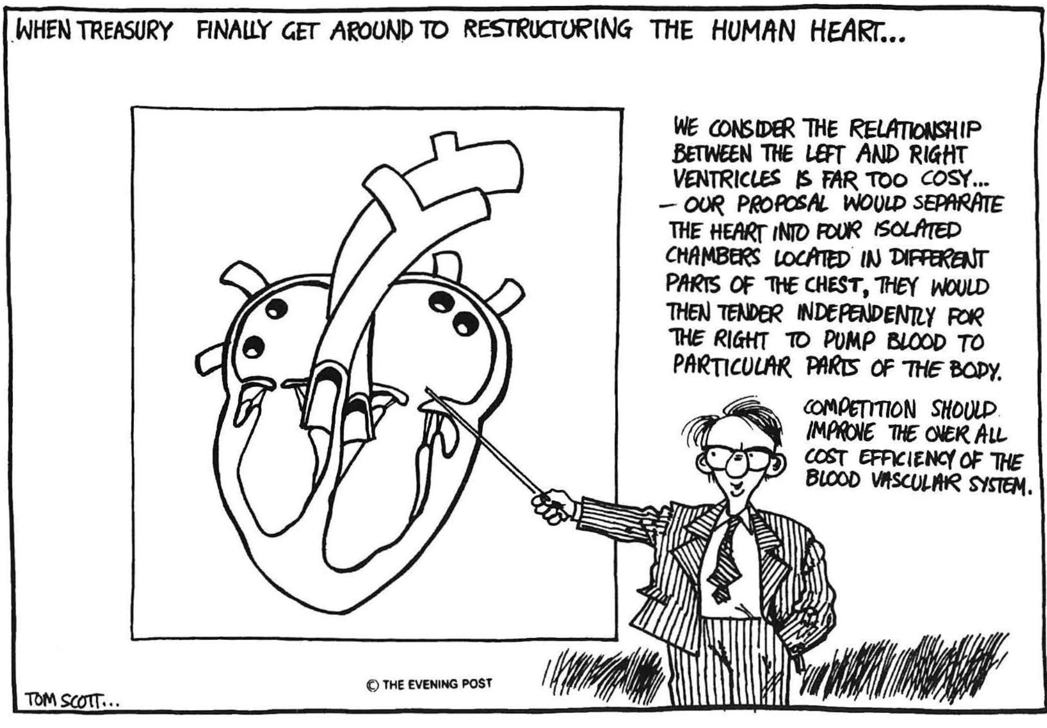
OVER THE PAST 12 YEARS our public service has passed through a process of apparent intense change. This change has been both putatively structural and cultural, and has been part of a political counter revolution in the larger society. I refer to it as a counter revolution because its purpose has been not to strike out in new directions but to revert to a previous political agenda – specifically that which pertained prior to the election of the Liberals in 1890. Here, I want to try, firstly, to put the matter of public sector structural reform in some sort of broader historical context. And secondly, I want to pose the question: how successful has this counter revolution been in specific relation to the New Zealand public sector?

Two things need to be noted at the outset. The first is that I will not be talking about our economy. The changes of the last decade in that area have been significant, but they have not changed the fundamental nature of the New Zealand economy which is primarily a set of international trading relationships. Those relationships are the same as they have always been. That is to say we are a small international agricultural trading nation with few commodities to sell – mainly one as a matter of fact, processed grass – in a market place which favours the buyer, and about as far from our customers as we can be in relation to our competitors. That's been the situation more or less since at least 1832 when Te Rauparaha used the same trading relationship to borrow the brig Elizabeth and raid Ngai Tahu at Akaroa.

That's not to say that nothing has changed in the detail. What we've been doing recently is to change the orientation of that trading relationship. There's nothing new about that either. We've been obliged to do that several times over the last century and a half. What has always driven this process has been the logic of the



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international market place, and so it has been over the last couple of decades. It has nothing to do with any initiatives taken here. Those who live here and think they are economic innovators are flattering themselves. They had no choice in the economic sphere but to go along willy nilly with changes dictated by international circumstances in the marketplaces in which we trade. The real genesis of that change – and one for which we prepared ourselves very badly, by the way – was in the British decision to join the EEC in the early seventies, and in the oil price shocks of the same decade.

