

# POLICY Quarterly

Volume 7 – Issue 3 – August 2011



Biophysical Limits and their Policy Implications: The Nature of the Problem  
*Paul Reynolds* 3

Policy Advice and the Pursuit of Public Value  
*Michael Mintrom* 8

Broadening Our Understanding of Living Standards: Treasury's New Policy Framework  
*Ben Gleisner, Mary Llewellyn-Fowler and Fiona McAlister* 13

Public Management in Difficult Economic Times  
*Bill Ryan* 20

Achieving a Step Change – the Holy Grail of Outcomes-based Management  
*Derek Gill and Susan Hitchiner* 28

Best Practice Regulation: Setting Targets and Detecting Vulnerabilities  
*Peter Mumford* 36

Financial Incentives for Welfare Recipients with No Other Income  
*Tony Burton* 43

A society that highly values our lives and continually enhances our full participation  
*Hilary Stace and Martin Sullivan* 50

Key Issues in Paid Parental Leave Policy  
*Maureen Baker* 56

## Editorial Note

*Policy Quarterly* (PQ) is targeted at readers in the public sector, including politicians and their staff, public servants and a wide variety of professions, together with others interested in public issues. Its length and style are intended to make the journal accessible to busy readers.

The journal welcomes contributions of about 4,000 words, written on any topic relating to public policy and management. Articles submitted will be reviewed by members of the journal's Editorial Board and/or by selected reviewers, depending on the topic. Although issues will not usually have single themes, special issues may be published from time to time on specific or general themes, perhaps to mark a significant event. In such cases, and on other occasions, contributions may be invited from particular people.

**Subscriptions:** The journal is available in PDF format on the IPS website: [www.vuw.ac.nz/ips/pq](http://www.vuw.ac.nz/ips/pq). Readers who wish to receive it by email should register as PQ subscribers [ips@vuw.ac.nz](mailto:ips@vuw.ac.nz). This service is free.

For all subscription and membership enquiries please e-mail [ips@vuw.ac.nz](mailto:ips@vuw.ac.nz) or post to Institute of Policy Studies, P.O. Box 600, Wellington.

**Electronic Access:** The IPS directs interested individuals to its website: [www.vuw.ac.nz/ips/index.aspx](http://www.vuw.ac.nz/ips/index.aspx) where details of the Institute's publications and upcoming events can be found.

**Permission:** In the interest of promoting debate and wider dissemination, the IPS encourages use of all or part of the papers appearing in PQ, where there is no element of commercial gain. Appropriate acknowledgement of both author and source should be made in all cases. The IPS retains copyright. Please direct requests for permission to reprint articles from this publication to [editor-ips@vuw.ac.nz](mailto:editor-ips@vuw.ac.nz).

**Editor:** Jonathan Boston

**Guest Editor:** Bill Ryan

**Editorial Board:** David Bromell, Valentina Dinica and Mike McGinnis

ISSN: 1176 - 8797 (Print)

ISSN: 1176 - 4325 (Online)

Volume 7, Issue 3 – August 2011

**Design & Layout:** Aleck Yee

**Cover Illustration:** Aleck Yee

**Production:** Alltex Design

**Copy Editor:** Rachel Barrowman

**Proof Reader:** Vic Lipski

This edition of *Policy Quarterly* was not designed around a specific theme but it is interesting to note that several of the papers deal with the effects of increasing diversity and complexity in the present and the implications for the ways and means of governing in the future. These papers convey a sense that the institutional framework which has served for recent decades will have to change significantly if New Zealand governments and the public sector are function effectively in the 21st century.

At a recent conference presented at the Institute of Policy Studies/Manaaki Whenua Landcare Research, Paul Reynolds, Chief Executive of the Ministry for the Environment, raised questions about biophysical limits and their policy implications. In his view a significant part of the problem lies in the nature of the present policy institutions. New types are needed to meet the complex policy challenges of the present and future. Collaborative, collective entities, some of them grown locally, are showing the way. Michael Mintrom pursues a similar line of thought. He is disappointed with the recommendations of the recent review of expenditure on policy advice arguing that policy analysts need to give politicians the services that they need to perform as policy leaders and agents of transformative change. For policy advice to create public value, it must be developed in a way that also shapes public desires and perceptions. To achieve this, different kinds of policy development organisations are required. These would extend outside the public sector and bring diverse groups of people together to discuss pressing public issues and how they might be resolved.

Living standards are broader than income alone, and are determined by a wide range of material and non-material factors. In an important development, Treasury has created a wide-ranging framework to conceptualise and measure living standards, designed to enable consistent policy advice to government. Ben Gleisner, Mary Llewellyn-Fowler and Fiona McAlister provide an overview of this work. The framework recognises the importance of looking beyond economic measures in assessing living standards, to matters such as citizens' freedoms and rights, the distribution and sustainability of living standards, and self-assessed subjective measures of well-being.

Confronted by difficult economic times, the National-led government is demanding expenditure reduction across the public sector. Ryan reviews the public management research for lessons that can be applied but is sceptical that much inefficiency or waste is left to be found. Cutbacks often have organisational and staff effects that reduce the capacity of the public sector to do the job that government and citizens want. Institutional innovations with potential are emerging elsewhere that promise long-term reductions in public resourcing but will involve significant short and medium term costs in developing them. With a rising chorus of

demands for institutional reform in New Zealand, how to move forward? Derek Gill and Susan Hitchiner suggest that public management in New Zealand is at a crossroad with no clear direction ahead, so they offer five possible strategies. These range from small-scale incremental development to a larger, more ambitious programme of sector-wide change, through to a final option of dealing with the fundamental political issues that are holding back development of public management.

Regulation is a core function of government but there is contest over the best and most effective way to regulate. Peter Mumford is concerned for the state of our regulatory regimes. He wonders whether it would be better to treat each as an experiment and then continually check whether they are working in practice. To test this idea he creates a framework based on seven attributes and retrospectively applies these to the 1991 building regulations that led to 'leaky buildings'. Working thus, he suggests, would provide initial diagnostic and early-warning devices for monitoring the outcomes of regulation more effectively than has been achieved to date.

The last three papers in this edition all focus on social policy issues, very much to the fore in New Zealand with the recent Welfare Working Group (WWG) report.

A major concern of the Welfare Working Group (WWG) was households whose working-age members on benefits have a marginal attachment to the labour market, seeking ways to motivate these people into paid work. Tony Burton suggests that standard bureaucratic rules based on the presumed effects of matters such as effective marginal tax rates, are not adequate to understand how and why a large proportion of such people act as they do. A better analysis would examine the sources of income and the uncertainty of work for people with low skills. It would also look at the incentives created by additional sources of benefit income and informal income. Stace and Sullivan focus on the impact of the WWG's recommendations on individuals and families in the disability community, particularly given the WWG report's preoccupation with paid work. Two concerns are uppermost. The first is that most disabled adults experience fluctuating capacity, and a lack of suitable work and understanding of the overall effects of having multiple impairments. The second is that single and partnered invalid beneficiaries carry out a considerable amount of voluntary and unpaid work each week. If they are forced into low-quality, low-paid work, significant opportunity costs would be incurred.

Maureen Baker's paper on key issues in paid parental leave policy rounds out this edition. In 2002 New Zealand employees gained access to paid parental leave, but other countries such as Canada established these benefits much earlier and/or used a mix of policy parameters. Paid parental leave is essential for women's employment equity, as is subsidised child care services. Employment choices and constraints are not the same for most mothers and fathers. Development of social programmes must acknowledge gendered patterns of work.

Bill Ryan

Paul Reynolds

# Biophysical Limits and their Policy Implications: The Nature of the Problem

This paper was presented at the Institute of Policy Studies/  
Manaaki Whenua Landcare Research conference 'Biophysical  
Limits and their Policy Implications', held at Victoria  
University of Wellington 8 – 9 June 2011.

Advertising for this conference reminded us of the Club of Rome's 1972 report *Limits to Growth* (Meadows et al., 1972). That controversial report delivered a stark reminder that human civilisation was on an unsustainable growth trajectory: the inevitable consequence was overshoot and collapse. This trajectory was hard for people to grasp because it was exponential.

So, nearly 40 years later, what has changed? We've seen the rise and embedding of neoliberalism; technology and the internet dominate our lives; we have the rapid rise of China and India,

and changes to global trade patterns; we've suffered the global financial crisis, and so on. Over the past quarter of a century the world economy has quadrupled. This growth has benefited hundreds of millions of people, but at the same time 60% of the world's major ecosystem goods and services which underpin livelihoods have been degraded or used unsustainably (UNEP, 2011).

So, are the Club of Rome's scenarios so dire that we can expect major collapse beyond 2100? That will be a widely debated topic of this symposium. I think most of us will agree, however, that our current trends of population growth and resource consumption are currently unsustainable. Which brings me to 'the nature of the problem'.

## The nature of the problem

When we talk about increasing resource scarcity there is a common assumption that the earth is running out of resources. So, to halt this rapid decline, we must indeed halt economic growth.

On the other hand, there are those who believe that resource depletion can largely be addressed with the use of substitutes or by developing new technologies: so, essentially, future behaviours around resource management can be an extension of the past.

In my view the nature of the problem is not about the earth running out of key renewable resources. It is about gross inefficiencies around *how* these resources are managed; it is about how limits are set and how new technologies are disseminated. It is the failure of *institutions* to recognise and respond to increasing environmental pressures, complexity and uncertainty, and failure to manage resources within the context of systems dynamics where feedbacks and non-linearities are ever present.

Take water, for example. Despite the depletion of watercourses, glaciers and aquifers in many regions, the earth is not running out of water. In fact, most countries have more than enough water to supply their populations' growing needs *and* to sustain the flows needed

---

Dr Paul Reynolds is the Chief Executive of the Ministry for the Environment.

to protect the natural environment. The problem, rather, is that our societies are doing a poor job of *managing* these water resources. We are not simply at the mercy of an increasingly scarce and variable natural resource.

To put this in context: global agriculture currently uses about 3 trillion cubic metres of water per year, or 71% of global withdrawals. Much is wasted. Global estimates of irrigation efficiency suggest that around 60% of water destined for irrigation never reaches the crop (McKinsey & Co, 2009). It leaks out or

day or another generation) to one which seeks a dramatic reduction in our ecological footprint through internalising those pressures. Arguably, the transition required to bring us onto a sustainable growth path is as much about the political economy as it is policy about tools and solutions, perhaps even more so.

Many of these policy solutions are well known to us and have been used in different contexts over the years. But many of these instruments are not widely applied in resource management. That is because this stuff is hard; the politics

innovation, infrastructure, and institutions and governance in promoting green growth. Discussion around institutions and governance notes the importance of building capacity to improve governance, and stresses that this means not necessarily from the top down. In this context, an essential element of managing shared natural resources is co-operation and collective action by stakeholders.

However, on the whole the strategy still emphasises the use of market and regulatory instruments as a means to manage environmental externalities. Yet market solutions struggle when 'politically-charged' receiving environments are ignored: that is, those receiving environments characterised by entrenched positions and adversarial posturing. Regulation imposes generic rules on idiosyncratic situations, leading to inefficiencies and dissatisfaction.

## Rather than a limit driven by the scarcity of resources that are extracted from the earth, the concern is now another resource: the absorptive capacity of atmospheric sinks.

evaporates before it gets to the crop, or is wasted at the other end by over-irrigation resulting in run-off or leaching, driving another set of environmental problems.

Is technology the answer? Water technologies have resulted in more efficient use of water. This is particularly true for the agricultural sector, where experience shows that drip irrigation systems can cut water use by 30–70% while simultaneously increasing yields by up to 90%. But, although the use of this system has grown significantly over the last 20–30 years, it is still only used in 1% in the world's irrigated areas (Revenga, 2000).

More efficient water technology alone will not be sufficient to fully address water scarcity. It will also require difficult policy choices that allocate water to the most economically and socially beneficial use, and incentives to encourage the adoption of technologies.

### Government responses

Governments are thinking hard about what is required to make the transition from a model of economic growth that has tended to forget about the environmental externalities (or leave them for another

are challenging. So we have a situation of having a smorgasbord of policy solutions but being unable to implement them. Our focus needs to move beyond providing more evidence about why these policy tools are desirable, to one that looks at the *context* within which they are deployed.

For many countries, emerging concepts such as 'green growth', 'green economy' and 'green industries' are starting to feature on the political agenda. Many of the policy solutions are not new, but are reframed in a political context where growth is maximised within the bounds of sustainable biophysical limits. The OECD's recently published Green Growth Strategy, *Towards Green Growth*, sets out a pathway forward for economies integrating economy and the environment (OECD, 2011). While stressing that there is no 'one size fits all' approach for implementing strategies for green growth, it argues that there are commonalities. Most importantly, flexible and dynamic economic policy lies at the heart of any strategy for green growth.

The policy framework advocated by the OECD highlights the importance of policy design, market instruments, regulations, consumer behaviour,

### The New Zealand context

To illustrate my point, let's discuss New Zealand's resource management regime. New Zealand is lucky to be endowed with a plentiful supply of natural resources. Until relatively recently this abundance has made management simple – it is not difficult to allocate abundant resources. But times are changing. In the case of water, New Zealand has large stocks but not always in the right place at the right time or in the right amount. In some areas (Canterbury is not the only trouble spot) limits *are* being reached and exceeded. This is particularly evident where irrigation and run-off from farming is putting pressure on our freshwater resources.

Freshwater is not the only natural resource under pressure in New Zealand. We are also seeing increasing scarcity in our healthy and productive soils, air quality (in some locations), aquaculture space, land for houses, indigenous biodiversity, and so on.

Like the rest of the world, we face the 'limits' challenge of climate change. Rather than a limit driven by the scarcity of resources that are extracted from the earth, the concern is now another resource: the absorptive capacity of atmospheric sinks. I might add here that although pollutants played a minor role in the Club of Rome's *Limits to Growth*

report, their analysis shrewdly predicted the possibility of 'limits' imposed by climate change (Eastin et al., 2010).

Increased scarcity of resources in New Zealand is also influenced by us being an agriculturally-based exporting nation. The success of New Zealand's economy is heavily influenced by overseas demand for our products. So, despite the fact that New Zealand is relatively isolated from the main centres of global population and consumption, and has a relative abundance of natural resources, international forces will continue to influence demands on our natural resources. These demands are creating pressures to manage resources within limits.

This means some tough decisions need to be made about defining environmental limits and allocating those limits in a way that enables the economy and society to grow within or above those limits. Decisions on New Zealand's natural resources will be made more and more in a context that is shaped by increasing resource scarcity, increasing uncertainty (due to both human environmental change and human innovation) and accelerating socio-economic change. As a ministry charged with delivering robust environmental policy, the Ministry for the Environment must look to the future – 99 years out – with a view to facilitating inclusive and adaptive governance approaches.

This brings me back to the Club of Rome and their 1972 report. A common concern shared by this group of intellectuals, nearly 40 years ago, was that mankind faced a future predicament of grave complexity caused by a series of interrelated problems. Moreover, traditional institutions and policy would not be able to cope with this complexity, let alone come to grips with their full context.

#### **New Zealand's institutional response**

Increasing scarcity and complexity are going to require institutions that can cope with shocks and increasing conflicts and can adapt to changing conditions, and, where possible, transform crisis into opportunity. This begs the question as to whether New Zealand's policy and administrative regime is equipped to deal

with scarcity and change. In other words, can we effectively respond to what the future holds?

The short answer is no. We currently manage our resources within an administrative framework that is rigid; therefore, making responses to change is difficult. And this observation is not limited to the Resource Management Act (RMA), but applies to broader resource management legislation.

The RMA has typically used an administrative and adversarial system to allocate rights. There is flexibility under the RMA for alternative approaches to

natural resource management, such as market allocation, but these have not been widely adopted by local authorities and have been resisted by communities. So, in other words, the alternative market-based options provided for by the RMA have to a large degree been difficult to implement because of the litigious nature of the receiving environment.

Coming back to the nature of the problem, we seem to be in a situation where tools that are permissible are not being used despite our current regime providing for their use. This is not helped by the adversarial nature of the RMA.

One way to view this is as institutional failure.

#### **The ministry's thinking around collective institutions**

In light of these issues, the Ministry for the Environment is thinking hard about institutions and how they can be better placed, or better designed, to internalise environmental pressures.

When I say institutions, I don't mean bricks and mortar. They are the frameworks which underpin human interactions and the way we live our lives.

They are perfectly analogous to the rules of the game in a competitive team sport (North, 1990). That is, they consist of formal written rules as well as unwritten codes of conduct that underlie and supplement formal rules. Our framework of analysis is to examine policy responses and mechanisms through an institutional lens, with a view to thinking about what 'game rules' and 'players' are best placed to deal with the tough decisions.

The Land and Water Forum is an institutional response, involving 'players' concerned with water management. Historically, debates about water

**... we seem to be in a situation where tools that are permissible are not being used despite our current regime providing for their use. This is not helped by the adversarial nature of the RMA.**

management have been polarised, with sector groups – both industry and environmental – taking extreme positions in the hope that this will move the balance their way. The collaborative Land and Water Forum process has been instrumental in creating for the first time a 'receiving' environment that is conducive to new policy solutions. That is, people have been prepared to listen to each other and work towards a common view. This offers the potential of a way forward.

The emissions trading scheme (ETS) is another institutional response which represents a market-based response that goes well beyond the RMA. Through pricing, the scheme incentivises reductions in greenhouse gas emissions. It also provides flexibility in how participants can comply, enabling them to choose the least-cost way to reduce their emissions.

#### **Collective action**

The collective governance of local resources by local people is an institutional response we are particularly interested in. In other words, the receiving environment is creating its own solutions. The ministry

has been studying the thinking of two Nobel Prize winners in economics, Vernon Smith and Elinor Ostrom, who have increased our understanding of collective institutions in managing natural resources.

The work of Vernon Smith has alerted us to the distinction between 'constructivist' management regimes and 'ecological rationality'. The former refers to the planned ways in which our resources are currently governed – through legislation, national policy statements, environmental standards, plans, etc. The latter focuses on the *emergent* arrangements that can arise from human behaviour, despite the lack of deliberate design. Emergent arrangements can be based on trial and error and survival, and

explore their viability and success in a New Zealand context.

We have found many cases throughout New Zealand where collective self-governing institutions have emerged to deal with specific resource management problems. These institutions are familiar to many of us: the Fiordland Marine Guardians, Te Korowai o te Tai o Marokura (Kaikoura Guardians), the Opuha irrigation scheme and the Whaingaroa Community Catchment Management Initiative are a few that we have been looking at.

The Lake Taupo Protection Project is an institution set up to deal with the protection of water quality in Lake Taupo. It received an \$81 million grant, of which central government has contributed

government) and developing multi-stakeholder action plans which focus on reducing nutrients in the lakes.

#### Key observations

What are we learning about these collective institutions? First, as we have seen in the Rotorua ('Te Arawa') Lakes Restoration Project and the Lake Taupo Restoration Project they tend to operate within reasonably prescribed limits, or in other words within formalised legal and administrative frameworks. In some instances (Opuha Water Partnership and the Fiordland Marine Guardians) they operate in accordance with their own individualised management regimes but within the bounds of formal administrative frameworks. In doing this, they have successfully managed some of the difficult trade-offs and limit-setting, along with simultaneously achieving conservation and economic growth objectives.

We are starting to gain a deeper understanding of the incentives and the socio-political contexts which underpin and drive these locally-based institutions. Social capital, strong leadership and resourcing are important factors. Many are vulnerable and face ongoing socio-political and cultural challenges. We are also starting to look at the issues associated with these self-governing institutions particularly in terms of their implications for our current policy regime. These include capture, Treaty issues, participatory instead of representative democracy, and resourcing and capability.

It is an open question as to how we can encourage this sort of institutional innovation here in New Zealand. Certainly, collective institutions are not a panacea for increasing resource scarcity. But they offer flexibility and a means of internalising decision making that may fit well with the pragmatic nature of New Zealand people and our willingness to adapt as circumstances change.

#### Conclusion

In conclusion, there are three things I would like to leave you with concerning the nature of the problem.

New Zealand, like the rest of the world, is facing increasing scarcity of

## We are starting to gain a deeper understanding of the incentives and the socio-political contexts which underpin and drive these locally-based institutions.

have some attractive features: institutions which are adaptable, have the ability to accommodate trade-offs, and which rely on reciprocity and trust.

Ostrom's empirical research agenda grew out of a critique of emerging theory around collective action. Hardin's tragedy of the commons is probably the most familiar. Hardin delivered a pessimistic outlook for collective action, inferring that rational self-interested individuals will, by nature, pursue self-interest to their own and society's detriment. Ostrom has demonstrated, through a vast collection of empirical research, that many self-governing institutions have stood the test of time in providing flexible management of common pool resources. They also provide a successful means of limit-setting. These self-organised institutions can internalise decision making, therefore solving the political economy problems, such as making difficult trade-offs. The longstanding success of these collective institutions has led the ministry to

\$37 million. The Joint Committee and Protection Trust comprises a mix of government, iwi and community representatives tasked with reducing nitrogen from the Lake Taupo catchment by 20%. The farm-to-forestry deals aimed at reducing the amount of nitrogen in the lake have leveraged the ETS in providing incentives for landowners to improve their practice.

The Rotorua ('Te Arawa') Lakes Restoration Programme is another institution involving the clean-up of, in this case, the Rotorua lakes. A memorandum of understanding between the Crown and the Rotorua Lakes Strategy Group was signed to formally establish a working relationship between the parties involved. The first major project carried out under this programme was the Ohau diversion, a major engineering project to divert flows from Lake Rotorua via Lake Rotoiti into the Kaituna river. This collective institutional approach has proved successful in securing funding (\$144 million, half from central

natural resources; and looking ahead, our resource management regime will be subject to greater complexity and uncertainty.

Second, formal and administrative resource management institutions will

continue to struggle in this changing context. To be successful we will need new and flexible institutions to break out of today's constrained environment.

Thirdly, we need a long-term policy view – one that looks 99 years out – to

ensure that our institutions not only can solve the problems of today, but are resilient to deal with the unknown challenges ahead of us.

## References

Eastin, J., R. Grundmann, and A. Prakash (2010) 'The two limits debates: "limits to growth" and climate change', in *Futures*, 43, February, pp.16-26

McKinsey & Co (2009) *Charting our Water Future: economic frameworks to inform decision-making*, report prepared with the support and participation of the Water Resources Group

Meadows, D., D. Meadows, J. Randers, and W. Behrens (1972) *The Limits to Growth: a report for the Club of Rome's project on the predicament of mankind*, New York: Potomac Associates/Universe Books

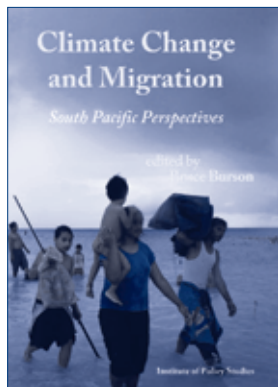
North, D (1990) *Institutions, Institutional Change and Economic Performance*, Cambridge: Cambridge University Press

OECD (2011) *Towards Green Growth*, Paris: OECD

Revena, C. (2000) *Will there be enough water? The 2050 project*, EarthTrends

UNEP (2011) *Towards a Green Economy: pathways to sustainable development and poverty eradication (a synthesis for policy makers)*, United Nations Environment Programme

## Recent Publications



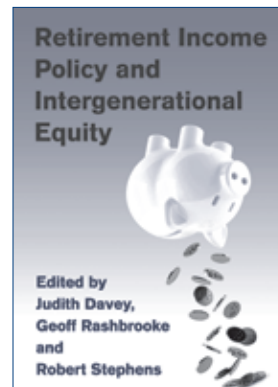
### Climate Change And Migration

Edited by  
Bruce Burson

Many South Pacific island states are vulnerable to the impacts of climate change. Indeed, some are already experiencing population movement due to environmental events and processes likely to be exacerbated by future climate change. Yet others are at risk of disappearing altogether over the coming century and beyond. The potential for climate change to generate population movement over the coming decades, therefore, raises substantial domestic and international policy challenges. This edited volume is the result of a conference held in Wellington in July 2009 that examined these and related issues. Drawing on a range of perspectives, this volume identifies concepts, frameworks, and possible policy responses to deal effectively with what may become one of the greatest humanitarian challenges of the 21st century.

Bruce Burson is a human rights lawyer specialising in refugee and migration law and policy. He was the principal conference organiser on behalf of the Institute of Policy Studies.

Publication July 2010: Format A5 Paperback, pp 184  
ISBN 978-1-877347-40-5 Price - \$27.60 (including P&P within New Zealand)



### Retirement Income Policy and Intergenerational Equity

Edited by  
Judith Davey,  
Geoff Rashbrooke and  
Robert Stephens

Population ageing is widely recognised as a major issue throughout the world. A crucial implication of ageing is its impact on retirement income policy. Having a reliable income in retirement or being able to look forward to a comfortable standard of living is important for everyone. It is not just a concern for older or even middle-aged people.

Retirement income policy raises questions of fairness and intergenerational equity. Whether a tax-funded pension system is sustainable depends on the balance between the number of recipients and the number of taxpayers who can contribute to it. If the financial support of pensioners is indeed a 'burden', then how could that fiscal burden be shared between current and future taxpayers, and pension recipients?

These and related issues are discussed in *Retirement Income Policy and Intergenerational Equity* in a series of papers from a wide range of perspectives. These papers were originally presented at a conference run by the Institute of Policy Studies, with the support of the Retirement Commissioner, in July 2010.

Publication Date: December 2010: B5 Paperback, pp 200  
ISBN 978-1-877347-42-9 – IPS/PUB/170 Price - \$35 (including P&P within New Zealand)

Place your order by email, phone, fax or mail to Institute of Policy Studies, Victoria University of Wellington  
Email [ips@vuw.ac.nz](mailto:ips@vuw.ac.nz), Telephone +64 4 463 5307, PO Box 600, Wellington, New Zealand.  
An invoice will be issued with your order.

Michael Mintrom

# Policy Advice and the Pursuit of Public Value

High-quality policy advice is an essential component of effective modern government. At its best, policy advice draws on the appropriate analysis of sound evidence to indicate directions for government action. At a more mundane level, policy advice in the form of situational analysis is required by Cabinet ministers to keep them abreast of developments within the purview of their respective portfolios. When informed by programme evaluation, policy advice can tell us whether current policies are delivering the valued outcomes that were anticipated when those policies were first adopted.

This article considers the recommendations of the committee appointed by the government to review expenditure on policy advice, chaired by former Treasury secretary Graham Scott. The committee's report, *Improving the Quality and Value of Policy Advice*, was delivered to the government in December 2010 (*Review of Policy Expenditure and Advice*, 2010). It gives an excellent overview of the current production of policy advice in

New Zealand. It also notes unevenness in the quality and relevance of some of the policy advice being supplied. The committee offered useful suggestions for how such problems might be addressed. The government released the committee's report in April 2011, and announced at the same time how it intended to respond. Unfortunately, the response does not offer much confidence that the report's best insights will guide future practice. Ironically, the public service preoccupation with process and risk-management criticised in the report infuses the government's response to it.

At one level, the work of Scott and his committee colleagues is commendable. They addressed concerns raised in their

terms of reference and they respected political sensitivities. At another level, the report is deeply disappointing. In terms of addressing current problems in policy advising in New Zealand it does not go far enough. To set the scene for transformative change, the committee would have to have acknowledged an awkward truth: that is, that politicians don't think like policy analysts.

Were the recommendations of *Improving the Quality and Value of Policy Advice* followed to the letter, it is doubtful they would contribute to better government management in New Zealand. Politicians need expert help to process the policy advice they receive. They also require expert help to convert

Michael Mintrom is an associate professor in the Political Studies Department at the University of Auckland. He recently chaired the Taskforce on Early Childhood Education. His books include *Contemporary Policy Analysis* (Oxford University Press, 2011) and *People Skills for Policy Analysts* (Georgetown University Press, 2003).



insights from analytical work into material they can use to nudge public opinion and build coalitions supportive of policy change (Sabatier, 1993; Thaler and Sunstein, 2008). In the world of policy analysis, technical excellence surely matters, but sensitivity to the concerns of the audience for policy advice is equally important. The public value of high-quality policy advice can be realised only when the recipients of that advice act on it.

New Zealand desperately needs informed government leaders who have the capability to engage in public discussion about policy dilemmas, and build guiding coalitions to make change happen (Forester, 1999; Heifetz, 1994; Kotter, 1996). Informed and influential government leaders neither emerge at random nor display inherently superior abilities than less effective politicians. Informed and influential leaders are created in the job (Mintrom, 2000; Rabe, 2004; Weiss, 1992). Effective policy advising represents a manageable and crucial catalyst to that creation. Policy analysts could and should do much more to ensure they are giving politicians the services that they need to perform as policy leaders and agents of transformative change. Regrettably, this point is not given the prominence it deserves in the committee's report. As such, an opportunity to significantly lift the public value of policy advising in New Zealand may have been missed.

#### **Background**

When John Key's National-led coalition government was formed in 2008, the confidence and supply agreement between the National Party and ACT made provision for a series of taskforces to be established 'to undertake fundamental reviews of all base government spending in identified sectors'. In August 2010 the government announced a review of expenditure on policy advice, to be chaired by Graham Scott, a former secretary to the Treasury and internationally-respected consultant on public sector management. Among other things, the terms of reference for the review reflected a hunch that much spending on policy advice may represent

poor value for money. The 'problem definition' statement observed that: 'Total government expenditure on policy advice has grown significantly in recent years. Between 2003 and 2010, expenditure is estimated to have increased in nominal terms by 70%' (Minister of Finance et al., 2010, p.1). It is understood that about \$520 million was spent on policy advice in 2003 and that the figure had jumped to \$880 million by 2008. In announcing the review, Finance Minister Bill English said that 'The amount spent on policy advice is now nearly three quarters of the Government's total annual police budget and it almost matches our annual spending on social housing'. A strong

development. They also found that policy advice expenditure is generally not well planned, managed and monitored. They noted that neither central agencies – the Department of the Prime Minister and Cabinet, the State Services Commission and the Treasury – nor most other agencies have focused attention on the value for money of policy advice, at least for the past five years. While the committee did not say it, clearly there is a profound need in the public service for more project management of policy work. Bringing project management to bear would increase the likelihood of work being produced on time, on budget and at agreed levels of quality (Austin,

### **When John Key's National-led coalition government was formed in 2008, the confidence and supply agreement between the National Party and ACT made provision for a series of taskforces to be established 'to undertake fundamental reviews of all base government spending in identified sectors'.**

implication of the government's press release was that savings could be made by eliminating a load of fluff work. Those savings could be used to support the government's 'drive to deliver better frontline public services' (English, 2010).

#### **The committee's findings**

The committee built a knowledge base on New Zealand's policy advising practices using several sources. They included a survey of government agencies, engagement in a series of workshops and seminars with senior policy analysts and managers, interviews with selected past and current Cabinet ministers, and use of information from the New Zealand Institute for Economic Research's ongoing quality assessments of government policy reports. With respect to the cost of policy advice, the committee found wide variation across agencies in the efficiency of policy advice

2004; Heerkens, 2002). With respect to the question of whether policy advice is being produced that is appropriately aligned with government priorities, the committee again found problems. Agencies reported that about 70% of their policy advising activities focused on ministerial priorities. In addition, many agencies seemed unable or unwilling to draw clear linkages between their policy work programmes and the wider government policy agenda. With respect to the quality of the policy advice being generated, the committee found a mixed bag. Despite some pockets of good practice, quality appears to vary widely across agencies.

The report contains a number of very interesting findings. First, the analysis produced for the committee revealed no relationship between how much money agencies spend on generating advice and the quality of their advice (p.40). In terms

of policy advice quality, what seems to matter most is the culture created and reinforced by leaders. Such cultures were found in some policy shops, both large and small. However, just as it remains difficult to measure the determinants of productivity in firms (Syverson, 2011), the committee was unable to distinguish the influence of specific leadership practices

analysts who then have to revise the work on the basis of the report back from senior managers but have had no opportunity to clarify points with the minister. (p.44)

Efforts to 'speak truth to power' (Wildavsky, 1979) must become exceedingly difficult under these conditions.

## Getting people to think differently about their world is hard, especially when many people seem to have an inbuilt mistrust of politicians.

from the attributes and operating styles of specific individual leaders. Of course, that difference matters when it comes to considering how to raise the quality of policy work across the system.

Second, there appear to be major gaps in policy advice leadership at the highest levels in the public service. At present, over 40% of chief executives lack experience in the management of policy advice. The committee was told by a source that, in recent years, 'multiple candidates for chief executive and deputy chief executive positions were unable to address substantive policy questions relating to the relevant sector in job interviews' (p.41). This finding is deeply troubling and goes some way to explaining why Cabinet ministers now and then seem to lack substantial knowledge of important aspects of their portfolios. The committee noted that there is often too much distance between analysts and ministers:

Ministers, policy advice staff and external observers considered that the senior officials who predominantly engage with ministers often do not seem to know the content of papers or the substance of the advice as well as the analysts who wrote the advice, who are not present at the meetings with ministers. This is frustrating both for the minister, whose questions are not fully answered, and for the

Third, there appears to be an obsession with process and risk management in the public sector which means scarce resources are not being effectively allocated. The committee offered the example of a letter that required eight people to approve it before it left the building. Significant improvements in the quality of work and the efficiency with which it is produced could, in the view of the committee, be secured through the systematic diffusion of best practices across agencies.

Looking to the future, the committee recommended more effort from central agencies to focus analytical attention on pressing problems. The committee also recommended major improvements in the infrastructure that supports policy advice. They noted that lack of appropriate data and other evidence around problems and policies serves to inhibit the production of high-quality policy advice. They also noted the lack of good evaluation work being performed in the public service. The committee said more evaluation needs to be undertaken as part of the general process of improving the quality of policy analysis and advice. They also recommended that a lot more emphasis be given to acquiring appropriate training for policy staff. 'There is considerable scope to build policy advice capabilities at all levels and in all policy advice roles' (p.52). They suggested a range of ways

to build capacity and expert networks in and around the public service. In conclusion, they noted:

There is no lack of passion in some places to make the system better, but this will require energy and attention... . Amongst officials, the rest must catch up with the best and agencies must individually and collectively hone their skills so as to make a powerful contribution to policy programmes that resolve pressing national issues and to do routine policy work efficiently and without clutter. (p.59)

### Policy advice and public value

Scott and his colleagues consistently assume that we can know good policy advice when we see it. For people who spend all their time thinking about public policy, there is some truth to that. But the question of what makes good policy advice is inherently difficult to answer. That is because, ultimately, we can only judge the value of policy advice after it has been transformed into policy changes. It is a classic post-experience good (Weimer and Vining, 2005). Mark H. Moore offered help on judging the value of policy advice through his discussion of public value. According to Moore, public managers can create value by establishing and operating institutions that meet citizens' (and their representatives') desires for properly ordered and productive public institutions. Significantly for us, Moore suggested that value is 'rooted in the desire and perceptions of individuals' and, so, 'public sector managers must satisfy some kinds of desires and operate in accord with some kinds of perceptions' (Moore, 1995, p.52). As an intermediate step towards creating value, policy advice must be useful to those who could act on it. Political leaders need to be able to transform policy advice into language that resonates with the public, and that helps to shape people's desires and perceptions. Nothing about this is easy (Nisbett and Ross, 1980; Quinn, 2000; Schön and Rein, 1994; Stone, 2002). Getting people to think differently about their world is hard, especially when many people seem to have an inbuilt mistrust of politicians.

For policy advice to create public value, it must be developed in such a way that it is able to shape public desires and perceptions. In New Zealand we have long sought to separate out the work of policy advisers from the work of politicians. Yet efforts to create public value through policy advice would be strengthened through removal of this artificial separation. Such a statement might raise alarm bells with many people who believe in bureaucratic neutrality. Rightly, people worry that a 'politicised' public service will introduce many new problems, and that much of what makes for good policy advising practice would be lost. However, I am confident that significant value could be generated for New Zealand through efforts to change the rules that govern relations between elected politicians and their advisers. My point here is to raise the possibility, and suggest directions for fruitful next steps in thinking about policy advice-giving in New Zealand.

In his edited volume exploring factors shaping economic transformations, John Williamson (1994) drew insights from many countries, including New Zealand. Among other things, Williamson emphasised the importance of skilled advisers who could work effectively with elected politicians to shape public perceptions of problems and build a popular desire for change. There is no evidence that bureaucracies must necessarily become politicised in order for this kind of teamwork between advisers and politicians to occur. Others have explored at more length the ways that those seeking to create major policy change work in teams to build coalitions of supporters, shape perceptions of problems, and achieve public support for their efforts (Levin and Sanger, 1994; Mintrom, 2000; Mintrom and Norman, 2009; Smith, 1991). A common thread in these explorations is the way that entrepreneurial actors seek to build teams of supporters from across various sectors of society, and leverage the skills and situated knowledge that these various players bring to the change initiative. In the New Zealand context, it is interesting to consider how it is that the New Zealand Institute, when it was

led by David Skilling, was able – within a short space of time – to generate popular support among policy elites, politicians, sector groups and citizens for several major policy initiatives. In the United States, entities like the Brookings Institution and the American Enterprise Institute do much to generate sound policy advice. Operating as revolving talent pools, these organisations regularly bring diverse groups of people together

for various lengths of time to discuss pressing public issues and how they might be effectively addressed. My sense is that there is a significant gap to be filled in New Zealand by local equivalents of these organisations. As such, we currently lack spaces for people with relevant knowledge from the public service, academe, the private sector and voluntary organisations to discuss pressing national issues and hold smart, focused discussions about how they might be effectively addressed. Such entities could do much to help our political leaders to devise effective plans for securing the social and economic transformations we need.

#### **Conclusion**

New Zealand's economy is not in good shape and a number of social processes – including the aging of the population – suggest major policy action is urgently needed. Yet successive New Zealand governments have only tinkered with inherited policy settings. They have not engaged in the kind of serious policy reforms needed to promote productive social and economic transformations.

It would be possible to redesign the current system of policy advising so that policy work is able to drive big transformations. But we are a long way from where we need to be. The recommendations made by the Committee to Review Expenditure on Policy Advice will not get us there.