What has happened has been that those changes have been conflated with some political changes which were not driven by these economic imperatives, but by a calculated and long-standing agenda on the part of certain groups to reverse the political changes heralded by the Liberal elections of 1890 and 1893, and consolidated by the Labour election victories of 1935 and 1938. These groups, as they have in the past, have taken advantage of the need for economic change to advance that agenda. The essence of this agenda is the dismantling of systems which ensure that all citizens share in the fruits of the economy, in favour of a system in which only certain restricted groups do. These latter may be grouped under the general rubric of 'the deserving rich'.

Secondly, this process, as I have just indicated, did not begin with the election of the fourth Labour government in 1984. It had been going on for some time. If you want to know more about that you might like to read my book *A Vision Betrayed* which maps that process and which, ironically, was published in July 1984 immediately after the election in that year (although like most people I had little inkling of what the election heralded). What happened over the next decade was the acceleration of that process by several factors so that the desired outcome was achieved very much more quickly than its proponents had expected. Attributing it to Roger Douglas is about as silly as attributing the outbreak of the first world war to Gavril Princep.

Within the broader context it was fairly obvious from the outset that at some point those driving the changes would need to address the structure of the public service. This was because that service occupied a position in the society which constituted a principal impediment to the changes they were trying to effect. To understand why that was so, it is important to be aware of two other things. The first of these relates to why the public service was set up the way it was in the first place, and the second is to do with the manner in which public sector wages are set. If you appreciate that one of the main political reversals on the agenda was the abandonment of a progressive and redistributive tax system, and that one of the principal traditional routes for achieving that redistribution was the Keynsian device of public sector activity, then the imperative necessity of restructuring the public sector becomes apparent. Let me take each of those public sector origin points in turn.

When the Liberals came to power in 1890 they found that the then civil service was largely hostile to what they wanted to do. They spent a good part of the next two decades restructuring that civil service to reverse that situation. But you can't make an omelette, as they say, without breaking eggs. This reorganisation of the then civil service had been the origin of a number of celebrated political scandals of which the best known was the claim that the police had been corrupted into serving the liquor interest (which was said to be a principal backer of the Liberals). Probably that was true. But there were a number of other scandals of the same sort. The Webbs, who were in New Zealand during the period, thought it was all a storm in a teacup, and perhaps from their perspective they were right. It should be noted, on the other hand, that the Privy Council in London, in the New Zealand case of Wallis and others vs Attorney General in 1903 thought it was serious enough to comment on and to suggest that the appointment of New Zealand judges was coloured by it.

Whether these allegations were true or not the parliamentary opposition, revamped as the Reform party, had a field day and their vociferous moral indignation eventually meant that something had to be done. In 1912 the abortive last Liberal government of Thomas McKenzie actually set up the Hunt Commission to reform the public service. By the time Hunt reported there was a new Reform government in power, and the new Minister, Herdman, who had been leading the charge against the alleged political corruption of the civil service implemented most of the recommendations of the Commission. You can read the detail of this – which is fascinating – in *The Quest for Efficiency*, Alan Henderson's official history of the origins of the State Services Commission. Suffice to say that the upshot was the separation of the public service from opportunities for political influence in appointments and promotions. This was achieved by a system of independent promotion arrangements based on merit and clear job descriptions, an independent review process, and the establishment of the Public Service Commission as a Chinese wall between all matters to do with public service personnel, and individual ministers and the government generally. The public service became a career service – you expected to be employed there for your entire working life no matter who was the government, although your career might range over a number of agencies – and it became on offence for any person other than the Commission to influence a public service appointment. Public servants were protected from arbitrary dismissal with a comprehensive appeal procedure if a dismissal became necessary for other reasons. This was to ensure that this was not a cloak for political jobbery.