Right now, New Zealand needs politicians who are prepared to offer serious, gutsy political leadership. My argument is that the current practices of our political leaders are driven by their context. Those practices will change only when the policy advising system is transformed. Given that, ways must be found to help elected politicians fully grasp the policy problems New Zealand faces. Equally important, policy advisers

## **Right now, New Zealand needs politicians who are prepared to offer serious, gutsy political leadership.**

must be prepared to offer insights, information and strategies that will help those politicians to better engage the public in discussions of big policy issues and options for addressing them. The possibilities for creating serious public value through policy advice will emerge when the truth is accepted that policy development is inherently political work.

To their credit, Scott and his committee colleagues spoke back to the powers that appointed them. Late in their report they observed: 'Leadership by ministers is also crucial. Generally the system provides them with what they ask for ... . A careless or inept minister can debilitate the policy advice capability of his or her agency' (pp.57-8). They noted the mistake in the terms of reference that indicated much higher growth in spending on policy advice than had actually occurred. They also remained silent on the question of whether some of the current spending on policy advice would be better allocated to front-line services. Finally, they emphasised the value of big-picture, strategic policy advice and proposed a mechanism for normalising it within the advice-giving system. Perhaps it was enough, this time around, for a review of policy advice to focus on problems at the heart of the traditional institutions of policy advising, rather than tackle the broader rules of engagement themselves. But at some point that must happen.

Transformational policy change requires policy advisers to do much more than write reports and give oral briefings to ministers. Of course, getting the technical basics of policy analysis right is paramount in any system. That is the stuff that Scott and his colleagues mostly focused on. By adopting the review committee's recommendations, there is no doubt the government could improve the overall quality of current reporting and significantly reduce quality differences across agencies. Further, the review suggested very useful directions for getting agencies to work together on difficult problems and for ad hoc teams to be assembled to work on large, complex policy challenges. But none of this will take policy advising in New Zealand to

the level where it could seriously support the kinds of major policy actions required to tackle the tough social and economic problems that have been around for a long time and that won't solve themselves.

The Review of Expenditure on Policy Advice arose out of a confidence and supply agreement among coalition partners. What the signatories to that agreement failed to see – or chose not to confront – was that their own unwillingness to tackle major policy problems is the fundamental brake on our progress as a nation. For elected politicians, it will almost always seem more appealing to engage in some incremental policy reforms than to confront broader social priorities and force them to change. But big, strategic policy thinking is

needed. Graham Scott and his colleagues have proposed a way to organise policy analysts so that they can start doing it. As such, they have focused on the traditional supply side of policy work. What we need now is serious focus on the demand side. How can policy advisers help politicians do their political work? Getting some free and frank answers to that question, and responding accordingly, would be useful indeed. Maybe then our political leaders could develop the confidence and skills to engage with big, strategic policy thinking, bring the New Zealand public into the conversation, and drive the kind of policy changes that will deliver serious public value. Scott and his colleagues have produced terrific yeoman work, and opened space for another, bolder review.

## References

- Austin, R.D. (2004) *Managing Projects Large and Small*, Boston, MA: Harvard Business School Press
- English, B. (2010) Press release, 3 August
- Forester, J. (1999) *The Deliberative Practitioner: encouraging participatory planning processes*, Cambridge, Mass.: MIT Press
- Heerkens, G.R. (2002) *Project Management*, New York: McGraw-Hill
- Heifetz, R.A. (1994) *Leadership Without Easy Answers*, Cambridge, Mass.: Belknap Press of Harvard University Press
- Kotter, J.P. (1996) *Leading Change*, Boston, MA: Harvard Business School Press
- Levin, M.A. and M.B. Sanger (1994) *Making Government Work: how entrepreneurial executives turn bright ideas into real results*, San Francisco: Jossey-Bass
- Minister of Finance, Minister of State Services and Minister for Regulatory Reform (2010) 'Terms of the reference of the Review of Policy Expenditure and Advice', August, <http://www.treasury.govt.nz/statesector/policyexpenditurereview>
- Mintrom, M. (2000) *Policy Entrepreneurs and School Choice*, Washington, DC: Georgetown University Press
- Mintrom, M. and P. Norman (2009) 'Policy entrepreneurship and policy change', *Policy Studies Journal*, 37 (4), pp.649-67
- Moore, M.H. (1995) *Creating Public Value: strategic management in government*, Cambridge, Mass.: Harvard University Press
- Nisbett, R. and L. Ross (1980) *Human Inference: strategies and shortcomings of social judgment*, Englewood Cliffs, NJ: Prentice-Hall
- Quinn, R.E. (2000) *Change the World: how ordinary people can accomplish extraordinary results*, San Francisco: Jossey-Bass
- Rabe, B.G. (2004) *Statehouse and Greenhouse: the stealth politics of American climate change policy*, Washington, DC: Brookings Institution Press
- Review of Policy Expenditure and Advice (2010) *Improving the Quality and Value of Policy Advice: findings of the committee appointed by the government to review expenditure on advice*, December
- Sabatier, P.A. (1993) 'Policy change and learning: an advocacy coalition approach', in P.A. Sabatier (ed.), *Theories of the Policy Process*, Boulder, CO: Westview Press
- Schön, D.A. and M. Rein (1994) *Frame Reflection: toward the resolution of intractable policy controversies*, New York: Basic Books
- Smith, J.A. (1991) *The Idea Brokers: think tanks and the rise of the new policy elite*, New York: The Free Press
- Stone, D. (2002) *Policy Paradox: the art of political decision making*, revised edn, New York: W.W. Norton
- Syverson, C. (2011) 'What determines productivity?', *Journal of Economic Literature*, 49, pp.326-65
- Thaler, R.H. and C.R. Sunstein (2008) *Nudge: improving decisions about health, wealth, and happiness*, New Haven, CT: Yale University Press
- Weimer, D.L. and A.R. Vining (2005) *Policy Analysis: concepts and practice*, Upper Saddle River, NJ: Pearson PrenticeHall
- Weiss, C.H. (1980) 'Knowledge creep and decision accretion', *Science Communication*, 1, pp.381-404
- Weiss, C.H. (1992) *Organizations for Policy Analysis: helping government think*, Newbury Park: Sage
- Wildavsky, A. (1979) *Speaking Truth to Power: the art and craft of policy analysis*, Boston: Little-Brown
- Williamson, J. (ed.) (1994) *The Political Economy of Policy Reform*, Washington, DC: Institute for International Economics

Ben Gleisner, Mary Llewellyn-Fowler  
and Fiona McAlister

# Broadening Our Understanding of Living Standards Treasury's New Policy Framework<sup>1</sup>

Treasury's vision is to be a world-class Treasury working for higher living standards for New Zealanders. In performing its role as the government's adviser on economic, fiscal and regulatory issues, Treasury has focused on how improved economic performance can enhance living standards.

However, Treasury is also a central government agency and has oversight over all significant policy issues across the state sector. As such, it acknowledges that living standards are broader than income alone, and are determined by a wide range of material and non-material factors.

In order to ensure that the term living standards is understood and applied consistently across all Treasury advice, Treasury has developed a descriptive framework to help guide policy analysis. In developing the framework, it has drawn on the substantial theoretical and empirical literature on defining and measuring 'progress'.

The framework recognises the importance of looking beyond economic measures in assessing living standards, and in this is similar to thinking undertaken by the OECD (2010a–d, 2011a, 2011b), the United States Treasury (2011), the

International Monetary Fund (2011) and the Australian Treasury's Wellbeing Framework (2004).

## Treasury's Living Standards Framework

Treasury's Living Standards Framework incorporates a broad range of material and non-material factors from which individuals derive satisfaction: what economists call 'utility'. It also recognises that utility is not the only value relevant to living standards. Individual rights, freedoms and capabilities contribute to overall satisfaction, but also have independent value.

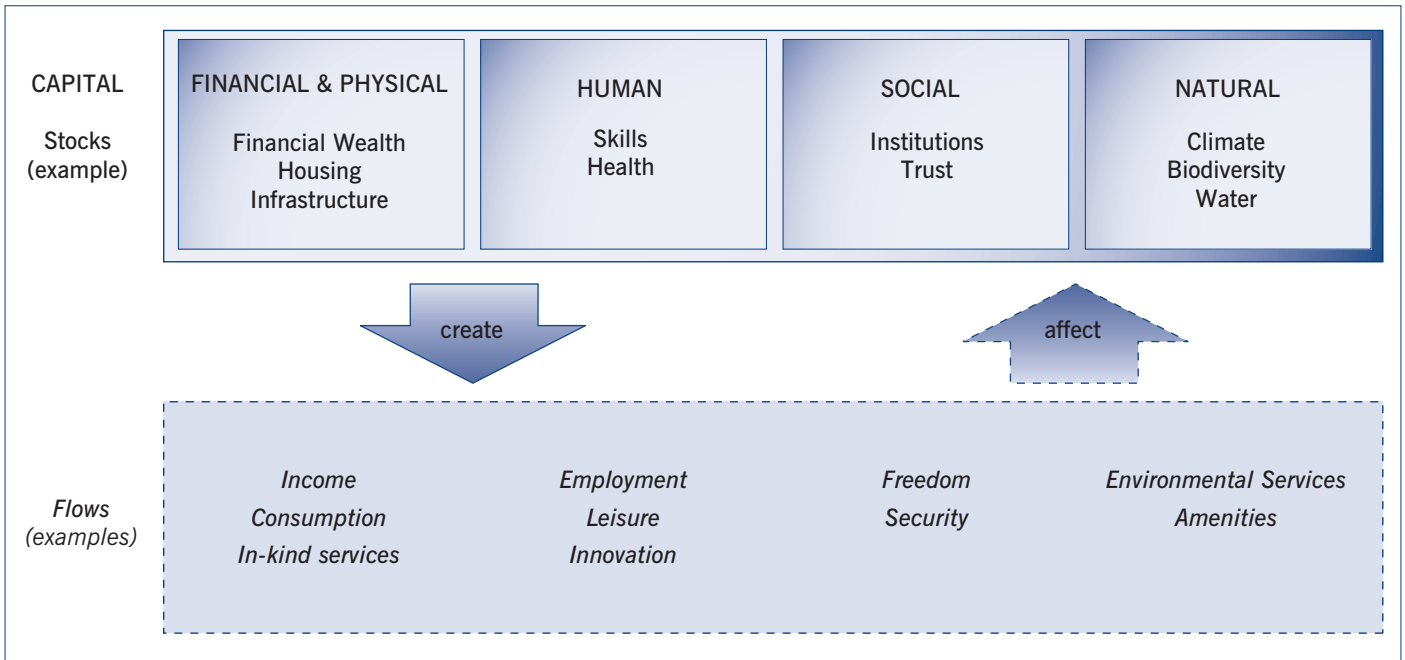
While the overall level of living standards in New Zealand is important, Treasury also recognises that the living standards of each individual New Zealander are important. Therefore, it looks not only at aggregate living standards but also at their distribution across the population.

The sustainability of living standards for both present and future generations is a key part of the framework. This acknowledges Treasury's stewardship role of ensuring that the next generation is endowed with 'whatever it takes to achieve a standard of living at least as good as our own and to look after their next generation similarly' (Solow, 1992,

---

Ben Gleisner is a Senior Analyst in the Labour Markets and Welfare team at the Treasury  
Fiona McAlister is an Analyst in the Health and Housing team at the Treasury  
Mary Llewellyn-Fowler was previously an Analyst in the Health and Housing team at the Treasury

Figure 1: Treasury's Living Standards Framework



p.15). Finally, the framework recognises that people's subjective assessment of their own standard of living is important, and it therefore draws on insights from the subjective well-being, or 'happiness', literature.

The framework recognises the following five key elements:

- that there is a broad range of material and non-material determinants of living standards (beyond income and GDP);
- that freedoms, rights and capabilities are important for living standards;
- that the distribution of living standards across different groups in society is an ethical concern for the public, and a political one for governments. It also has efficiency implications, and empirically-based economic analysis can provide useful insights;
- that the sustainability of living standards over time is central to ensuring that improvements in living standards are permanent, with dynamic analysis of policy needed to weigh up short- and long-term costs and benefits; and
- that measuring living standards directly using self-assessed subjective measures of well-being provides a useful cross-check of what is important for living standards.

The framework describes a broad understanding of living standards, which

is appropriate given Treasury's role at the centre of policy making in New Zealand. While broad, however, the framework is not intended to be comprehensive or prescriptive, and there may be important values that are not included.

**A capital stocks and flows approach**

A 'capital stocks and flows' approach is the basis of the framework. This approach borrows the concept of capital from economics, traditionally used to refer to assets such as buildings and machinery which support a future flow of income. The notion of an asset that can be built up for future use has subsequently been broadened to include natural (OECD, 2001a) and human capital (Schultz, 1961; Becker, 1964). Recently, the importance of social capital has been recognised (Coleman, 1986), and cultural aspects are sometimes included (Bourdieu, 1986).

The following four types of capital are integral to current and future living standards:

- financial and physical capital;
- human capital;
- social capital; and
- natural capital.

Cultural aspects are included in human, social and natural capital. These four capital stocks make up the national wealth of New Zealand and create flows of goods and services that contribute to the living standards of New Zealanders

(see Figure 1). Changes in one stock or flow can have an impact on others. For example, increased investment in skills could increase future flows of employment and income. However, this investment could reduce the financial wealth of government or require a reduction in other government-provided services. The distribution of these effects may differ across the population and through time.

The framework is intended to be used as an input into policy development processes within Treasury, rather than a decision-making tool in its own right. It can be used by government advisers to illustrate the potential trade-offs and synergies that exist within public policy issues, as well as to inform ministers of distributional outcomes.

**1. Financial/physical capital**

Physical capital includes fixed assets in production processes, both tangible (e.g. machinery) or intangible (e.g. intellectual property). Financial capital includes equities, assets and liabilities that have a degree of liquidity, such as bank deposits, debt and government bonds (Statistics New Zealand, 2009).

The level of financial and physical capital (economic wealth) and associated income flows are important determinants of material standards of living, both now and over time (Stiglitz et al., 2009). Supplemented by government-provided

benefits, wealth and income determine an individual's or household's ability to consume market-produced goods and services.

Several factors are included in the framework as part of financial/physical capital. The first of these is the stock of financial wealth, which provides people with opportunities to consume and to invest, and the financial security to take risks. Wealth can be consumed by running down assets or increasing debt, or it can be invested to generate future income flows. Increased savings will also add to wealth, and will allow higher future consumption, whereas increased debt levels represent higher consumption today which must be paid for by reduced consumption in the future. Further, high public and private (national) indebtedness may increase vulnerabilities to future economic shocks, which can undermine incomes and require costly government responses. Measures of wealth which include savings and debt levels are therefore 'an important indicator of the sustainability of consumption' (Stiglitz et al., 2009, p.29).

The stock of physical assets such as infrastructure and housing is also an important component of a household's or country's wealth. Well-functioning infrastructure, including roads, airports and telecommunications systems, helps enable economic growth and social cohesion (New Zealand Government, 2010). Adequate housing in particular is recognised as being an important contributor to other factors that underpin living standards, such as health (Howden-Chapman et al., 2007).

Income is a flow generated from economic production, wages and investment. Income is critical for material living standards because of its direct link to consumption. Not having adequate income is a key characteristic of poverty and social exclusion (Sen, 1999). While income has traditionally been measured on a per-person basis, recent literature emphasises the importance of measuring it at the household level (Stiglitz et al., 2009).

The government provides a variety of income transfers, such as the unemployment benefit and New Zealand

superannuation, and in-kind services such as subsidised health care, educational services and the provision of infrastructure. These services directly influence the level of consumption that a household can sustain. The sustainability of income transfers and in-kind services is related to the fiscal position of the government, and the same principle of sustainable consumption that applies at the household level also applies to the government and the economy as a whole. As the government is ultimately owned by households, the wealth of households can be effectively increased or reduced by

the fiscal position of government.

Income measures should be considered alongside measures of consumption and wealth to provide a fuller picture of consumption possibilities. Income can differ over time without compromising a person's consumption possibilities, as long as their longer-term income expectations, or permanent income, do not change (Friedman, 1957). While permanently low income levels are likely to have a significant negative effect on living standards, short-term decreases in income may not.

Income is most commonly generated through employment. Employment affects living standards in two key ways. Firstly, it increases income, therefore directly increasing living standards. Secondly, there are additional living-standard benefits from employment that are significant. Job loss and the resulting drop in income and experience of unemployment – particularly long-term unemployment – have a detrimental effect on personal well-being beyond the loss of income alone (Layard, 2005; Welfare Working Group, 2010). Paid

employment also has a number of benefits from a national perspective. It raises economic output and income per capita, and improves the government's fiscal position by providing tax revenue and reducing the demand for income and in-kind transfers.

Unpaid employment produces many benefits. Much unpaid work involves the provision of services that would otherwise need to be paid for, such as household tasks, cooking, cleaning and caring for children. These tasks are of substantial economic value regardless of whether money changes hands or not. Unpaid

**Human capital ... was originally used to refer to personal attributes that produce economic value, but human capital can also be defined as the broader personal attributes and capabilities that contribute to a person's happiness and life satisfaction.**

work can also have significant well-being benefits. For example, volunteering in the community improves the well-being of the volunteer as well as of those they are assisting, particularly when it involves engaging with other people.

While employment generates a raft of benefits, there is also a trade-off between work and the amount of leisure time people have. The subjective well-being literature indicates that the amount of leisure time people have and how they spend it is important for living standards (Layard, 2005). Leisure time spent doing recreational activities, building social relationships and engaging in community activities is particularly beneficial for personal health and social cohesion (OECD, 2009).

## *2. Human capital*

Financial/physical capital is underpinned by the capabilities of people to participate productively in society and in the economy. This next section discusses the national resource which is embodied in our people.

Human capital is the stock of 'knowledge, skills, competencies and attributes embodied in individuals' (OECD, 2001b, p.18). The term was originally used to refer to personal attributes that produce economic value, but human capital can also be defined as the broader personal attributes and capabilities that contribute to a person's happiness and life satisfaction. David and Lopez (2001) distinguish between human

The flow of personal well-being and social benefits from human capital accrue both to the individual receiving the education and to the community in which they live. For example, higher levels of education are associated with lower levels of crime (Wolfe and Haveman, 2001). Investment in education also generates economic benefits for people other than the individual making the investment (positive externalities), which provides

should take into account both morbidity – impairment of functioning, which is a measure of quality – and mortality, which is a measure of quantity (Stiglitz et al., 2009). Some measures, such as 'quality adjusted life years', try to combine these two elements (Ministry of Health and Statistics New Zealand, 2009).

### 3. *Social capital*

As already noted, human capital is determined in part by an individual's inherited genes and the family environment in which they grow up. The wider social and political environment also has important impacts on human capital and other aspects of living standards.

The World Bank defines social capital as 'the degree of trust in a society and the ability of people to work together for common purposes' (World Bank, 2006, p.xviii). Other definitions include networks, norms, and institutions such as the rule of law and transparency of political processes (Statistics New Zealand, 2009). Treasury has previously emphasised the importance of social capital for living standards: 'when there are high levels of participation, interconnection and cohesion, there are correspondingly high levels of social capability; that is, a high level of the ability of various interests in society to co-operate towards common goals' (Treasury, 2001a, p.6). Social capital is built on co-operation and trust at an institutional and interpersonal level, effective institutions, and a strong sense of culture and social cohesion.

Effective public institutions underpin social capital, as they provide the framework within which the society and the economy function, and set the tenor for interpersonal interaction (Treasury, 2001a). Institutions affect living standards directly through opportunities for democratic participation and the protection of important individual freedoms, and indirectly through their impact on the functioning of society and the economy.

Trust is an important element of social capital, which is strengthened when communities have shared values, low levels of antisocial behaviour and confidence in public institutions. High levels of trust can be developed through

## **Social capital is built on co-operation and trust at an institutional and interpersonal level, effective institutions, and a strong sense of culture and social cohesion.**

capital's tangible aspects, such as health and longevity, and intangible ones, such as cognitive and non-cognitive skills.

Human capital, particularly in the sense of cognitive skills, is widely recognised in labour economics and growth theory as one of the key factors underpinning economic production and the employability of individuals (Hanushek and Woessmann, 2008). Empirical studies confirm that measures of cognitive skills account for a significant part of the variance in labour market outcomes between individuals. For example, across developed countries an extra year of education is associated with increased individual earnings of between 5% and 15% (Krueger and Lindahl, 2000). Recent economic studies suggest that non-cognitive skills, such as personality and behavioural traits, also explain a significant proportion of the variance in individual outcomes (Bowles et al., 2001).

Skills, cognitive and non-cognitive, are important for wider well-being and for avoiding antisocial behaviour, independent of their effects on earnings and productivity. For example, higher levels of education are associated with higher social and political participation, less exclusion, higher trust and higher social cohesion (Putnam, 2000).

an economic justification for public investment in education (Sianesi and Van Reenen, 2003).

Skill levels are important from a distributional perspective because of the high transmission of human capital from one generation to the next (Currie and Moretti, 2003). This transmission is sometimes described as cultural capital that can be inherited by the family passing on culture and traditions (Bourdieu, 1986).

A society's knowledge and capability to use knowledge are critical for the flow of innovation, which is an important determinant of economic growth. The OECD argues that 'in advanced industrial economies, innovation and exploitation of scientific discoveries and new technology have been the principal source of long-run economic growth.... In the future, the innovation performance of a country is likely to be even more crucial' (OECD, 2005, p.7).

In addition to skills, a person's health is integral to their experience of life and ability to participate in society. Health is an important element in most definitions of well-being at both the individual and societal level. Individuals' health underpins productivity, both now and in the future, and it is also a key contributor to their subjective well-being (Layard, 2005; Holt, 2010). Measurements of health



bonding – strong ties that emphasise a shared identity within a group such as a whānau; or bridging – weaker ties that help foster broader links and communication between separate groups (Putnam, 2000).

Rights and freedoms are an integral part of social capital and are inherently connected to an individual's relationship to the state and society. Freedom – economic, political, and personal – is one of the main factors explaining differences in life satisfaction across nations (Veenhoven, 2006). Effective public institutions and the rule of law serve to protect individual freedom, but protecting freedom may also require limitations on the state's interference in people's lives.

An important role of public institutions is to provide security from harm. There are a variety of external factors which put people's security at risk: crime, accidents, terrorism, bio-security hazards and natural disasters (Stiglitz et al., 2009). Public institutions such as the defence forces, police, courts, the prison system and civil defence should strive to enhance community safety while respecting the rights of all citizens.

Social capital exists within, and is shaped by, the cultural context. Cultural values and a sense of cultural identity, which are inherited from the previous generation and adapted by current members of the community, assist in building and transferring social capital. Cultural norms differ across groups within a society. For example, an analysis of social capital in a Māori society is likely to identify an important role for culture in establishing a sense of identity and belonging, along with other features such as the primary importance of extended family relationships (Statistics New Zealand, 2002).

#### 4. *Natural capital*

The above three sections have discussed aspects of human civilisation which contribute to our living standards. This section recognises the crucial role that the environment plays in making our way of life possible.

Natural capital refers to the earth's natural resources and systems which

support life. As such, it encompasses both non-renewable natural resources, such as land, coal, oil, gas and minerals, and conditionally-renewable resources, such as forests, fish and water (Statistics New Zealand, 2009).

Natural capital provides a flow of environmental services. For example, the natural environment absorbs waste products, up to its absorptive capacity, which would otherwise cause pollution damage and endanger people's health (WGSSD, 2008). In addition, natural capital provides services that contribute

concentrations of carbon dioxide and other greenhouse gases in the atmosphere are affecting the climate, which will have a significant impact on New Zealand's primary production sector (MFE, 2008).

As well as being crucial to sustaining life, stocks of fresh water are a key input into many of New Zealand's industries. New Zealanders are used to having an abundance of fresh water, and on average use an estimated two to three times more water per person than the inhabitants of most other OECD countries (MFE, 2008).

## **Analysis of the distribution of living standards is fundamental to good policy advice ... [and] gives ministers a more complete picture of living standards ...**

to economic activity. This is especially true in New Zealand, where the primary sector accounts directly for about 7% of GDP, while tourism, which trades off New Zealand's '100% Pure' image, accounts for another 10%. Furthermore, consumers in New Zealand and overseas are placing an increasingly high value on environmentally-friendly production, and in some markets environmental sustainability is becoming the price of entry for New Zealand's exports (Treasury, 2010).

Natural capital also provides amenity value and contributes to New Zealand's cultural identity, with both the rural and urban environments being fundamental to people's lifestyles. In addition, natural capital has a high importance for Māori as tangata whenua, with local geographical features playing an important role in narratives of community origins.

In New Zealand, stocks of natural capital, in particular the atmosphere, fresh water, soil, fish stocks and biodiversity, are of particular importance to living standards. The earth's atmosphere makes life on earth possible. It also helps determine the climate, which in turn supports primary industries. Increasing

A significant amount of New Zealand's GDP depends on the top 15 centimetres of soil, making topsoil another important input into the primary sector. Since the mid-1980s intensified land use in the agricultural sector has resulted in increasing amounts of nitrogen in the soil, which has negative effects on freshwater stocks (MFE, 2008).

Amounting to nearly 3% of GDP, the fishing industry is another important part of New Zealand's economy. However, in 2008 approximately 29% of New Zealand's assessed fish stocks were below target levels, up from 15% in 2006 (Statistics New Zealand, 2009). Biodiversity – stocks of flora and fauna – helps sustain the ecosystems that support life and provides flows of services that contribute to economic production. Protecting biodiversity is a challenge. In spite of efforts to do so, between 2002 and 2005 more native species saw a deterioration in their threat status than saw an improvement (Statistics New Zealand, 2009).

It is critical that governments efficiently allocate and properly account for the depreciation of stocks of natural capital, to ensure their sustainability and

the sustainability of the flows of services and amenities they generate.

#### **Distributional outcomes**

The discussion of the four capital stocks above illustrates the importance of considering the wide range of factors which contribute to living standards. Another critical element in the framework is the consideration of the distribution of living standards. Treasury's vision of higher living standards for New Zealanders implies a focus on both aggregate levels

towards those at the lower end of the income distribution, in particular those with long-term and multiple barriers to developing and using their human and social capital, for whom additional assistance will have the greatest impact.

Analysis of the distribution of living standards is fundamental to good policy advice. Understanding and analysing the distribution of wealth, income and other outcomes across society gives ministers a more complete picture of living standards than is gained from relying on aggregate

## **There is a growing consensus that both subjective and objective indicators are needed to measure living standards**

of living standards and their distribution across individuals and groups, both within and between generations.

When thinking about distributional outcomes, Treasury is mindful of distinguishing between normative and positive approaches. Normative approaches consider what constitutes an equitable or fair distribution of resources across society. Positive approaches, in contrast, ask what the distribution is. They also consider whether there is evidence to suggest that a particular distribution poses social or economic problems, and the effect different policy interventions may have on how living standards are distributed. Treasury takes a positive approach to distribution as opposed to a normative, value-based one. This approach is appropriate to Treasury's policy advisory role, as it allows the organisation to provide advice on the distributional priorities of the government of the day, while maintaining an apolitical position that is grounded in empirical economic analysis.

Treasury's advice on distribution has tended to emphasise the inefficiencies that result from having living standards distributed in ways that prevent some people from fully participating in the economy and society. This has led Treasury to advise targeting policy interventions

measures alone, and ensures that policy interventions are targeted to where they will have the greatest effect.

#### **Subjective well-being**

Finally, as well as considering objective measures of living standards, Treasury's Living Standards Framework is supplemented by insights from the subjective well-being literature. Subjective measures of well-being assess how well someone is living from that individual's own perspective or experience. There is a growing consensus that both subjective and objective indicators are needed to measure living standards (Stiglitz et al., 2009; OECD, 2011a, 2011b).

Subjective measures of well-being have been used in the framework primarily as a useful cross-check to ensure that the objective measures are the right ones. For example, the subjective well-being literature has reinforced the intuitive understanding that factors such as good health and employment are very important to people's lives. It has also given prominence to the importance of social connectedness, such as having strong relationships with family, friends and the community, and the distribution of living standards (Layard, 2005).

#### **Using the framework in policy advice**

The Living Standards Framework is intended to be used as an input into the policy process, rather than as a decision-making tool in itself. Its main value is in the way it encourages a broad understanding of living standards.

When applied to policy advice, the framework emphasises consideration of:

#### *Levels*

Considering aggregate levels of the factors in the framework is important because it allows Treasury to compare New Zealand's living standards with those in other countries, and to track how they are changing over time.

#### *Distribution – now and into the future*

As well as considering aggregate levels of the factors, it is important to be aware of their distribution among individuals and groups in society. This allows Treasury to provide empirically-based advice to help governments achieve their distributional priorities. Distributional outcomes need to be considered in both a static and a dynamic sense, and to take account of the long-term sustainability of living standards.

#### *Interactions*

Finally, identifying interactions among factors in the framework is important. Some of these interactions are mutually reinforcing. For example, trust leads to voluntary exchanges and good economic outcomes that in turn reinforce the original trust. However, some interactions will require complex trade-offs. Natural capital, for example, can be consumed to build up physical and financial capital, but this may not be desirable where it results in reductions in non-substitutable stocks. Other trade-offs may occur between short- and long-term outcomes, between individual and societal outcomes, or between efficiency in increasing aggregate living standards and the equity of their distribution.

Decisions about acceptable levels of factors within the framework, distributional outcomes, and trade-offs are political in nature and beyond the realm of policy advice. However, highlighting

them will ensure Treasury's advice is robust and theoretically grounded, and that governments' decisions are well-informed.

Treasury has developed the Living Standards Framework to provide a common understanding for internal policy

discussions, to improve the consistency of advice, and to be more transparent with the public about how it conceives of living standards. Treasury also hopes the framework will contribute to a wider public discussion and debate about the objectives and outcomes of public policy,

which will help New Zealand achieve a better standard of living for all.

1 This article is a shortened version of the Treasury publication *Working Towards Higher Living Standards for New Zealanders* (2011), available at <http://www.treasury.govt.nz/publications/research-policy/tp/higherlivingstandards>.

## References

- Australian Treasury (2004) *Policy Advice and Treasury's Wellbeing Framework*, Canberra: Australian Treasury
- Becker, G. (1964) *Human Capital*, New York: Colombia University Press
- Bourdieu, P. (1986) 'The forms of capital', in J.C. Richardson (ed.), *Handbook of Theory and Research for the Sociology of Education*, Westport, CT: Greenwood Publishing Group (translated from the original article published in 1983 by R. Nice)
- Bowles, S., H. Gintis and M. Osborne (2001) 'The Determinants of Earnings: a behavioral approach', *Journal of Economic Literature*, 39 (December), pp.1137-76
- Coleman, J. (1986) 'Social capital in the creation of human capital', *American Journal of Sociology*, 94, pp.95-120
- Currie, J. and E. Moretti (2003) 'Mother's education and the intergenerational transmission of human capital: evidence from college openings', *Quarterly Journal of Economics*, 118 (4), pp.1495-532
- David, P.A. and J.G.G. Lopez (2001) 'Knowledge, capabilities and human capital formation in economic growth', unpublished research report prepared for the New Zealand Treasury
- Friedman, M. (1957) 'The permanent income hypothesis: comment', *American Economic Review*, 48, pp.990-1
- Hanushek, E. A. and L. Woessmann (2008) 'The role of cognitive skills in economic development', *Journal of Economic Literature*, 46 (3), pp.607-68
- Holt, H. (2010) *Health and labour force participation*, working paper 10/03, Wellington: New Zealand Treasury
- Howden-Chapman, P., A. Matheson, J. Crane, H. Viggers, M. Cunningham, T. Blakely, et al., (2007) 'Effect of insulating existing houses on health inequality: cluster randomised study in the community', *British Medical Journal*, 334 (7591), pp.460-3
- International Monetary Fund (2011) 'IMF managing director Dominique Strauss-Kahn calls for new global approaches to post-crisis world', <http://www.imf.org/external/np/sec/pr/2011/pr11114.htm>
- Krueger, A.B. and M. Lindahl (2000) *Education for Growth, Why and for Whom*, NBER working paper 7591, Cambridge, Mass.: National Bureau of Economic Research
- Layard, R. (2005) *Happiness: lessons from a new science*, London: Penguin
- Ministry for the Environment (2008) *Environment New Zealand 2007: summary*, Wellington: Ministry for the Environment, [www.mfe.govt.nz/publications/ser/enz07.../enz07-summary-dec-07/index.html](http://www.mfe.govt.nz/publications/ser/enz07.../enz07-summary-dec-07/index.html)
- Ministry of Health and Statistics New Zealand (2009) *Longer Life, Better Health? Trends in health expectancy in New Zealand 1996-2006*, Wellington: Statistics New Zealand
- New Zealand Government (2010) *National Infrastructure Plan*, Wellington: New Zealand Government
- OECD (2001a) *OECD Environmental Strategy for the First Decade of the 21st Century*, Paris: OECD
- OECD (2001b) *The Well-Being of Nations: The role of human and social capital*, Paris: OECD
- OECD (2005) *Innovation policy and performance: a cross-country comparison*, Paris: OECD
- OECD (2009) *Society at a Glance 2009: OECD social indicators*, Paris: OECD
- OECD (2010a) *The 2011-2012 OECD-wide Programme on Measuring Wellbeing and Progress of Societies*, STD/CSTAT(2010)2
- OECD (2010b) *Indicators of Societal Progress: lessons from international experiences*, working paper 33, STD/DOC(2010)4
- OECD (2010c) *A Framework to Measure the Progress of Societies*, working paper 34, STD/DOC(2010)5
- OECD (2010d) *Measuring and Fostering the Progress of Societies*, council paper, C(2010)56
- OECD (2011a) 'Better measures for better lives', *OECD Observer*, 284, Q
- OECD (2011b) Better Life Index, <http://www.oecdbetterlifeindex.org/>
- Putnam, R.D. (2000) *Bowling Alone: the collapse and revival of American community*, New York: Simon & Schuster
- Sen, A. (1999) *Development as Freedom*, Oxford: Oxford University Press
- Schultz, T.W. (1961) 'Investment in human capital', *American Economic Review*, 51 (1), pp.1-17
- Sianesi, B. and J. Van Reenen (2003) 'The returns to education: macroeconomics', *Journal of Economic Surveys*, 17 (2), pp.157-200
- Solow, R. (1992) *An Almost Practical Step Toward Sustainability*, Washington DC: Resources for the Future
- Statistics New Zealand (2002) 'The measurement of social capital in New Zealand', country paper for the International Conference on Social Capital Measurement, London, 25-27 September 2002
- Statistics New Zealand (2009) *Statistics New Zealand's Framework for Measuring Sustainable Development*, Wellington: Statistics New Zealand, [http://www.stats.govt.nz/browse\\_for\\_stats/environment/sustainable\\_development/Framework-measuring-sustainable-development.aspx](http://www.stats.govt.nz/browse_for_stats/environment/sustainable_development/Framework-measuring-sustainable-development.aspx)
- Stiglitz, J.E., A. Sen and J.P. Fitoussi (2009) *Report by the Commission on the Measurement of Economic Performance and Social Progress*, Paris: The Commission, <http://www.stiglitz-sen-fitoussi.fr/en/index.htm>
- Treasury (2001a) *Towards an Inclusive Economy*, working paper 01/15, Wellington: Treasury
- Treasury (2001b) *Human Capital and the Inclusive Economy*, working paper 01/16, Wellington: Treasury
- Treasury (2010) 'The natural resources story', unpublished research report, Wellington: Treasury
- US Department of the Treasury (2011) 'Duties & functions of the U.S. Department of the Treasury', <http://www.treasury.gov/about/role-of-treasury/Pages/default.aspx>
- Veenhoven, R. (2006) 'World Database of Happiness: continuous register of scientific research on subjective enjoyment of life', Erasmus University Rotterdam, Netherlands, <http://worlddatabaseofhappiness.eur.nl>
- Welfare Working Group (2010) *Long-term Benefit Dependency: the issues*, Wellington: Institute of Policy Studies
- WGSSD, Joint UNECE/OECD/Eurostat Working Group on Statistics for Sustainable Development (2008) *Statistics for Sustainable Development: commonalities between current practice and theory*, Paris: United Nations
- Wolfe, B. and R. Haveman (2001) 'Accounting for the social and non-market benefits of education', in J. Helliwell (ed.), *The Contribution of Human and Social Capital to Sustained Economic Growth and Wellbeing*, Paris: OECD
- World Bank (2006) *Where is the Wealth of Nations? Measuring capital for the 21st century*, Washington DC: World Bank

Bill Ryan

# Public Management in Difficult Economic Times

Three recent speeches – by the finance minister to the Australia and New Zealand School of Government (English, 2010) and to the Institute of Public Administration New Zealand (English, 2011), and the statement to Parliament delivered by the prime minister in February (Key, 2011) – draw an explicit link between government expenditure and New Zealand's economic performance in weathering the global economic difficulties and the effects of the Christchurch earthquakes. Government expenditure is said to be too high and, given present trends, unsustainable. Strategies for making savings have been outlined. Government's immediate concern is to return to budgetary surplus by the middle of this decade. However, according to the finance minister, 'Public spending restraint is no temporary aberration. It is effectively permanent' (English, 2011).

What has been proposed? Do the initiatives in relation to public sector performance promise significant savings? Detailed evaluation of these particular proposals would need research over time and a longer article than this, but some strands in the public management literature allow general observations that could be followed up at a later time. It is important to stress that this article<sup>1</sup> accepts the government's approach to fiscal consolidation. It does not enter into debates over the optimal level of government expenditure relative to national production or the rights and wrongs of reducing (or increasing) government spending in difficult economic times. It focuses instead on certain issues of system and organisational health and capacity in relation to public management as a result of the economic need to constrain government expenditure in the present circumstances.

Some general lessons have already been learned that government would be wise to attend to. Further, new alternatives are becoming apparent, but any long-term promise they have in terms of governance has yet to be worked through, and the short- to medium-term costs in

---

Bill Ryan is an Associate Professor in the School of Government, Victoria University of Wellington.

making them happen could be high. The trade-off between the short-term fiscal goals and the long-term goals of public sector capability and governance remains difficult to resolve.

#### **Government intentions**

Since coming to office in 2009, the National-led government has had six broad goals. They are: providing better and smarter public services; removing red tape and unnecessary regulation; investing in productive infrastructure; strengthening the tax system; lifting education and skills; and improving performance in science, innovation and trade (Key, 2011). Only the first of these will be dealt with in this paper.