But public servants also accepted significant constraints on their rights as citizens. If you were a public servant, for example, you had to follow a whole series of requirements in your employment which did not apply to anyone else, and for the infringement of which you could be sacked. Essentially this remained the system, notwithstanding minor amendments, until the structural reforms of 1987 and 1988.

The second factor of which you need to be aware relates to public sector wage setting. The basic problem to be addressed here is that the normal labour market equations – which presuppose a three cornered relationship between a worker, an employer and a customer – do not apply because in the state sector the employer and the customer are the same person in different guises. Solutions have been attempted to this conundrum in many countries, and all have, by and large come up with the same outcome – something called fair comparability. That is to say, the payment of public servants in particular occupations more or less the same range of wages as their private sector counterparts. From the end of the second world war to the early sixties there was a problem over wage setting in New Zealand which was eventually resolved, through the McCarthy Commissions of 1962 and 1968, by the adoption of the fair comparability principle. This was enshrined in legislation until it too was swept away in 1987 as part of the public sector structural reform process, although it continued in force in an attenuated form and in practical terms until the passage of the Employment Contracts Act in 1991.

This background is necessary for an understanding of the public sector structural reforms of the eighties; to assess their necessity, their impact, and whether or not they have achieved their ostensible purpose (where the actual agenda being pursued, differs from their real purposes).

Certainly those driving change in this area understood it and had clear, if not cogent, reasons for reforming the public sector. This is a matter of record. These reasons are set out in a range of documents and reports, the most important of which are the October 1986 *Review of Pay Fixing* in the State Sector and Volume 1 of *Government Management*, the Treasury brief to the incoming government in 1987.

The first of these deals primarily, but not solely with wages. Both reports characterise the then system of public sector wage fixing as highly centralised and inflexible. The first characterisation was a matter of fact, The second was a highly questionable interpretation. What was really meant by the stricture was further explicated, however, in a passage which described "the present system as constraining state sector organisations from responding quickly and effectively to the changing economic climate". Decoded, this meant that wages could not easily be reduced in real terms. In fact the reports asserted, entirely in the face of the facts, that state sector wages had moved ahead of their private sector counterparts. Interestingly this has subsequently become the principal justification for state sector reform in New Zealand. It has been repeated so often that it has taken on the status of a reified fact. I last saw it, for example, in a paper tabled by the New Zealand government at an ILO conference on public sector structural adjustment which I attended in Geneva in 1995.

The authors of the 1986 paper naturally had some solutions available for this pseudo problem. National rates of pay and those based on occupational classifications should be abandoned in favour of the market. There should be no more general adjustments to salaries. The ability to recruit and retain staff in the labour market – depressed by unemployment – should be the principal criterion for setting wages, and should be encouraged by the much more widespread use of individual contracts of employment. Collective contracts should be, said the reports, confined to the low paid as a form of social protection, but anyone in the rest of the public sector, i.e. about 80% of the work force, did not need collective agreements.

What would be the result of these changes, according to the authors of the 1986 and 1987 papers? Well, it would ensure that those who delivered innovation and efficiency could be compensated and encouraged, and those who did not could be punished and dispensed with. The outcome would be a much more efficient public service, and one moreover which would be cheaper to run, ie, would need less taxation. Specifically, it said "this would enable managers to provide remuneration packages that offer staff appropriate incentives to perform, that permit responsiveness to changing economic conditions, and which encourage staff to invest in skills and experience". At the same time "it is essential that a revised system involves the facility for decentralisation of pay fixing to a level at which the management, financial and policy goals of an organisation may be considered together in determining a remuneration package." To the degree that there would be collective arrangements, these should be decentralised to the enterprise level, and within that context individual contracts should be preferred aside from certain basic general requirements covering leave, sickness and so forth, retained, again, for their social safety net utility.

The legislation enacted in 1988 to implement this reform reflects these preoccupations. At a stroke it returned the public sector to the wage fixing arrangements which had pertained prior to the McCarthy Commissions. It made no attempt to address the problems resolved since at least 1962 by the application of the doctrine of fair comparability, except to vaguely state, in line with the general ideology then pertaining, that the deregulation that this entailed was automatically a good thing, and that the labour market and the managerial initiative that this deregulation would release would suffice to keep everybody fair and honest. As might have been expected the reversal of the post 1962 settlement has simply ensured that the pre-1962 problems have re-emerged in a slightly different guise. So far they have defied resolution, and will continue to do so until the principle of fair comparability is re-introduced or re-invented in some form.