Government is concerned at recent trends in the New Zealand economy and the prospects for future growth, particularly given the effects of the global financial crisis of 2007–09 and the impacts of the Christchurch earthquakes. Overall government expenditure is said to be too high relative to GDP and there is concern that the present upwards trend cannot be sustained. In that sense, government seems to be defining the present economic circumstances as a classic ‘burning platform’ for change (Pollitt, 2011). It wants to ‘rebalance’ the economy and get the budget back into surplus by reducing government debt (acknowledged by government to be lower than that of several OECD countries but, like many, trending upwards since 2008: e.g. OECD, 2011, p.65).

The rhetoric is familiar. ‘The previous government’s decision to massively ramp up spending in the 2000s left behind a large, structural deficit, and a bloated public sector that by 2008 was crowding out the competitive sectors of the economy’ (English, 2011). Government’s solution will be ‘building better outcomes from public services by being clear about New Zealanders’ priorities, by minimizing waste, scaling up what works, getting rid of what doesn’t, and generally focusing our investment on changes that bring results’ (Key, 2011, p.12).

As already noted, this article does not canvass the range of economic positions on optimal or acceptable levels of government expenditure or government

debt relative to gross domestic product (GDP), and the benefits or otherwise of reducing or increasing government expenditure during difficult economic times (compare, for example, Kibblewhite, 2011 with NZCTU, 2010; see also Hall, 2010; Hood, Emmerson and Dixon, 2009). Government’s position is accepted as is. Instead, the focus is on the possible effects of the changes government believes will improve productivity, economy and efficiency. According to the finance minister (English, 2011) these will come in three areas: clear priorities, achieving high-quality services and reducing waste.

**‘This is not a time we can afford to indulge in a whole lot of ‘nice-to-haves’... [that] come at the expense of necessities and at the expense of fairness to people with more need.’**

#### **Clear priorities**

Government acknowledges its obligation to maintain the core functions of government but intends reducing government expenditure relative to the size of the New Zealand economy. Its general (if cryptic) position is that, ‘This is not a time we can afford to indulge in a whole lot of ‘nice-to-haves’... [that] come at the expense of necessities and at the expense of fairness to people with more need’ (English, 2011).

Insofar as policy priorities have been identified, they seem to be vulnerable children, welfare reform, education, housing, health and accident compensation, justice, law and order and public safety. Within that, allocation decisions ‘belong to the Government itself, consistent with its political mandate and accountability to the New Zealand public. So the Government will continue to make decisions about what to stop increasing, scale back, or stop doing altogether’ (English, 2011).

#### **Achieving high-quality services**

Government wants a modern, responsive public service that provides good value for money. In relation to service delivery, it

expects to see the same level of innovation and responsiveness it claims marks the market economy. Public service agencies are said to be risk averse. In order for them to feel the keen edge of competition, contestability will be increased. More services will be provided by non-government organisations, iwi and private sector providers.

Government plans to halt the recent increase in policy positions in Wellington (characterised as ‘bureaucracy’) and put more resources into front-line delivery, reducing the complexity confronting clients of services and making delivery

seamless. This applies particularly to transactional services delivered to New Zealanders in their homes and businesses. Servicelink, an integrated delivery initiative being developed by the departments of Internal Revenue and Internal Affairs and the Ministry of Social Development, is held up as an example.

#### **Reducing waste**

As reported in the 2011 Fiscal Strategy Report, the 2011 Budget projected savings of \$5.2 billion over five years, directing \$4 billion of these savings to new initiatives, mostly front-line services in health and education. Some savings will come from reducing public sector operational costs, although most will come from adjustments to the policy framework, plus changes to KiwiSaver, Working for Families and student loans, the costs of which have recently escalated. The Treasury forecasts a return to fiscal surplus in 2014/15, with increasing surpluses in following years. Core Crown net debt is projected to peak at less than 30% of GDP and decline steadily beyond 2015. It is believed that this will be achieved despite absorbing the cost of the Canterbury earthquakes (Treasury, 2011a).

Several initiatives to rationalise public sector operational (not policy) costs are already well-established or getting under way. In early 2009 government imposed a cap on staff numbers in core government administration (Wellington) and gave priority to front-line service delivery staff. In August 2010 it also set up the Review of Policy Expenditure and Advice 'to provide advice on the cost and quality of policy advice, as well as the alignment between policy expenditure and the Government's

2014/15 (Treasury, 2011a, p.43). Whilst setting definite goals and objectives in relation to savings government is co-opting chief executives in identifying areas of interest and making these 'key savings decisions'. The same applies to the so-called efficiency dividend. This is an annual claw-back but differentiated according to agency size. Organisations with total output expenses of over \$200 million are being subject to a 6% efficiency dividend, with 3% applying

of managing public organizations' (Levine, in Pandey, 2010). Throughout the 1980s academics developed an interest in the field but then it waned. Recently, the onset of recession and then the global financial crisis of 2007–09 have re-ignited interest (Pandey, 2010 covers the history). Recent writers (e.g. Pandey, 2010; Pollitt, 2010, 2011) note that public management research still offers few confirmed lessons for practice. The best that can be done, as Pandey (2010, p.564) suggests, is to ask 'somewhat inconvenient questions that get swept under the rug to accommodate seemingly more pressing issues'. This article will proceed along these lines. It does not pretend to be comprehensive, discussing only certain issues that seem relevant to the present New Zealand situation.

## Most government spending is on programmes with the proportion spent on public service operations being relatively small. The greatest potential for savings lies in cutting programmes, but this can be electorally unpopular.

priorities'.<sup>2</sup> Attention is being focused on the high number of central government departments and ministries compared with other jurisdictions (for details see English and Ryall, 2011).<sup>3</sup> Mergers have already commenced, although so far these have been relatively minor. The more general concern is 'too many departments and ministries', although government is stressing that structural change is only part of the answer. Work has already begun on rationalising back-office functions, common services and processes (Better Administrative and Support Services). Here, the 'aggressive' harnessing of technology and collaboration in provision of common and corporate services (e.g. between Treasury, the Department of the Prime Minister and Cabinet and the State Services Commission) is expected to contribute significant savings. Overall, according to the finance minister, 'This direction is likely to lead to fewer government agencies over time, to stronger governance across agencies where it is needed and for agencies to be more frequently based around common services and processes' (English, 2011).

An important mechanism is tight new operating allowances at a maximum of \$1.1 billion a year, reducing annually until

to those under that line. This device is intended to drive ongoing efficiency and productivity improvements and to generate savings consistent with the four-year budget plan (Treasury, 2011b).

Another mechanism is the Performance Improvement Framework (PIF). Described as 'a joint central agency initiative to help senior leaders drive performance improvement across the State Services',<sup>4</sup> PIF was introduced in September 2010 as an evaluation of practices, systems and processes in each organisation. It is intended to work as much through self-reflection as external, expert-led assessment. In relation to PIF and the efficiency measures, government has praised chief executives for the work done so far. It continues to emphasise that it is 'open to ideas and propositions from the public sector' and that it 'wants to work with public servants' (English, 2011).

### Is it likely that these expenditure reduction strategies will achieve their goals?

More than 30 years ago Levine opened up questions about cutback management and organisational decline. His interest lay in the 'great questions of political economy and the more earthly problems

### Savings strategies

Recent experience has emphasised that savings are 'ferociously difficult' to achieve (Pollitt, 2010, p.9). Even under the strong anti-government and privatisation agenda of Britain's Thatcher government, aggregate spending was maintained. A recent comparison of cuts in Britain in the 1920s (led by the 'Geddes Axe' committee) and the 1970s–80s cutback periods undertaken by Hood, Emmerson and Dixon (2009) confirms the difficulty in modern times of achieving the same level of results as earlier.

Part of the issue at present confronting governments is conflicting goals. The economic drivers for reducing government expenditure are considerable, requiring significant savings. Most government spending is on programmes with the proportion spent on public service operations being relatively small. The greatest potential for savings lies in cutting programmes, but this can be electorally unpopular. Reducing operational expenditure is more readily accepted, but the potential pool is small relative to aggregate expenditure and the level of savings required. Moreover, there are practical limits since a certain level of operations and capability must be maintained in order to ensure that government even functions. There is, in effect, a 'bottom line' for effectiveness.

So what approaches are available to governments? Pollitt has recently created a framework focused on broad strategies for managing ‘during financial austerity’ as shown in Table 1.

The following discussion elaborates on the points in the table and adds others.

**Across-the-board cuts**

Across-the-board cuts, what Pollitt refers to as ‘cheese-slicing’, have a long history. The attraction of this approach is that it can achieve significant reductions in expenditure in a relatively short period of time. It also appears comparatively fair in that all are expected to share equally in the burden. From a political perspective, a government can appear to be taking strong action in the face of crisis and avoid taking responsibility for cuts to particular programmes by leaving detailed cuts to public managers.

Conversely, from a democratic perspective, this is problematic. Public managers making those decisions are not themselves directly accountable and may make managerial decisions which serve organisational or system rather than client interests. Further, across-the-board cuts do not differentiate between well-managed, lean organisational units and poorly-managed ones with ‘fat’. This means that efficient and possibly effective programmes are treated the same as inefficient and/or ineffective ones that can absorb the reductions (the same can apply to efficiency dividends). In fact, cheese-slicing creates incentives for managers to ‘pad’ their organisations and programmes so that the next time that approach is applied they have reserves that can be cut (Pollitt, 2010).

**Centralised priority-setting**

This approach is the opposite of across-the-board cuts. Those programmes that are known to be effective are retained and prioritised, whereas those that are not are either dropped or scaled back.

From both political and democratic perspectives, this approach has benefits. It appears to the electorate and the public service as more strategic (although not perhaps to providers and clients whose programmes are stopped). It leaves ministers in control and enables

**Table 1: Three approaches to making savings**

APPROACH	ADVANTAGES	DISADVANTAGES
‘Cheese-slicing’	Sounds egalitarian (‘everyone must meet his share’). Ministers avoid directly choosing which programmes will be most hurt. Detailed decisions delegated to programme specialists who probably know what they are doing (and can be blamed if their decisions turn out to be unpopular or hurtful).	Programme specialists may make politically unpopular choices. And/or they may make self-interested choices which hurt effectiveness whilst protecting service providers (themselves). May also incentivise budget holders to pad their budgets so that there will be ‘fat’ to be cut next time round.
Efficiency gains	Sounds less threatening/more technical (‘doing more with less’). So it may be claimed that savings can be made without too much pain.	1. Usually requires considerable innovation – organisational and technological changes which may not work, or may not work for some time. 2. Probably will not yield enough by itself to correct the present fiscal imbalances.
Centralised priority-setting	Looks more strategic and leaves politicians directly in control. Enables the government to protect the most effective programmes (if they have reliable data on effectiveness)	Ministers become visibly and directly responsible for painful choices. And, unless they consult carefully they may make choices with consequences they do not fully foresee, but they are unlikely to understand the internal complexities of the services which are being cut.

Source: Pollitt, 2010, p.13

government to retain those programmes it favours or believes can be justified. The downside from the ministers’ perspective is that it makes them transparently responsible for choices that may be unpopular with significant parts of the electorate. It may not have been feasible to consult widely in their preparation and so the cuts will be a shock to those affected. There may be unanticipated consequences, in terms of impacts both on other programmes and on overall client outcomes (Pollitt, 2010).

The biggest difficulties with this approach, however, may be technical. Central to making it work is good and extensive evaluation of the range of programmes under consideration. According to the OECD (2009), not many governments have such information. In New Zealand, with so little evaluation conducted (Ryan, 2011), the situation is even worse. Equally, prioritisation tools such as matrices and filters are relatively under-developed (Pollitt, 2010). Otherwise, governments use political

criteria such as electoral popularity, legitimately so since they will eventually be held accountable by citizens for their decisions. In terms of public value and societal well-being, however, there is no guarantee that the results will be effective or equitable.

**Improving economy and efficiency**

Several points are worth discussing under this heading, some of them relating to matters political, managerial and organisational rather than economic. Strikingly, many of them have an ‘if’/‘but’ character. As a result, ‘public management in difficult economic times’ begins to appear as more complex and ambiguous than reform advocates usually make out.

**Credibility and legitimacy**

Economy and efficiency (including productivity) drives are obvious responses to fiscal problems. As Pollitt (2010) notes, however, they have been a constant fact of life in public sectors for the last 30 years and more. It is probable that most if not all

of the 'low-hanging fruit' has been picked. The idea that there are still considerable quantities of redundancy and waste lying around as suitable candidates for cutting-out seems implausible. The more work has already been done, the more the law of diminishing returns seems likely to apply. Particular issues applying in New Zealand (e.g. duplication and costs associated with the high level of fragmentation across the public sector – dealt with in detail later) may be worth attending to. But the general point is worth highlighting. The potential for significant savings now, relative to the aggregate costs of running a government, may be fairly marginal.

A similar point can be made in relation

executive and parliamentary roles (which may explain the recent up-turn in staff numbers). Ministers are unlikely to want dramatic cutbacks here.

Credibility is one thing but legitimacy is another. Difficult economic times like those being confronted by the New Zealand government demand appropriate fiscal responses. The effects of policy cutbacks will be negative on some people, possibly those least able to afford it or to resist (see also Pandey, 2010). Sound evidence – or at least plausible reasoning – is needed for cutback policies to be accepted as legitimate by the electorate even if they are unpopular. If communicated openly and effectively, voters are likely to accept

tacit assumption that it leads to greater efficiency and effectiveness (e.g. UK Audit Office, 2006).

Not much is known about how innovation occurs in the public sector (Hartley, 2005; Pollitt, 2011). It demands a willingness to take risks. A degree of organisational slack also helps. So does an atmosphere of trust, an appetite for experimentation and a culture of learning. Conversely, budgetary constraints, greater work pressures and staff lay-offs squeeze out slack, discourage risk-taking, lessen trust and reduce the tolerance for failure (see Pandey, 2010 and Pollitt, 2010 for overviews). They can also force organisations backwards into mechanistic structures and cultures. Cuts can also reduce the capacity of organisations to provide effective and publicly valuable service delivery, something that motivates many public servants (Pandey, 2010). Pollitt (2011) notes that recent expenditure reductions imposed on UK local authorities led to safeguarding of core services and wiped out innovations and recent initiatives. Efficiency and innovation are both part of public management but, in difficult times, achieving one can counteract the other.

That said, outcome-oriented public officials – those focused most of all on achieving good outcomes for clients – sometimes continue to innovate, despite the system they work in and even when resources are constrained: see, for example, the cases in Eppel et al., 2008. Innovation is risky and most of these public entrepreneurs and their fellow travellers felt obliged to work under the radar in the initial stages. More to the point, generalising or scaling up the conditions of success they stumbled upon or created would most likely be expensive in the setting-up and developing stages at least. It would be courageous guardian angels (senior managers) who would approve and authorise such arrangements while cost structures are under pressure. In short, genuine innovation does occur, but is not motivated by or likely to lead to significant savings – in the short term, anyway.

In fact, innovations in service delivery are being touted elsewhere as

## Efficiency and innovation are both part of public management but, in difficult times, achieving one can counteract the other.

to demands for increased productivity. Service work is notoriously resistant to productivity improvements (see, for example, OECD, 2005) but staff ceilings, staff reductions and work intensification have all been tried (e.g. UK Audit Office, 2006). With so much work already done over recent years, it is unlikely there are many undiscovered pockets. Work rates are such that staff ceilings usually mean high workloads and long hours. Survey results of the hours worked by public servants in completing their workload (e.g., for women, see Proctor-Thomson, Donnelly and Plimmer, 2011) suggest little capacity for intensification. Attempts to push beyond these limits can lead to increased sick and stress leave, burn-out and staff departures (Battaglio and Condrey, 2009; Pandey, 2010). Industrial strife may also follow, particularly if managers and staff perceive that ministers have broken the historic bargain that characterises organisation in the public sphere (Kelman, 2006; Pandey, 2010). Moreover, in countries like New Zealand a significant amount of operational policy work involves servicing the daily needs of Cabinet and ministers in their

the adjustments for the period of time they are required. Cutbacks driven by ideology, populism or language games ('bloat', 'waste' and 'bureaucracy' can be seen as 'boo-hurrah' words; see Ayer, 1936 on 'emotivism' in language) run the risk of not delivering. They may resonate with the self-interest of some in the electorate but be resented over the longer term by public officials themselves, especially where previous work has already eliminated the inefficiency that once existed. Dutiful service to the government of the day may continue, but without much commitment to performance improvement, thereby countering other savings strategies. Organisational health and future capability matter, and one-off savings drives now may cause as much damage as benefit. Economy, efficiency and productivity are eternal organisational values but should be applied as normal ways of working and driven from within, not occasional bush-beating expeditions driven from without.

### *Innovation*

Another catch cry for reforming governments is 'innovation', based on the



potential cost savers, not via competition, contestability and contracting but something very different. Explicit signs of this are apparent in Britain in talk of localism, mutualism and social enterprise underpinning the Conservative government's 'Big Society' agenda, as well as notions such as co-production and 'radical efficiency' (Boyle and Harris, 2009; Gillison, Horne and Baeck, 2010; see also Hartley, 2005 for a wider view). These ideas surfaced first in 'Third Way' approaches to governing (Giddens, 1994) adopted by the Blair Labour government. Such creations may achieve two purposes at one stroke. The total call on public resources (government expenditure relative to GDP) could be reduced by relying more on civic resources (social and human capital) to achieve mandated policy goals: in short, more community-based governance. In this respect, work on 'radical efficiency' (e.g. Gillison, Horne and Baeck, 2010) and 'co-production' (e.g. Boyle and Harris, 2009; see also other work emanating from the new economics foundation) is interesting, although possibly overblown, particularly in relation to the potential savings. Equally, community bonds would be strengthened and the new governing arrangements legitimated by a citizenry participating in the creation and maintenance of those arrangements.

These are attractive ideas if only because they might expand the realm of citizen participation in the policy process (Bovaird, 2007; Stoker, 2007). If not undertaken adequately, however, they would result in massive cost-shifting from the polity to civil society. To ensure this does not occur, governments would need to facilitate and fund the extensive capacity-building needed in non-government organisations and civil society (already becoming apparent in Britain: e.g. Young Foundation, 2010), to say nothing of the extensive reconfiguration of public organisations, public management practices and the skills and capabilities of the public officials expected to do that work. Needless to say, the level of expenditure required over time to achieve this goal would be high. The long-term social, political and

economic benefits may be considerable but so would the short-term costs.

#### Mergers

If cost reductions are the question, mergers might also be part of the answer. However, this is a difficult issue fraught with risks. High human, financial, capability and industrial costs can follow mergers such that wise governments are inclined to avoid them (OECD, 2005) – as the present government seems to recognise (English, 2011).

The simple fact is, though, that New Zealand is in a bind. As noted above, government is looking askance at the number of separate organisations in the public sector, recognising that there

perhaps to as few as 10–15 'portfolios'. Government has already undertaken some minor work in this area and plans to do more. Work is presently being undertaken in central agencies, although, at the time of writing, the directions of thinking are unknown outside the small groups involved.

Even on this point there is a 'but'. There is no guarantee that mergers in and of themselves will produce major savings in the short-term anyway; in fact, there are some suspicions that any savings may be only trivial (and the break-even point well into the future). The direct costs associated with mergers can be very significant, to say nothing of indirect and consequential costs, downtime, loss of

**There is no guarantee that mergers in and of themselves will produce major savings in the short-term anyway; in fact, there are some suspicions that any savings may be only trivial (and the break-even point well into the future).**

are many more than in comparable countries (English, 2010). *A priori*, high levels of fragmentation and separation probably mean more different corporate and common service units, information systems, senior managers and chief executives and the like than are otherwise required (or available) to run a public sector the size of New Zealand's.