Two other dimensions of this question should be noted. Firstly that the same ideological precepts had been applied in 1986 to the trading activities of state agencies. These were separated out as state owned enterprises, a curious hybrid owned by the community, governed by a board appointed by ministers, ultimately responsible to ministers, and operating in whole or in part in the competitive commercial market place. A number of these organisations have subsequently been sold to private owners, usually at prices which reflect their worth neither in market terms nor in terms of the generations of public investment which they represented. Presumably, however, this has resolved at least in part the labour market conundrum inherent in public sector organisations by separating the employer from the customer. There is some evidence to suggest that this is so, although that outcome is ameliorated by other considerations, eg, that the consumer of the services delivered is often not the person paying for them, and therefore the customer/employer/worker relationship predicated by the theoretical labour market still does not always exist for these organisations. Ironically, in those circumstances special regulatory arrangements are often needed to ensure free competitiveness although they haven't always been applied, or if so applied effectively. Examples of this are to be found, for instance, in the delivery of telephone services or of electricity generation.

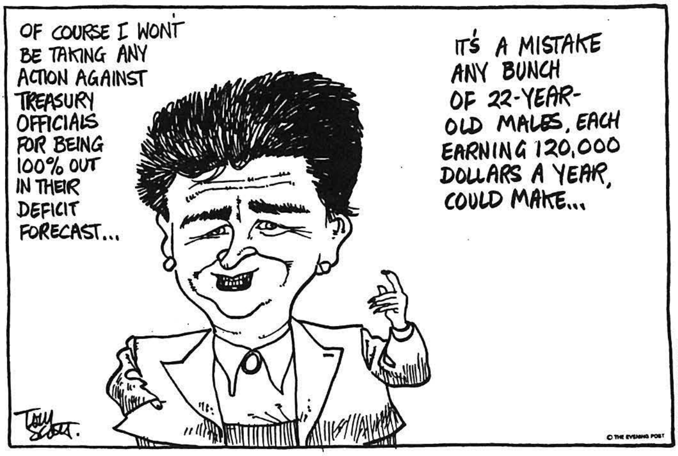
The other point of interest to note is that the dismantling of the system of pay fixing by comparability was only partial. The Higher Salaries Commission, which sets the salaries of senior public servants, judges, politicians and a range of other high ranking public officials continues to function on the basis of fair comparability. It has always seemed a curiosity to me, by the way, that these people, who far more than the rest of us are in positions in which the incentive of purely market driven wages might encourage to ensure wideranging efficiencies in administration, are excused from the rigours of the labour market. The more cynical of my acquaintances have, of course, drawn attention to the need to keep such people onside in a situation in which the general tendency of public sector wages has been to fall, by ensuring that the leading lights are not subject to this discipline, and thus have no incentive to criticise the reformed arrangements because at least their wages are going up. Perhaps it's simply that the already rich and powerful need different sorts of incentives. Whereas the rest of us need the incentive of less, they need the incentive of more. Ernest Hemingway once said to Zelda Fitzgerald that the rich were different from those who are not. "That's right," she said, "they have more money." My reading of the situation is that they intend to keep it that way.

But the authors of the various papers suggesting the structural reforms were well aware that this was not just a question of wage fixing arrangements. There were other structures which they also thought needed to be dismantled to be consistent with their incentive driven approach. More specifically: they targeted arbitral dispute resolution, which they thought introduced an inappropriate and irrelevant third party into the process of wage setting; they wanted to get rid of any structures which might protect the position of workers. They thought the rate for the person should replace the rate for the job. And they considered that appeals against non-promotion to ensure that merit really had been the basis for appointment should be abandoned.

So, have the reforms been successful in retaining equity in wage fixing while delivering efficiency in government through the release of managerial initiative. That's a clutch of questions so let's take them one at a time.

We'll deal with wages first because that's an easy one. The answer is no. And here the figures speak for themselves. It depends, of course, and as always with figures, when you begin your counting but let's make our starting point 1991 because that's when the full reform first applied. It's difficult to get absolute precision because some public servants have had merit increases during that period and those are not centrally mapped. I think, however, that their effect should be discounted at least in some measure, because those increases are for individual improvement in performance, and what we're interested in is the overall value of wages. In this area the claim that the reforms deliver equity immediately dissolves in the face of the facts.

Since 1991 the real value of public sector wages has fallen by 12-15% measured against inflation, ie, what those wages could buy then and what they can buy now. These figures are based upon the statistical indices published by Statistics New Zealand. In real terms they mean that someone who had their last pay increase in the June quarter of 1992, and who was on $34,000 a year (which is quite a good salary in public service terms), by June 1996 had lost $44.57 worth of purchasing power per week. It's undeniable, of course, that some professional groups have seen significant increases in their remuneration, but in relation to the public sector work force as a whole this group is tiny. If you are a public servant then you may get salary equity or even some relative advantage from the new set up, but statistically the lucky winner is thoroughly unlikely to be you. In addition to that, as we'll see in a moment, the winners are unlikely to be so on the basis of rational considerations of merit. The current system is a Lotto pay fixing system, and is about as likely to deliver equity as Lotto does.



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The real effects of this can be very readily mapped in the staff turnover figures. This is one of the few sets of figures kept comprehensively these days by the State Services Commission. The public service turnover for the year to 30 June 1994 was 17.8%; to June 1995 it was 20.4%; and to June 1996 it was 21.8%. Any management specialist will tell you that a turnover rate of more than 10% is grounds for alarm. According to the theory set out by the proponents of the 1988 reforms, this situation should have been self correcting. The need to retain efficient and effective staff should have ensured that wages went up and not down. Of course, it's possible to argue, I suppose that those who went were the inefficient and incompetent, and so, good riddance. But if that was so then they should have been replaced by the efficient and competent – in which case the overall level of wages should have gone up even faster. As I've just said, however, they went down over the period of five years. It's a funny sort of system which rewards efficiency and ability by reducing wages.

Of course the proponents of a free market had ignored two important considerations. The first was that the private sector, where wages were also falling in real terms, was nevertheless paying better wages for similar workers than the public sector. This not only attracted people away but it tended to attract the most highly valued. This, incidentally, was the very reason why the principle of fair comparability had to be applied in New Zealand in 1962. The problem it sets out to resolve applies whether or not we are in a period of full employment or significant unemployment. This suggests, that what we are dealing with here are structural problems which have nothing to do with simplistic notions concerning the way the labour market is supposed to work.

Secondly, the reformers had failed to take account of the factor I noted earlier: that the employer and the customer for services are the same person. If the government as customer insists on reducing the price paid irrespective of the delivery of productive efficiency per unit of output per worker, then the government as employer achieves an outcome not of efficiency but of cheapness. That doesn't mean that efficiency is ruled out, but it does make it much harder to achieve, because efficiency depends upon the effective application of both capital investment and human resource. To limit the availability of both by underfunding government agencies invites managers to cut corners. This is not only a recipe for bad management in itself. It also means that there is a temptation to find the necessary investment by reducing pay-roll, either by reducing staff or reducing wages, or both. And this is exactly what has happened in the public service. Not only that, but the marginalisation of trade unions has meant that one of the major previous checks on managerial competence has been removed. Unions tended to police the system and identify management inefficiencies. They now find that much more difficult because they have been quite deliberately written out of the equations.

So one of the outcomes of the reform process has been the delivery of the opposite result to that intended – less efficiency, not more. That has real consequences as the disaster at Cave Creek showed. It's interesting that the enquiry into that tragedy put its finger squarely on the problem – endemic underfunding and the resultant corner cutting – but no-one has drawn the obvious conclusion which is that the reforms of the public sector have been, quite literally in the case of Cave Creek, a disaster.