The organisational and strategic barriers created by these silos, and hence the costs involved in negotiating them, have been acknowledged in New Zealand for over a decade (MAG, 2001; see also Schick, 1996). The costs associated with achieving strategic, cross-government solutions (and the costs to clients traversing them in accessing services) would presumably be higher than would be the case in non-fragmented systems. However unpalatable it may seem, there might seem to be a *prima facie* case for significant mergers, particularly those that reconnect implementation and policy,

morale and reduced productivity over the time that organisations are being combined. Further, lack of co-operation and collaboration in the public sector are just as evident *within* some organisations (between, say, branches or units) as they are *between* organisations; mergers might therefore internalise the problems of fragmentation without necessarily solving them. Anyway, assuming that organisations represent necessary and/or desired government functions, these still have to be conducted regardless of the particular configuration of the machinery of government. If core activities still need to be funded, then the only current costs that might be saved are those arising out of dealing with fragmentation when attempting to integrate and create whole-of-government solutions. These may be significant, but not of the order that government apparently wants.

Mergers, however, could be an old-fashioned solution. It is likely that

public sectors in the future will be more like complex adaptive systems based on web-like structures and processes, rather than (at best) centre-line systems build on cybernetic principles as at present (Bovaird, 2008). If so, mergers in the future might be less essential than creating integrative, collaborative mechanisms that combine not just levels of government and multiple public sector organisations under collective, whole-of-government goals, but also the multitude of community and private sector organisations involved in policy development and implementation. In other words, the future is likely to be the world of 'governance' being discussed by some leading-edge public management writers (e.g. Kooiman, 2003; Rhodes, 1997). But these ideas are still only 'ideas'. Notwithstanding their emergence from practice, their constituent theories, concepts, models and tools are still hugely underdeveloped. The work required to bring them to fruition would be enormous and extend well into the future. They do not stand, therefore, as answers to immediate fiscal concerns.

Moreover, New Zealand would face particular challenges in moving in these directions. The legislative and conventional underpinnings of our public management system are founded on divided ministerial responsibilities, single, vertical organisations and competition. The foundational changes required to move to a collaborative governance future would be very considerable indeed and would require more, not less, government expenditure. This is not an argument

for not thinking in those terms, but for recognising the nature and extent of the challenges involved.

### Conclusion

When times are tough there is every reason to explore all options for controlling public sector expenditure. Options should be weighed up, however, against evidence of the impacts, positive and negative, non-economic as well as economic, over time, of previous efforts. It is not a time for falling into well-known traps, especially not for presenting simple ideological or theoretical preferences as historical necessities. Any elected government is perfectly entitled to pursue its perceived mandate, but only if there is active public awareness and acceptance (ex ante or ex post) of the range of possible impacts of doing so. Ultimately, if the goal of savings as a response to difficult times is not achieved and budget austerity persists beyond the original forecasts, then the government would have failed, public sector capability might be reduced even more, and citizens would know it. They could then vote the government out of office at the next election, but the institutions of government as much as any particular party would also suffer some level of damage. Legitimacy regarding state institutions is declining amongst citizens anyway (OCED 2001) and should not be exacerbated. As Pollitt (2011) notes, these are matters to be weighed up as part of the ethics of reform when considering the balance between the costs of governing and the ability to govern.

That said, the state of public management research at this stage is such that it offers only general lessons for decision makers. More needs to be known. What is known, however – and this article has only scratched the surface – provides grounds for caution. Often, perhaps usually, when controlling public sector operating expenditure, matters are much more complex than the proponents of cutback or reform and enthusiastic advocates of 'new ways' make out, and unintended or unforeseen outcomes can outweigh any benefits achieved. As Pandey (2010, p.568) argues, 'cutback management needs to embrace a holistic and long-term perspective and defy the pressures to succumb to reductionist measures'. The challenges confronting governments and senior officials in difficult economic times are enormous. How best to constrain in the short term whilst not undermining what may lie ahead? How to keep a reasonable balance between fiscal and governance goals? More research might help, but wise and thoughtful heads will be even more important.

- 
- 1 My thanks to Derek Gill and Chris Eichbaum for comments on an earlier draft.
  - 2 <http://www.treasury.govt.nz/statesector/policyexpenditurereview>.
  - 3 This press release says 'New Zealand currently has 39 government departments', but the State Services Commission website as at 1 July 2011 shows 32 departments, including the Canterbury Earthquake Recovery Authority. There are four non-public service agencies: Police, Defence, the Security Intelligence Service and Parliamentary Counsel. The Office of the Clerk and Parliamentary Services are outside the public service. This totals 38 organisations, but only 32 are departments and ministries. My thanks to Judy Whitcombe for the confirmation.
  - 4 <http://www.ssc.govt.nz/pif>.

### References

- Ayer, A.J. (1936) *Language, Truth, and Logic*, London: Gollancz
- Battaglio, R. and S. Condrey (2009) 'Reforming public management: analyzing the impact of public service reform on organizational and managerial trust', *Journal of Public Administration Research and Theory*, 19 (4), pp.689-707
- Bovaird, T. (2007) 'Beyond engagement and participation: user and community coproduction of public services', *Public Administration Review*, 67 (5), pp.846-60
- Bovaird, T. (2008) 'Emergent strategic management and planning mechanisms in complex adaptive systems', *Public Management Review*, 10 (3), pp.319-40
- Boyle, D. and M. Harris (2009) *The Challenge of Co-Production: how equal partnerships between professionals and the public are crucial to improving public services*, London: National Endowment for Science, Technology and the Arts (NESTA)
- English, B. (2010) 'Speech to the Australia New Zealand School of Government', 12 August, <http://www.beehive.govt.nz/speech/speech-australia-new-zealand-school-government>
- English, B. (2011) 'Speech to the Institute of Public Administration New Zealand', 29 March, <http://www.beehive.govt.nz/speech/speech-institute-public-administration-new-zealand>
- English, B. and T. Ryall (2011) 'Government reviews more state agencies', press release, 31 May <http://www.beehive.govt.nz/release/government-reviews-more-state-agencies>

- Eppel E., D. Gill, M. Lips and B. Ryan (2008) *Better Connected Services for Kiwis: a discussion document for managers and front-line staff on better joining up the horizontal and the vertical*, Wellington, Institute of Policy Studies
- Giddens, A. (1994) *The Third Way*, Cambridge: Polity Press
- Gillison, S., M. Horne and P. Baeck (2010) *Radical Efficiency: different, better, lower cost public services*, London: National Endowment for Science, Technology and the Arts (NESTA)
- Hall, D. (2010) *Why We Need Public Spending*, Greenwich: Public Service International Research Unit, University of Greenwich
- Harris, P. (2010) 'The economy and the government's finances: are cuts inevitable?', background paper prepared for the Public Service Association.
- Hartley, J. (2005) 'Innovation in governance and public services: past and present', *Public Money and Management*, 25 (1), pp.27-34
- Hood, C., C. Emmerson and R. Dixon (2009) *Public Spending in Hard Times: lessons from the past and implications for the future*, London: Institute for Fiscal Studies (Economic and Social Research Services), <http://www.ifs.org.uk/publications/4542>
- Kelman, S. (2006) 'Downsizing, competition, and organizational change in government: is necessity the mother of invention?', *Journal of Policy Analysis and Management*, 25 (4), pp.875-95
- Key, J. (2011) 'Prime Minister's statement to Parliament', 8 February, <http://www.beehive.govt.nz/gallery/statement-parliament-2011>
- Kibblewhite, A. (2011) 'Role of public sector performance in economic growth', speech delivered to the Institute of Policy Studies, 1 April, <http://www.treasury.govt.nz/publications/media-speeches/speeches/pubsecperfecongrowth>
- Kooiman, J. (2003) *Governing as Governance*, London: Sage
- MAG (Ministerial Advisory Group) (2001) *Review of the Centre*, Wellington: Minister for State Services
- NZCTU (2010) *Alternative Economic Strategy (Tetahi Atu hanga Rautaki): an economy that works for everyone*, Wellington: New Zealand Council of Trade Unions
- OECD (2001) *Government in the 21st Century*, Paris: OECD
- OECD (2005) *Enhancing the Performance of the Services Sector*, Paris: OECD
- OECD (2009) *Measuring Government Activity*, Paris: OECD
- OECD (2011) *Government at a Glance 2011*, Paris: OECD
- Pandey S. (2010) 'Cutback management and the paradox of publicness', *Public Administration Review*, 70 (4), pp.564-76
- Pollitt, C. (2010) *Public Management Reform During Financial Austerity*, Stockholm: Statskontoret (Swedish Agency for Public Management)
- Pollitt, C. (2011) 'Cutbacks and innovation: public management reform in an age of austerity', presentation to the KSAP (Polish National School of Public Administration), Warsaw, 27 April
- Proctor-Thomson, S., N. Donnelly and G. Plimmer (2011) 'The "right to request" flexible work: questions of choice and responsibility in the New Zealand public services', forthcoming
- Rhodes, R. (1997) *Understanding Governance: policy networks, governance, reflexivity and accountability*, London: Open University Press
- Ryan, B. (2011) 'Getting in the road: why outcome-oriented performance monitoring is underdeveloped in New Zealand', in D. Gill (ed.), *The Iron Cage Re-Created*, Wellington: Institute of Policy Studies
- Schick, A. (1996) *The Spirit of Reform*, Wellington: Treasury/State Services Commission
- Stoker, G. (2007) *Why Politics Matters: making democracy work*, Basingstoke, Hampshire: Palgrave, Macmillan
- Talbot C. (2010) 'Is the "dash to slash" really necessary: alternatives to austerity', WhitehallWatch blog, posted September 7, <http://whitehallwatch.org>
- Treasury (2011a) *Fiscal Strategy Report 2011 Budget*, Wellington: The Treasury
- Treasury (2011b) 'Budget 2011 information release, release document, June', <http://www.treasury.govt.nz/publications/informationreleases/budget/2011>
- UK Audit Office (2006) *Achieving Innovation in Central Government Organisations*, report by the Comptroller and Auditor General, HC 1447-I, July
- Young Foundation (2010) *Communities in the Big Society: shaping, managing, running services*, London: Young Foundation

# Achieving a Step Change the Holy Grail of Outcomes-based Management

In 2011 public sector management is at a crossroads, without a clear way ahead. Politicians in New Zealand and comparable jurisdictions, such as Australia (Advisory Group on the Review of Australian Government Administration, 2010), are searching for new thinking on how to improve public sector performance. Some practitioners have responded by seeking to repackage long-standing ideas in an effort to extract improved performance from existing systems. In New Zealand, different governments have introduced marginal, piecemeal additions to the current

system. Most recently additions have focused on improving the economy of departmental operations (Better Administrative and Support Services (BASS); shared services) and filling gaps (Performance Improvement Framework (PIF)). The piecemeal nature of these initiatives means they are unlikely to significantly improve the effectiveness of performance and the overall coherence of the public management system.

---

Derek Gill is Principal Economist at the New Zealand Institute of Economic Research (NZIER) and a Senior Fellow of the Institute of Policy Studies at Victoria University of Wellington.

Susan Hitchiner is an independent public management consultant and has held senior roles in various public sector organisations.

Meanwhile, academics pronounce the ‘death’ of new public management (Dunleavy et al., 2006) and foresee the emergence of ‘new public governance’ (Osborne, 2006), though without a consensus as to what new public governance actually means. Other, more reflective practitioners are searching for a new ‘synthesis’ (Bourgon, 2008), but what needs to be synthesised or what the direction for any change should be is not yet clear (Lindquist, 2011).

In the past New Zealand has shown an ability to forge ahead with path-breaking public sector reform. It was the first country to introduce output-based budgeting and accrual accounting in the public sector. Yet over the last 20 years we have failed in our attempts to move from a dominant outputs-based to a more outcome-focused management system (Gill, 2008). Recent research on organisational performance in the state sector found that, with some notable exceptions, as a general rule public organisations were tactically managing resources through processes to deliver outputs with a varying focus on outcomes (Gill, 2011, ch.16). In short, in New Zealand public organisations are reporting for outcomes not managing for outcomes.

This article suggests that the time is right for New Zealand to commit to moving to a greater formal use of outcome-focused management.<sup>1</sup> There are a number of reasons to do so:

- outcomes build on the professional pride and basic motivation of public sector employees who come to work in order to make a difference to the lives of ordinary New Zealanders;
- New Zealand faces a sustained fiscal affordability problem that cannot be addressed by searching for economies in existing operations of public agencies (see discussion in Gill et al., 2010, pp.34-5, which draws on Treasury’s 2009 long-term fiscal statement);
- we have the opportunity to learn from the experimentation under way elsewhere (‘necessity is the mother of invention’) in the face of fiscal pressures, and the experiences of other leading jurisdictions (such as

Oregon) that have sustained a focus on achieving outcomes.

**Strategies to achieve a step change**

We propose in this article a number of possible strategies for improving the outcomes focus of public organisations and thus improving state sector performance. We do not propose one best way. Instead, we present five alternative, broad-based strategies that differ in the source of leadership on outcomes – chief executives and senior leaders within departments, ministers or independent goal-setters – and the relative emphasis placed on outputs compared to outcomes and thus improving state sector performance.

There are also areas for change that could, indeed should, be implemented as part of or alongside all of the strategies discussed in this article. Such ‘common strands’ are aimed at increasing the contribution of organisational performance information to improved public sector performance by moving away from the one-size-fits-all approach that was adopted in the

implementation of the formal system. Common strands address increasing the leadership provided by agencies at the centre; improving output specification and clarity of appropriations; more closely examining longer-term outcome trends and strengthening the use of an evaluative lens; allowing variation in the frequency and focus of external reporting and audit requirements; facilitating external analysis of organisational performance data; and strengthening incentives at the chief executive.

We set out alternative strategies in order to bring out the often unarticulated assumptions that are made about what stops public organisations from becoming more outcomes-focused. Some of the options propose managerial solutions, such as using performance standards to control the exercise of delegated authority. The thrust of these strategies is to change aspects of the formal performance management system design in order to reinforce the desired changes in practice within the state sector. They are all, however,

**Table 1: Strategy 1, outcomes leadership at service and policy levels**

Dimensions		Elements	
Purpose	External organisational accountability	<i>Objective-setting</i> – how	Led by chief executive
Locus	Individual agency	<i>Organisational performance information and development</i> – where the emphasis lies	Focus kept on outputs Focus on agency outcomes de-emphasised
Focus	Outputs	<i>Monitoring</i> – where and how performance information is monitored	Service performance information used in chief executives’ performance reviews and linked to remuneration
Scope	Comprehensive outputs reporting, with reduced emphasis on outcomes	<i>Performance information reporting</i> – where and how performance information is reported	Quality of output performance information improved and requirement for outcome information reduced
		<i>Decision rights</i> – where they are assigned	Formal decision rights of ministers strengthened

Table 2: Strategy 2, chief executives leading outcomes

Dimensions		Elements	
<i>Purpose</i>	Decision-making (including priority setting and resource allocation)	<i>Objective-setting</i> – how	Outcome development led by chief executive
<i>Locus</i>	Clusters of agency activities contributing to specific outcome areas	<i>Organisational performance information and development</i> – where the emphasis lies	Sector and high-level outcomes and organisational outcomes hierarchies
<i>Focus</i>	Outcomes, with contributions from multiple agencies	<i>Monitoring</i> – where and how performance information is monitored	Contribution to collective used in chief executive performance reviews
<i>Scope</i>	Outcomes, high-level and organisation-specific, with reference to outputs / other interventions	<i>Performance information reporting</i> – where and how performance information is reported	No additional external reporting, some reduced output reporting
		<i>Decision rights</i> – where they are assigned	Role of chief executives in intervention selection strengthened

essentially technical solutions that take as given the authorising environment created by New Zealand’s Westminster – and mixed-member proportional – system of government. In particular, they take as given Ladley’s ‘iron rule of politics’ that the opposition, in undertaking its constitutional role, uses performance information ‘not to improve the functioning of the Executive but in order to attack the Executive’ (Prebble, 2010, p.3).

An authorising environment dominated by Ladley’s iron rule of politics will affect the way performance measures are developed, used and reported in public organisations. Managerial solutions cannot, by themselves, address what are principally political problems –they will not take the politics out of politics.

**Strategy 1: outcomes leadership at the service and policy levels**

Strategy 1 builds on the firm foundation of output-based management already

established in New Zealand by de-emphasising and removing outcomes from service performance reporting, and uncoupling outcomes from the iron rule of political contest. Under this strategy, the Public Finance Act 1989 would be amended to remove statutory references to outcomes. The locus of performance information reporting would remain individual agencies and the purpose would remain external accountability (see Table 1 for more details). Having removed outcomes from accountability, the focus on outcomes under this strategy is more as a bottom-up organisational learning tool at the client service level, and for informing high-quality policy.

Strategy 1 recognises that the imperative for control remains dominant in the face of the requirements of an authorising environment dominated by the ‘iron rule of political contest’, and shifts outcomes from the accountability space. The key to the success of the strategy is creating space to explore

outcomes by decoupling outcomes from the blame game of accountability and making accountability more meaningful.

The strategy, which we call ‘building on the basics around outputs’, works within the constraints of the authorising environment and constitutional requirements, particularly with respect to Parliament’s role in authorising ministers to incur expenditure through their departments. From a political perspective, attempting to make the reforms of 20 years ago work is a ‘realist’ strategy, in that it recognises the day-to-day operation of the authorising environment and the iron rule of political contest.

The strategy involves modifying the formal system to make it more consistent with practice. In so doing and to achieve a step change, this strategy returns to aspects of those reforms as originally contemplated, with a strong leaning towards high-powered incentives, such as the retention by departments of surpluses and the review of chief executive performance based on organisational performance. In keeping with its political realism, the strategy does not, however, return to notions such as ministers as active purchasers of the goods and services provided by departments (and others).

The next three strategies take a different tack, as they all involve putting outcomes on centre stage by focusing on strengthening leadership around outcomes, in the current authorising environment. This responds to two complementary facets of observed practice:

- limited involvement of ministers in setting outcomes, and outright resistance to outcome targets, which have resulted in an absence of shared strategy and priorities (context) for shaping departmental operations;
- the frequency of a compliance-focused approach to outcome (and output) reporting by departments, to the detriment of both meaningful accountability and organisational learning.

In a sense, the next three strategies are variants on the same broad approach which differ depending on whether leadership on outcomes comes from chief

executives and senior leaders, ministers and chief executives jointly, or ministers.

The final strategy, starts from the position that accountability for performance requires change in the ‘two cultures’ of the political world (ministers and Parliament) and the managerial world (public officials) (Prebble, 2010., p.50).

**Strategy 2: chief executives leading outcomes**

Strategy 2 involves chief executives leading outcomes, with the recommended approach to performance reporting placing a greater emphasis on cross-agency outcomes and a reduced emphasis on output-class information at an individual agency level. Organisational performance would become increasingly selective and differentiated by being tailored to different decision makers. Thus, the focus would shift to selected outcomes (with the locus of attention across agencies) and the purpose would shift to learning and internal decision making (see Table 2).

This strategy is based on the view that underpinning the lack of sustained progress on responsibility for outcomes is political constraint. It appears that New Zealand politicians are reluctant to commit themselves to specific measurable targets because they believe they could be ‘held hostage to fortune.’<sup>2</sup> This option would reinforce current joint working among chief executives and their staff (discussed in a March 2010 Cabinet paper) such as the community links programme (integrated tax and social assistance), and joint border sector governance.

This approach builds on the professional pride senior public sector leaders have in wanting to make a difference despite the somewhat hostile authorising environment. The determinant of success will be chief executive leadership, augmented by astute support from the central agencies. Selected chief executives would develop high-level outcomes and cross-organisational interventions,<sup>3</sup> with all chief executives integrating those outcomes and interventions into the planning and priority-setting for their respective organisations. This approach would involve chief executives leading the development of end-to-end solutions for particular public policy problems,

**Table 3: Strategy 3, joint leadership of outcomes**

Dimensions		Elements	
<i>Purpose</i>	Decision-making (including priority-setting and resource allocation)	<i>Objective setting</i> – how	Joint ministerial–chief executive leadership of strategic management system focused on high-level outcomes
<i>Locus</i>	Clusters of individual agencies’ activities contributing to priority outcomes	<i>Organisational performance information and development</i> – where the emphasis lies	Cascade from government outcomes to agency outcomes
<i>Focus</i>	Selected priority outcomes and activities	<i>Monitoring</i> – where and how performance information is monitored	Information on intervention (and delivery approach) selection and use of evidence used in chief executive performance reviews
<i>Scope</i>	Selective outcome reporting, with reduced emphasis on and variability in outputs reporting	<i>Performance information reporting</i> – where and how performance information is reported	Contribution to agency outcomes the focus
		<i>Decision rights</i> – where they are assigned	Formal steering role of ministers strengthened

including acting as champions for particular management issues, such as measurement, organisational learning and evaluation.

**Strategy 3: joint leadership of outcomes**

This strategy involves establishing a strategic management system as the centrepiece for the organisational performance management system. In summary, this approach to improving performance reporting builds on the government’s policy priority-setting process and cascades this down through sector-level outcome information and into individual public agencies.

There would be reduced emphasis on comprehensive reporting of performance information at an individual agency level and greater focus on sector-level achievements. Performance reporting would become increasingly selective, focused on societal outcomes and strategic priorities, (with inevitable cross-

agency boundaries) and be tailored to different decision makers (see table 3). To be effective, this strategy would require a quality policy development process to establish rigorous intervention logic, backed up by investment in an outcome measurement system.

New Zealand has led the world in this area before.<sup>4</sup> The strategic management system could be based on the government’s strategic priorities,<sup>5</sup> akin to the system of strategic result areas and key result areas under the previous National administration (1990–99), or an enhanced version of the government’s priorities under the 1999–2008 Labour-led administration. Other jurisdictions have been successful in implementing formal systems allocating accountabilities to ministers and chief executives and cascading planning, priority-setting and performance targets – in particular in the ‘state-level planning’ initiatives in sub-national government in Australia, Canada

**Table 4: Strategy 4, legislating for outcomes at the centre**

Dimensions		Elements	
<i>Purpose</i>	Ministerial accountability	<i>Objective setting</i> – how	Ministerial outcome responsibility statements
<i>Locus</i>	Ministerial portfolios, flowing into clusters of agencies	<i>Organisational performance information and development</i> – where the emphasis lies	Organisational outcomes hierarchies and measures in ministerial statements anchored
<i>Focus</i>	Ministers – sector outcomes Organisational – specific outcomes hierarchies	<i>Monitoring</i> – where and how performance information is monitored	Quality of outcomes-thinking used in chief executive performance reviews
<i>Scope</i>	Ministers – intervention choices (comprehensive) Organisational – outputs and capability (comprehensive)	<i>Performance information reporting</i> – where and how performance information is reported	Annual report by ministers against their outcome responsibility statements Annual report by organisations against organisational outcomes hierarchies and outputs (limited)
		<i>Decision rights</i> – where they are assigned	Steering role of and selection of interventions by ministers strengthened

and the United States. The principal learning from New Zealand’s experience is that a strategic management system is particular to the government of the day, and previous systems have not withstood a change of prime ministers.

As with the previous strategies, this approach is based on the view that political restraint underpins the lack of sustained progress on responsibility for outcomes. This approach is, however, a strengths-based approach which builds on political leadership practice within the current legislative framework and authorising environment. Consideration could be given to simplifying reporting requirements, by removing service performance reports from the current attest audit approach<sup>6</sup> and removing financial reporting from annual departmental reports. Departmental financial statements could be made available on Treasury’s website as part of the financial statements of the

government, or on each department’s website. The chief executive performance management process could be amended by explicitly including progress against the agency’s main priorities in the review.

**Strategy 4: legislating for outcomes at the centre**

The fourth strategy involves legislating for outcomes at the centre, building on the foundations of the Public Finance Act 1989 relating to outcomes that have never been realised. The strategy would aim to achieve a subtle but important rebalancing of the formal system to include responsibility for outcomes as well as accountability of outputs.

This strategy aims to enhance the design of the formal performance management system by providing an explicit role for ministerial leadership of outcomes. This design would have as its centrepiece a statutory requirement for ministers to assume formal responsibility

for the articulation of outcomes, including performance information (indicators and targets), and reporting results. This variant involves similar clarity in new areas as already exist for the government’s fiscal strategy under the fiscal responsibility provisions in the Public Finance Act 1989.<sup>7</sup> The option is based on the view that underpinning the lack of sustained progress on outcome performance information is the incompleteness in the design of the system due to a political constraint. Nonetheless, this strategy works within the current authorising environment.

The potential for this strategy to drive change in practice will depend on the extent to which ministerial outcome responsibility statements (and the attendant changes) address the constraint imposed by an authorising environment dominated by the ‘iron rule of political contest’.

The previous strategies all involve relatively modest change to the authorising environment, and risk making a limited contribution to achieving a step change in organisational performance management. It is to this constraint that discussion of strategy 5 turns, starting from the position that accountability for performance requires change in the ‘two cultures’ of the political world (ministers and Parliament) and the managerial world (public officials) (Prebble, 2010, page 50).

**Strategy 5: reframing the political contest**

Strategy 5 – reframing the political contest – is the sea-change option, which aims to achieve transformational change by altering the authorising environment. This strategy involves moving from oppositional politics to a more consensual multi-party and community-based approach to improving performance. The aim is to shift the political constraint that has limited sustained progress on outcome performance information by creating a political circuit-breaker that disrupts the iron rule of political contest.

The premise for Strategy 5, therefore, is that it is not possible to get traction with improving public management performance without changing the more important or dominant characteristics



of the authorising environment, even if only by chipping away at them. In a nutshell, this strategy would involve broadening the focus of change to cover elements of the authorising environment and repositioning the nature of the relationships between the bureaucracy, ministers, the legislature and the wider public. Strategy 5 has the potential to achieve transformational change. This strategy is based on breaking the ‘blame game’ by moving to a more community-based and consensual multi-party approach to improving performance, and, as part of that, to more shared arrangements for policy making. To be effective, ‘breaking the blame game’ would require high-quality engagement and genuine buy-in, as well as the development of credible and accessible state reports against benchmarks. In the process, this strategy has the potential to shift political discourse into a more outcome- and evidence-informed space.

The strategy starts from the proposition that there is space for political convergence around big policy outcomes. Although the politics is intermittently drawn to the lightning rod of values trade-offs between societal outcomes, generally the substance of current policy debate is about the best means to achieve the outcomes. Importantly, this approach would build a platform for performance dialogue that emphasises improvement and rectification over fault-finding and retribution.

As with the previous strategies, this approach involves a change in leadership style by shifting the focus away from agency-level output management towards an explicit performance context of outcome ‘goals’ and benchmarks, within which organisations shaped their performance and could assess their contribution to improving societal outcomes. This environment would provide a powerful framework within which staff could be empowered to make a difference. If successful, the strategy would result in societal outcomes that stand as enduring features of the political landscape, not political slogans linked to one administration.

As with the previous strategies, the increased emphasis on selective reporting

**Table 5: Strategy 5, reframing the political contest**

Dimensions		Elements	
Purpose	Public participation and dialogue, and organisational learning	Objective setting – how	Societal-level outcomes, benchmarks and measures set by Kiwis’ Council (or equivalent)
Locus	Independent analysis of credible societal outcomes information	Organisational performance information and development – where the emphasis lies	Organisational outcomes hierarchies and measures anchored in societal outcomes
Focus	Independent – societal outcomes Organisational – specific hierarchies	Monitoring – where and how performance information is monitored	Quality of outcomes thinking used in chief executive performance reviews
Scope	Societal – comprehensive outcomes reporting Organisational – specific outcome reporting	Performance information reporting – where and how performance information is reported	Societal outcomes reported independently, and regularly (less frequently than annual and varying cycles) Annual reports against organisational outcomes hierarchies and outputs by organisations
		Decision rights – where they are assigned	Following community engagement, societal outcomes are determined

and the development of new outcome-related performance indicators could be accompanied by a move to more selective and variable reporting, based on size, customer and function. The chief executive performance management process would be amended by including in the review an examination of chief executives’ understanding of progress against the outcome indicators, and their effectiveness in balancing political pressures with longer-term outcome achievement.

**What is to be done?**

When considering these strategies, it is important to distinguish between limitations or parameters that can be changed and constraints that cannot. In this context limitations are the design

variables or parameters that were specific to the New Zealand public management model of organisational management. These limitations need to be clearly distinguished from the constraints that are inherent in politics, people and public services, and that are faced by any conceivable public management model. Limitations specific to the New Zealand public management model, which by their nature can be considered for change, include characteristics that:

- are inherent in the design of the formal system;
- reflect incompleteness in the design of the formal system;
- reflect poor implementation (inconsistent with the design and not design flaws).

Constraints faced by any conceivable public management system, are inherent in:

- politics, specifically in Westminster democracies;
- people – their limits and bounded rationality;
- public services, with several services provided by governments having limited comparability with services provided in the private sector (and so limited competition for supply) and limited (or difficult) measurability (or contractibility).

By contrast, the role played by the agencies at the centre of the state sector is a limitation that can be varied, rather than a constraint under which we are compelled to operate. It was expected at the time of the public sector changes that central agencies would use performance information to hold chief executives accountable for organisational performance. In reality, however, we found relatively little (and decreasing) use of performance information by the central agencies, other than as a measure of bottom-line performance when things go wrong. The strategies we have proposed in this article suggest a more active leadership role by the centre in developing organisational performance management systems, and more actively using the information that emerges.

What the best strategy is for improving organisational performance through achieving outcomes-focused management depends on the view of the fundamental constraints and limitations on improving organisational focus on outcomes within the overall system. If the dominant problem is one of poor implementation rather than design flaws or incompleteness, the most effective responses are most likely to be technical ones, such as a product re-launch and greater focus on the implementation approach. If the dominant problem is the iron rule of politics, a technical solution based on a product re-launch is unlikely to be effective in achieving a step change, and a change in the authorising environment may be required. No change to the legislation underpinning the public management system, for example, will fundamentally change Ladley's iron rule.

#### Next steps

This article has set out a range of possible strategies for developing the system of organisational performance management to focus on improving the overall effectiveness of the state sector in achieving outcomes. Regardless of the broad strategy, or mix of strategies, chosen, important implementation issues and challenges will need to be addressed, including leadership and capability-building, and realism needed about the resources and time required to move forward.

A seasoned Wellington commentator has classified the capabilities of New Zealand public agencies to manage for outcomes as follows: organisations 'either don't have the data; have the data and lack the ability to interpret it; or have the data and capability, and have never tried'. While this judgement may be harsh, the implication is correct. Using performance information to manage for outcomes may not be a holy grail, though it is certainly a long quest. The quest requires a sustained commitment of resources to build the capability dedicated to measuring outcomes and the effectiveness of interventions. Pursuit of the quest is analytically challenging and expensive, requiring time, sustained investment, commitment and leadership within public agencies.

The strategies proposed in this article have presented options for what could be removed from the performance management system, as well as what may need to be added. Half-hearted change, which adds new features to an already cluttered system without removing other components, is likely to make system performance worse. Addressing this problem will require proper system design that integrates new components into the formal system and reduces or removes others.

Making progress will also require effective concerted leadership from the agencies at the centre. That leadership will need to be based on an informed understanding of the positive role of performance measures, as well as of the inherent limits in terms of gaming, cheating, limited coverage (synecdoche) and complexity. The starting point is that those who act – and exercise

accountability – must have a degree of self-awareness of the perspectives that they bring to bear to particular issues. The numbers never speak for themselves, and inevitably there is some subjectivity around their meaning. Bedding in this change will require greater sophistication from the agencies at the centre to manage the inherent tensions.

Leadership, capability-building and adequate resources are necessary, but they are insufficient on their own. Managerial solutions cannot, by themselves, address what are principally political problems – they will not take the politics out of politics. To be effective, the strategies will need to recognise the reality of the 'two cultures' of the political world. Anchoring the changes we have suggested for achieving a step change in public management in New Zealand will require building a shared and sustained understanding and commitment from all those involved – managers and staff in departments as well as ministers. Achieving the changes in practice will require sustained and astute leadership from the centre and concerted effort from line agencies. A system that is cluttered by the debris of previously failed changes is an entirely predictable outcome from a half-hearted approach to change. We owe it to New Zealanders to do better than that.

- 1 Outcomes-focused organisations are those whose resources, processes and outputs are shaped by the desire to achieve an explicit outcome or result: the Land Transport Safety network discussed in chapter 13 of Gill, 2008 provides a good New Zealand example of working in this way.
- 2 The land transport network case study is the exception to the rule: 'If you don't achieve them then it's a constant whipping that you get every year when ... the target hasn't been met' (Gill, 2008, p.346).
- 3 'Interventions' is jargon for a variety of policy instruments, including outputs, specific taxes, transfers and regulation.
- 4 For a discussion of the requirements for an effective strategic management system, including political leadership, bureaucratic capability, the quality of outcomes information and clarity of analysis, see State Services Commission, 1998.
- 5 The government's strategic priorities are the priorities it wishes to pursue through a variety of policy interventions. There is an important distinction between 'outcomes' and 'government priorities', a phrase that has more general coverage. Government priorities may address interventions, capability-building and so on in addition to outcomes.
- 6 'Attest audits' involve the auditor providing a clear expression of opinion, based on their review and assessment of the conclusions drawn from evidence obtained in the course of the audit. Attest audits are intended to provide assurance about the written assertions made by the party that has been audited (NZICA, 2006, pp.317-18).
- 7 Section 26I of the Public Finance Act 1989 requires a fiscal strategy report each year with the Budget which includes explanations of variations and changes from the previous year's report; section 26N requires a statement on the long-term (40 years) fiscal position at least every four years.

## References

Advisory Group on the Review of Australian Government Administration

(2010) *Ahead of the Game: blueprint for the reform of Australian government administration*, Canberra: Commonwealth of Australia

Bourgon, J. (2008) 'The future of public service: a search for a new balance', *Australian Journal of Public Administration*, 67 (4), pp.390-404

Dunleavy, P, H. Margetts, S. Bastow and J. Tinkler (2006) 'New public management is dead: long live digital era governance', *Journal of Public Administration Research and Theory*, 16 (3), pp.467-94

Gill, D. (2008) 'Managing for performance in New Zealand: the search for the holy grail?', in KPMG International (ed.) *Holy Grail or Achievable Quest: international perspectives on public sector performance management*, KPMG International

Gill, D., S. Pride, H. Gilbert and R. Norman (2010) *The Future State*, working paper 10/08, Wellington: Institute of Policy Studies, <http://ips.ac.nz/publications/files/3790f871257.pdf>

Gill, D. (ed.) (2011) *The Iron Cage Recreated*, Wellington: Institute of Policy Studies

Lindquist, E. (2011) *No Reform Left Behind: integrating frameworks and implications for New Zealand's centre-of government and public*

*sector improvement*, working paper 11/01, Wellington: Institute of Policy Studies

NZICA (2006) 'The audit report on an attest audit', Auditing Standard 702, issued by council of the New Zealand Institute of Chartered Accountants

Osborne, S. (2006) *The New Public Governance?: emerging perspectives on the theory and practice*, Taylor & Francis

Prebble, M. (2010) *With Respect: parliamentarians, officials, and judges too*, Wellington: Institute of Policy Studies

State Services Commission (1998) *A Better Focus on Outcomes through SRA Networks*, occasional paper 3, Wellington: State Services Commission

State Services Commission, Treasury and Department of the Prime Minister and Cabinet (2009) *Performance Improvement Framework Agency Formal Assessment: the performance improvement framework in detail*, Wellington: State Services Commission, Treasury and Department of the Prime Minister and Cabinet

Treasury (2009) 'Better Administrative and Support Services', <http://www.treasury.govt.nz/statesector/performance/bass>

# THE IRON CAGE RECREATED

## The Performance Management of State Organisations in New Zealand

Edited by Derek Gill

Wouter Van Dooren, a highly respected international academic, suggested that "politicians don't use performance information; citizens don't understand it and don't bother with it; and public managers don't trust it or don't take it seriously". A former New Zealand Controller and Auditor-General, Kevin Brady, has described the quality of non-financial performance information produced by public sector agencies in New Zealand in highly derogatory terms. In a similar vein a former Cabinet minister observed that "no one in their right mind" would rely on New Zealand government management reporting.

This book explores the results of a major three-year research project by a team of academic researchers and public officials on the use of performance information in the New Zealand state sector. It examines the formal design of the performance management system and how this system has evolved, then uses survey and case study evidence to show how performance information has been used in state sector organisations.

The New Zealand public sector pioneered comprehensive and rigorous systems for planning, managing, and reporting government performance in the 1990s. Twenty years on,

we ask whether performance information has fallen into disrepute, and whether the production of such information has degenerated into an exercise in compliance. Do managers in the New Zealand state sector actively use performance information in decision-making?

The research finds decision-makers at all levels of executive government actively using performance information for control purposes, rather than solely as an exercise in compliance (which in part it is). What emerged within public agencies was the picture of an iron cage of control based on performance measurement. This was not how the designers of the formal system envisaged performance information would be used. The book concludes with proposals for the ongoing development of organisational performance management in New Zealand.

**An Institute of Policy Studies Publication edited by Derek Gill**  
**Publication Date: March 2011. Format B5 Paperback, pp 544**  
**ISBN 978-1-877347-41-2 – IPS/PUB/172 Price - \$65 (including P&P within New Zealand)**  
**Place your order by email, phone, fax or mail to**  
**Institute of Policy Studies, Victoria University of Wellington**  
**Email [ips@vuw.ac.nz](mailto:ips@vuw.ac.nz) Telephone +64 4 463 5307**  
**PO Box 600, Wellington, New Zealand**  
**An invoice will be issued with your order**

# THE IRON CAGE RECREATED

## The Performance Management of State Organisations in New Zealand

Edited by Derek Gill



Institute of Policy Studies

Institute  
of  
policy  
studies

# Best Practice Regulation Setting Targets and Detecting Vulnerabilities

How good is our regulation? Are there opportunities for improvement through either materially rethinking how we regulate or a process of continuous improvement? Are there latent weaknesses in our regimes which may result in, for example, another ‘leaky building’ situation?