Instead the proponents of the reforms draw the opposite conclusion. They say that the greater transparency of the public sector has shown up the inherent inefficiency of the public service, and that there would be fewer tragedies if more of it could be transferred to the private sector. Well, I'm afraid that naive propositions of that sort don't appeal to me. The world is a much more complicated place than simple minded economic rationalists imagine.

So let's now turn to the broader question of whether or not the reforms in general have created a more efficient and effective public sector. I have considerable assistance in drawing my conclusions here because there have been a series of independent review reports on that question. I'm going to draw on four of the more significant of these in what I'm about to say.

Let me begin with a most interesting March 1995 study conducted by Richard Norman of the Management Group at Victoria University and entitled *Re-invented government – the New Zealand experience.* Norman and some colleagues went to a group of senior civil servants and asked them what they thought had been the outcomes of the reform process. Bear in mind that this is the group who might have been most expected to say that it had been a success. Norman did it in a way which was immediately interactive and which at the same time protected the anonymity of the respondents, by using linked computer technology recording responses to various trigger questions at a central point, and coordinating and ordering these responses for significance with the group afterwards.

The outcome was remarkable. All agreed that the introduction of accrual, output based accounting had been a success, with a caveat about the inadequacy of planning to introduce it and a higher level of start-up cost as a result. I don't think that there's any significant disagreement with that. It is now much easier to identify, than it was before 1989, what departmental funding is being spent on and whether or not the determined outcome is being achieved. This does not, of course, prevent spectacular pile-ups any more than in the past – the National Library computer project, and social welfare training, are cases in point – but these things are detected sooner and are harder to bury than they were in the past. Many managers now have a much better sense than in the past as to what they are trying to achieve and what resources they will have to do it. This allows them to plan strategically rather than operationally, and those who have taken advantage of that have delivered excellent outcomes and done so efficiently.

But Norman's senior managers also thought that the drive to separate policy and delivery agencies had not worked and was conceptually unreliable; that the use of more flexible employment contracts had undermined loyalty and created a short term focus that worked against the broader advantages of the reform; that the establishment of a direct relationship with ministers had proved problematical and created significant areas of mistrust which had very likely had a negative effect on performance; and that the management of the change process had been abominably handled, and that this had been entirely unnecessary. A very mixed report card from those most favourably disposed to the process of reform.

There has also been a very interesting study of the changing nature of public service managers and their attitudes since reform by Robert Gregory who has published the outcome in Political Science for December 1995. There has been a significant change, Gregory discovered, in the professional qualifications of managers joining the public service. The arts and humanities group has fallen from 35% pre 1988 to 19% post 1988, whereas the business and accountancy group has risen from 18% to 33%. Engineers have trebled, scientists have doubled, and lawyers and sociologists have halved over the same period, although the size of the sample used means that the result in respect of engineers should be cautiously treated. This change reflects, obviously, the operational requirements underlying the reforms themselves and in particular the requirements of the Public Finance Act 1989. But this has been accompanied by an important sea change in the attitudes of those running the public service. The post-reform managers are significantly less likely to be at ease with pluralist politics, less democratically sensitive, and more technocratic in orientation than their pre reform counterparts. They are also significantly less likely to perceive the overriding necessity for serving the elected parliament through accepting the authority of the minister as paramount. This is not to say that they would deliberately flout the ministerial will. Rather it is to say that they see their work as driven by professional imperatives rather than democratic responsiveness. One of these sets of imperatives is an orientation towards the methods of working and philosophies of private business. Another interesting subset of attitudes is that the post-reform managers are significantly less favourable towards policies directed to the recruitment of women and Maori to the public service. (This is consistent by the way with some previous studies of private sector business attitudes).

The study does not ask if these changes are a good thing or a bad thing but simply records them, so let me essay a comment of my own. I suggest that this development, which undoubtedly stems, at least in main part, from the reform process itself, is thoroughly undesirable. One of the things which characterises New Zealand political culture is its democratic, egalitarian, and open and responsive nature. The functioning of a public sector which genuinely delivers those values and serves citizens requires managers who share that ethos. The numbers of those who do is declining. They have been replaced by adherents of a technocratic ethos in which the primary values are profitability, the application of balance sheet criteria in assessing success in outcomes, a downgrading of social considerations as a determinant in policy advice, and a measure of secretiveness in day to day affairs suitable to competitive commercial organisations but which consorts ill with the philosophy of open and transparent government.

The changing nature of our public sector management ethos also seems to me to be inconsistent with MMP. If we are to properly implement a new government system based on mediative political skills and on workable compromise solutions acceptable to the broader political culture as the criteria of success in administration, rather than the adoption of solutions felt by their proponents to be the right thing to do on professional or elitist grounds then we are employing the wrong managers to manage it.

Thirdly, and most recently, we have the report, published in August 1996 and prepared by Allen Schick of the University of Maryland and a consultant to the OECD. This was intended as an overview of the reform process. Reading between his polite periods (and the fact that Treasury and the State Services Commission made him rewrite his report six times I'm told), Schick is quite critical of the outcomes of the last eight years.

He draws attention at the outset to the fact that the reforms were driven ideologically i.e. based on the belief that the public sector needed reforming rather than any objective study which identified such a need in the real world. And within that framework he concludes that the reforms, while broadly worthwhile in improving the efficiency and quality of public services, have serious drawbacks which need to be addressed. He identifies three principal such drawbacks.

Firstly, those driving the public service are still not thinking strategically, although they are addressing this process, which is assisted by some of the requirements of the Fiscal Responsibility Act. Secondly, the costs of public services are still not being adequately identified and so it continues to be difficult for managers to manage adequately. And thirdly, accountability based upon management of clearly defined and funded outputs continues to elude managers because of the continued appearance of unanticipated requirements and deliverables for which they have not been funded.

The fourth study to which I draw attention was published in 1996 by the Strategic Human Resource Development Branch of the State Services Commission. This also asked a wide range of senior managers in the public sector whether they thought the reforms were carrying us in the right direction. It took as its point of departure the earlier 1991 Review of the State Sector Reforms convened by Basil Logan – the Logan Report. Logan described three areas of what he called "risk" in public sector management i.e. where the reforms might fail to a greater or lesser degree in delivering efficiency and economy if these problem areas were not addressed. These were: a lack of attention to the collective interests of government in a decentralised structure and the need for a greater level of coordination; the need for chief executives to look beyond the boundaries of their agencies to address this collective interest; and the need for central agencies to enhance their acceptance of responsibility in this area. All of these matters to a greater or lesser degree entailed attention to human resources policy.

And to a greater or lesser degree, the 1996 study found, the problems identified by Logan remained unaddressed, or where they had been addressed they had re-emerged in new forms. The State Services Commission was not providing sufficient strategic guidance, the report found, although some steps had been taken to rectify this. In particular, there had been a failure to meet legislative requirements in respect of responsiveness to Maori (the conclusions of the report say nothing about women and the disabled), and to invest in human resource capability. Once again a report written by insiders concluded that the reforms had fallen short of their goals.

What do these four analyses mean when they are decoded? They mean that the agendas at work are not those they pretend to be. The things that the review reports identify as not happening are not happening because they are not meant to happen. There is another agenda in place instead.

Decentralisation is central to this agenda because it is the best way of identifying areas for privatisation or contracting out. Protecting the collective interest of government cuts across that process because the agenda at work takes as a basic proposition that the collective interest of government is minimal. The collective interests of socially defined groups such as Maori (and by implication women and the disabled) are not a priority because they are irrelevant to the strategic outcomes desired by the reform i.e. the reduction of the cost both operationally and in terms of risk, of government itself. The agenda is fundamentally predicated on the desirability of the lowest possible level of taxation compatible with minimal government. Identifying a partnership interest to be served is inimical to that requirement in a reformed public sector context. It is perceived as an unnecessary expenditure which is better dealt with in a market context i.e. Maori should pool their resources and look after themselves.

And I barely need mention the low priority accorded investment in public sector human resource capability. That capability, insofar as it is scarce, can be purchased as consultancy in the market place as required. Permanent human resource capability in the public sector should be confined to a managerial elite recruited from elsewhere as needed. As to the rest of the workforce, they should comprise the smallest possible number of process workers, preferably engaged on a casual basis and requiring little or no human resource investment beyond basic familiarisation training.

It's an interesting irony that all significant reviews of their efficacy have identified genuine shortcomings in the implementation of the reforms but that nothing has been done to rectify this. This is a puzzle until one grasps that the presence of two agendas, one ostensible and the other real, has militated against the implementation of improvements. The real agenda is, of course, the one to which I alluded at the outset, viz, the counter-revolutionary one of minimal government and low taxation with minimum impediments to business which was the way New Zealand was run before John Balance upset the apple cart by inaugurating democracy in New Zealand in 1890.

To the four review assessments I have instanced I would add a consideration of my own which all the others have missed, possibly for obvious reasons. This is what I would describe as a thoroughgoing politicisation of the public sector. Many public agencies have been removed from public control and handed to boards of management whose agendas are business oriented. Business agendas are, of course, political agendas. I refer in particular to state owned enterprises, and bodies such as those delivering health services or a range of activities previously undertaken by local government. This politicisation cuts very deep. As well as implying a particular political agenda it also has meant that those who serve those organisations as managers and policy advisers are required to conform to those agendas or they either are not employed in the first place or do not last long if they are. The same applies to the public service.

The previous appointment system was based on merit as was the independent appeal authority overseeing it. This has been abandoned, there is no check on the process of appointment of managers and policy advisors for frankly political reasons, which has proceeded apace. A little remarked review study by the State Services Commission on the purchase of policy advice from government departments published in December 1991 concluded that the giving of such advice should be confined to professional policy analysts and that one of the defining credentials of that profession should be some evidence of having undergone training in the philosophical tenets of neoclassical economics.

Perhaps the greatest irony of all has been that a reform process proudly touted by its architects as looking to the future has actually recreated the civil service as it existed prior to the Hunt Commission in 1912. But let me go beyond irony and attempt to answer the question with which I commenced. Has the reform succeeded in its intent? The answer to that depends upon how you measure success. Probably the Treasury and the Business Round Table would agree with me in saying that it has not succeeded but our reasons would be different. They think it has not gone far enough, rather than too far. We should therefore confine ourselves to measuring success by the intentions of those who wrote the reports of 1986 and 1987 which began the process, and see how the outcomes compare to their predictions.

Has it delivered a more equitable and efficient wage setting system? No it hasn't. Wages have fallen in real terms and although a few high fliers get more there's nothing to suggest that that is because they are more efficient, nor that the system itself is delivering better outcomes. There is ample evidence to suggest that the opposite may have occurred, that is, a decline in efficiency and effectiveness. Certainly that has been the experience of ordinary citizens as consumers of services, and if they are not to be the ultimate arbiters of success in this process of reform then I don't know who is.

Secondly, are managers more effective and efficient than they used to be? This is arguable but ultimately I don't think so. At best there's evidence both ways and some of it suggests quite strongly that we've got it wrong and that the managers we now get are not the ones we ultimately want because they will not deliver the outcomes that citizens want.

Thirdly, I agree with Schick. We can't go back and probably nobody wants to But there is a good deal of unfinished business to attend to. There is still a long way to go before people learn to think strategically, and there is still a lack of skill and expertise in costing service delivery. We are similarly a long way from effective structures of accountability in delivery. The single great advance has been in the introduction of output based accrual accounting; no-one I have ever spoken to wants to return to the previous input system.

But we have thrown out the baby with the bathwater. It was not necessary to pass the State Sector and State Owned Enterprise Acts to achieve the positives we have achieved in terms of the Public Finance and Fiscal Responsibility Acts. In the process we have lost the advantage of a non-political public service, demoralised much of the public sector workforce, and made the rest extremely cynical. These are recipes for a high risk of the break down of public service integrity, an ethos and culture which is fundamental to the achievement of the outcomes we want as a society. We must now take steps, I think, to rescue the baby before it dies of pneumonia and the other deleterious effects of going down the drain.