One of the problems we have in answering these questions is the lack of a shared understanding of the attributes of good-quality regulation. Arguably, a shared understanding would help mobilise and co-ordinate dispersed knowledge of how the law is working in practice, and give us a better appreciation at any point in time of the health of our regulatory regimes. This article identifies a set of best practice regulatory principles and associated performance indicators and, while recognising the limitations of hindsight, explores the possibility that applying

these principles would have given us early warning of the weaknesses in the 1991 building control regime.

## Regulatory regimes as experiments

We often have an idealised or optimistic view of regulation based on what we believe it will deliver by way of outcomes, be they economic, social or both. It is generally articulated, at least by the proponents of a particular regulatory approach, at the time that approach is being developed and implemented. However, the reality can fall short of the ideal, so much so on some occasions that the regulatory approach is considered to have failed and a new ideal is articulated. This pattern of optimism followed by disappointment followed by optimism can be observed over time and

across different regulatory areas. It can also be observed in pendulum swings between different regulatory approaches, which often take the form of slogans – such as ‘light-handed’ versus ‘heavy-handed’, ‘prescriptive’ versus ‘principles’ or ‘more’ versus ‘less’ government.

But excessive optimism or pessimism, pendulum swings and slogans are not necessarily helpful to rational policy making. It would be better to reflect the reality that for the most part regulatory regimes are *experiments*: in other words, when a new regime is put in place we do not know in advance precisely how it will work in practice. It may well be that the assumptions and evidence on which the regime is based are robust, based on generally acceptable standards for the quality of policy advice. The regime might also work in the intended manner in most circumstance and most of the time. However, we must also acknowledge that the environment in which regulation operates, and that it is intended to influence, is highly complex and often unstable. For example, population groups are heterogeneous and what might work for one group may not for another. The performance of regulators themselves is influenced by a range of incentives and underlying capabilities (see Bardach and

---

Dr Peter Mumford is a Director in the Ministry of Economic Development and Principal Advisor in the Treasury.

Kagan, 1982 for an analysis of factors which affect regulator performance). Over time societal expectations, technologies and markets all change, which means that regimes which may have worked at one point in time might not at another.

Anticipating all the circumstances that a regulatory regime is likely to encounter at any point in time, and over time, and predicting how the regime will work in those circumstances is beyond human capability. If we do accept, nevertheless, the proposition that regulatory regimes are experiments, and novel regimes even more so, then constant monitoring and evaluation over time are critical. How should this be done? I would like to propose three elements of a strategy.

The first is that there is a shared agreement within the regulatory and policy communities and with key stakeholders on the generic attributes of good-quality regulation. This goes further than simply agreeing on regulatory objectives and the means of achieving them. Within an experimental frame our interest is in those attributes that contribute to the robustness of the regime and to its durability. Secondly, there is timely feedback on how regulatory regimes are performing in practice, relative to these attributes. Thirdly, there is the capacity to evaluate the feedback – to sort the wheat from the chaff – and a willingness to act when the situation requires it, based on empirical evidence and sound judgement.

Within an experimental frame one aim is to improve regulatory regimes through a process of continuous improvement. We have also learnt from experience that an equally important aim is to minimise the risk of regulatory failure, with its associated social and economic costs.

#### Attributes of best practice regulation

What are the attributes of good-quality regulation? Drawing on a range of sources, including OECD and APEC documents, and guidelines and directives produced by many governments around the world,<sup>1</sup> the Treasury has codified a set of attributes in the form of principles and performance indicators (as set out Table 1).

The second of these attributes is *proportionality*, which is expressed as the

**Table 1: Best practice regulation principles and indicators**

The principles have been drawn from Treasury experience and cross-checked against OECD, APEC and World Bank principles, and principles that have been adopted in comparable jurisdictions such as the United Kingdom, Australia and the United States, and against earlier New Zealand principles, in particular the Code of Good Regulatory Practice.

Attribute	Principle	Indicators
Growth-supporting	Economic objectives are given an appropriate weighting relative to other specified objectives	<ol style="list-style-type: none"> <li>1. Identifying and justifying trade-offs between economic and other objectives is an explicit part of decision making</li> <li>2. The need for firms to take long-term investment decisions is taken into account in regulatory regimes where appropriate</li> <li>3. Open and competitive domestic and international markets an explicit objective</li> </ol>
Proportional	The burden of rules and their enforcement should be proportionate to the benefits that are expected to result	<ol style="list-style-type: none"> <li>1. A risk-based, cost-benefit framework is in place for both rule-making and enforcement</li> <li>2. There is an empirical foundation to regulatory judgements</li> </ol>
Flexible and durable	<p>Regulated entities should have scope to adopt least-cost and innovative approaches to meeting legal obligations</p> <p>The regulatory system has the capacity to evolve to respond to changing circumstances</p>	<ol style="list-style-type: none"> <li>1. The underlying regulatory approach is principles- or performance-based, and policies and procedures are in place to ensure that it is administered flexibly</li> <li>2. Non-regulatory measures, including self-regulation, are used wherever possible</li> <li>3. Feedback systems are in place to assess how the law is working in practice</li> <li>4. Decisions are reassessed at regular intervals and when new information comes to hand</li> <li>5. The regulatory regime is up to date with technological and market change, and evolving societal expectations</li> </ol>
Certain and predictable	Regulated entities have certainty as to their legal obligations, and the regulatory regime provides predictability over time	<ol style="list-style-type: none"> <li>1. Safe harbours are available and/or regulated entities have access to authoritative advice</li> <li>2. Decision-making criteria are clear and provide certainty of process</li> <li>3. The need for firms to take long-term investment decisions is taken into account in regulatory regimes where appropriate</li> <li>4. There is consistency between multiple regulatory regimes that affect single-regulated entities where appropriate</li> </ol>
Transparent and accountable	Rules-development, implementation and enforcement should be transparent	<ol style="list-style-type: none"> <li>1. Regulators must be able to justify decisions and be subject to public scrutiny</li> </ol>
Capable regulators	The regulator has the people and systems necessary to operate an efficient and effective regulatory regime	<ol style="list-style-type: none"> <li>1. Capacity assessments are undertaken at regular intervals and subject to independent input and/or review</li> </ol>

principle that the burden of rules and their enforcement should be proportionate to the benefits that are expected to result. Another way to describe this principle is that the emphasis is placed on a risk-based, cost-benefit regulatory framework and risk-based decision making by regulators.

Risk-based regulation requires consideration of the likelihood and consequences of an adverse event and the costs of mitigating the risk. It assumes that risk cannot be taken out of people's lives, and hence it sets a threshold for state intervention. Underpinning risk-based regulation is both evidence and judgement. In many situations the

competent and those who are expert, the latter being able to make accurate intuitive judgements in complex decision-making contexts where there is a high level of uncertainty (useful sources on expertise are Ross, 2006 and Ericsson et al., 2006). Experts are likely to have a minimum of ten years' experience, leading to the 'ten-year rule', but experience is only one of the conditions. K. Anders Ericsson of Florida State University has concluded that 'what matters is not experience per se, but "effortful study", which entails continually taking challenges that lie just beyond one's competence' (Ross, 2006). It is highly risky to implement a regime which requires expertise without an

or decision making at a future time. Regulators also value certainty as it makes clear what they have to enforce, and so the job of enforcement easier.

Indicators of a regulatory system which provides certainty are the availability of safe harbours and access to authoritative advice; decision-making criteria that is clear and provides certainty of process; and evidence that the need for firms to take long-term investment decisions is taken into account in the design of regulatory regimes.

The third attribute is *flexibility*. This is reflected in the principle that regulated entities should have scope to adopt least-cost and innovative approaches to meeting legal obligations. Indicators of a regulatory regime that is flexible are that the underlying regulatory approach is principles- or performance-based and policies and procedures are in place to ensure that it is administered flexibly, and that non-regulatory measures, including self-regulation, are used wherever possible.

There can be tension between the attributes of certainty and flexibility. Providing for safe harbours such as deemed-to-comply standards within a principles- or performance-based regime is intended to resolve this tension, but many would acknowledge that configuring a regulatory regime such that both attributes are optimally reflected is a challenge.

Closely associated with flexibility is *durability*: the principle that the regulatory system has the capacity to evolve to respond to new information and changing circumstances. Flexibility and durability can be two sides of the same coin. That is, a regime that is flexible is more likely to be durable, so long as the conditions are in place for the regime to 'learn'. Indicators of durability are that there are feedback systems in place to assess how the law is working in practice; decisions are reassessed at regular intervals and when new information comes to hand; and the regulatory regime is up to date with technological change. Adaptive efficiency and double-loop learning are amongst the techniques or systems that facilitate such learning (see

## Best practice regulatory principles have value within an overall regulatory quality management system which treats regulatory regimes as experiments that require both ongoing monitoring and evaluation and consequential adjustments to ensure that the regimes continue to be effective and efficient.

evidence we need is science-based, and this requires us to have particular regard to the linkages between the regulatory and science systems. But information is also required on the community's tolerance for risk, having regard to the cost of mitigating the risk (there is a rich risk literature (for example, see Bryner, 1994; Kraft and Vig, 1988; Vogel, 1986; Brown, 1987; Breyer and Heyvaert, 2000; Slovic, 1987; Sapolsky, 1986; HM Treasury, 1996)).

Judgement is necessary because evidence is often incomplete. The exercise of judgement is a cognitive process and in designing regimes that rely on judgement we must have regard to the characteristics of those who are to exercise it. The literature on expertise and wisdom provides signposts to what those characteristics are. For example, it makes a clear distinction between those who are

assurance that the right sort of experts are involved in decision making.

The fourth of the attributes is *certainty*. This is the principle that the regulatory system should be predictable so as to provide certainty to regulated entities, and be consistent with other policies. Regulated entities require certainty because this reduces the costs and risks associated with compliance, not just now but into the future. Small and medium-sized enterprises are often singled out as those which particularly value certainty 'here and now'. The idea that regulatory regimes should provide certainty over time is also of particular importance to some regulated entities: for example, firms which have to make long-term investment decisions, either in innovation, markets or infrastructure, where the cost is upfront but the pay-off will be influenced by regulatory settings

Driesen, 2004; Oregon State University, 2002; Smith, 2001).

The fifth of the attributes is jointly *transparency* and *accountability*. These are reflected in the principle that rules-development and enforcement should be transparent. In essence, regulators must be able to justify decisions and be subject to public scrutiny. The transparency and accountability principle includes non-discrimination, provision for appeals and sound legal basis for decisions.

The sixth attribute is capable regulators: specifically, that the regulator has the people and systems necessary to operate an efficient and effective regulatory regime. A key indicator of a regime that provides an assurance of capability is that capability assessments are undertaken at regular intervals and subject to independent input and/or review.

There is a seventh attribute which is associated with a particular outcome, and hence to some extent differs from the previous six in so far as they could be seen as intermediate objectives. This is growth-supporting, the principle being that economic objectives are given an appropriate weighting relative to other specified objectives. These other objectives could be related to health, safety or environmental protection or consumer and investor protection. Economic objectives include impacts on competition, innovation, exports and compliance costs, and trade and investment openness. An indicator of a regulatory regime that embodies this attribute is that the identification and justification of trade-offs between economic and other objectives are an explicit part of decision making. It does not assume that growth should be given prominence over other important outcomes; rather it responds to a belief that growth as an objective is not always given due weight.

Best practice regulatory principles have value within an overall regulatory quality management system which treats regulatory regimes as experiments that require both ongoing monitoring and evaluation and consequential adjustments to ensure that the regimes continue to be effective and efficient. Such principles

are a codification of knowledge that exists, but is not necessarily shared by those who have responsibility for monitoring and evaluating regimes and those who have responsibility for the delivery of regulatory outcomes. They are also not necessarily shared by those who may have knowledge of how regulatory regimes are working on the ground. Shared principles can have a normative and persuasive effect, but also act as benchmarks against which the many actors in the system – those who monitor and evaluate, regulatory policy

beforehand, and the likelihood of ultimate failure lessened?

Novel regulatory regimes are inherently more experimental than established regimes, and the 1991 building control regime was particularly novel. Not only did it embody a novel regulatory approach – specifically, performance-based regulation – but it was also a uniquely pure application of a performance-based philosophy (May, 2003), compared with building control regimes in other countries which have retained quite a prescriptive character.

## The failure of the building control regime which was introduced by the Building Act, 1991 affects at least 42,000 homes at a cost of at least \$11.3 billion ...

agencies and regulators, and stakeholders – hold each other to account.

### Can monitoring against best practice principles help reveal latent weaknesses in regulatory regimes?

Within an experimental frame, continuous improvement, or a drive to reach the regulatory best practice frontier, is an important objective. Equally important is the early detection of the potential for regulatory failure. Through a retrospective application of the best practice regulatory principles to the 1991 building control regime, this section explores the possibility that proactive monitoring against them would have revealed latent weaknesses in the regime.

Regulatory failure results when a regulatory regime does not deliver what society reasonably expects it to deliver. The costs can be very significant. The failure of the building control regime which was introduced by the Building Act, 1991 affects at least 42,000 homes at a cost of at least \$11.3 billion (PricewaterhouseCoopers, 2009). Could latent weaknesses in the 1991 building control regime have been identified

What makes performance-based regulation novel? I will highlight three features. The first is associated with its underlying regulatory philosophy. Performance-based regulation sets goals and is deliberately not overly prescriptive about how to achieve them. These goals can have varying degrees of specificity: in some cases they can be quite general, such as the need to achieve adequate levels of safety, but with no definition of what 'adequate' means. Therefore, a defining feature of performance-based regulation is that it is more reliant on expert judgment, at least relative to a prescriptive regime based on standards refined over time through a process of trial and error (Mumford, 2011, p.111).

Secondly, the case for performance-based regulation is often made on the basis that it will facilitate innovation, often technological innovation: for example, a new building technology. Innovation typically involves some degree of risk-taking, and it is a reasonable conclusion that performance-based regulation is in many cases a policy experiment to facilitate technological experimentation. This was evident in the leaky-building

example. The combination of monolithic cladding, untreated timber, complex building designs, adverse weather conditions, and a lack of sensitivity by building practitioners to the vulnerabilities of this combination resulted in a failed technological innovation, to such an extent that it resulted in the failure of the innovative regulatory regime.

The third feature is that performance-based regulation is often adopted as a reaction to prescriptive regulation

revealed a regime that was vulnerable to failure.

By way of background, the 1991 Building Act put in place a performance-based building framework. The purpose of the act was to ensure that buildings were safe and healthy for those who used them, but an important objective of the new regime was to encourage innovation in the building and construction industry (Mumford, 2011, p.11). The way the regime reflected this objective was through

number of buildings leaked causing significant damage, economic cost and social hardship over an extended period of time.

Had we assessed the building control regime against the best regulatory practice principles in, say, the mid-1990s, we probably would have said that the growth-supporting objective was reflected in the regime. Innovation, and for that matter compliance-cost reduction, were important considerations in the administration of the regime. We would similarly have been comfortable, I expect, with the flexibility the regime provided through the alternative solutions route. We may have been comfortable with the certainty that was provided by deemed-to-comply acceptable solutions, but could have picked up a concern that the lack of detail in consent applications led to uncertainty about whether plans and specifications did in fact meet the performance requirements in the Building Code (Government Administration Committee, 2003, p.31). It is doubtful that we would have identified significant issues in relation to transparency and accountability in the mid-1990s, although accountability issues were highlighted in the various analyses of the leaky building crisis (May, 2003, p.397).

We may have been less sanguine about proportionality. There was apparently no formal risk assessment of new building technologies, such as monolithic cladding, having regard to the state of the building sciences, information being volunteered by industry participants and drawn from overseas experience, the objectives of the Building Act and the performance requirements of the Building Code. To the extent that risk-based judgements were made, they were permissive rather than precautionary (Mumford, 2011, p.83). Another way of saying this is that the regulators put a lot of weight on the innovation objective and less weight on acquiring and weighing evidence on the efficacy of innovative building technologies.

We would also most likely have been concerned about durability, as it has been couched in the Treasury principles and performance indicators with their emphasis on the need for robust feedback

## **The passage of the 1991 Building Act presaged a new regulatory environment which shifted the responsibility for decision making from standards committees ... to territorial authorities, building certifiers, designers and builders and their advisers.**

(Mumford, 2011, pp.8-9). Prescriptive regulatory regimes are often highly path-dependent and deeply embedded. Such regimes are therefore familiar to those who administer them, and to those who are required to comply. They may not like the regime; they may find it heavy handed, costly and inflexible. But they are conditioned through experience to working with it and have developed relevant behaviours and capabilities.

The shift from prescriptive to performance-based regulation therefore is a material shift as it inevitably requires new capabilities and behaviours. These are required across the spectrum, from regulators to regulated entities, expert bodies, and consumers or investors. New institutions may also be required, to collect, assess and diffuse information and identify and reinforce appropriate behaviours. It should be noted that the challenges of regime change are not unique to performance-based regulation; but they are likely to arise in most if not all regime-change contexts.

It is argued here that monitoring of the 1991 building control regime against the best practice principles may have

the performance-based building code and provision for both alternative and acceptable solutions. Acceptable solutions were the old prescriptive standards, and compliance with an acceptable solution was deemed compliance with the performance requirements in the building code. Alternative solutions were one-off designs, and territorial authorities were required to determine whether, on reasonable grounds, the designs met the sometimes quite general code requirements. In making their decisions, the territorial authorities could and often did draw on expert advice, and in situations of doubt or dispute they could seek a determination from the Building Industry Authority.

Buildings that leaked resulting in damage were not compliant with the performance requirements of the building code. In effect, the judgement exercised by territorial authorities when giving consent to monolithic-clad building designs, and inspecting such buildings in the course of construction, was wrong. However, the 1991 regime did not fail because some buildings leaked. The regime failed because a very large



Table 2: Retrospective assessment of 1991 building control regime against best practice principles

Growth-supporting	Proportional	Flexible	Durable	Certain and predictable	Transparent and accountable	Capable regulators

Grey = strong indication of concern; dark blue = possible area of concern; Light blue = no significant concerns

systems to monitor and evaluate how the law is working in practice. In the context of the building control regime, the assessment and associated feedback loops would have been against the primary purpose of the act, which was health and safety, and against the key objective of innovation in the building and construction industry. It should have taken into account how novel building technologies were performing in the field given uncertainties about how they would perform in all the circumstances of their use. It is clear in the building code case that there was not a robust monitoring and evaluation framework. As a consequence, important knowledge about the performance of new building technologies, and the implications of this for the consenting and inspection process, were not revealed and assimilated into the building control system in a timely manner (Mumford, 2011, p.83).

Another of the principles we would have been concerned about is capability. The passage of the 1991 Building Act presaged a new regulatory environment which shifted the responsibility for decision making from standards committees, who, for the most part, make changes at the margin to existing building standards on the basis of a consensus of technical experts and community representatives, to territorial authorities, building certifiers, designers and builders and their advisers. This was a material shift, given that the decisions that needed to be made required significant judgement, not just in relation to technical matters but also on the community’s risk preferences. It demanded a higher level of technical expertise, as well as input from those in the community who were able to contribute to the judgements on what is an acceptable risk.

In the final analysis, it is clear that those who were required to make such judgements lacked the expertise to do

so. This did not appear to have been recognised as an implementation issue for the regime, or, if it was recognised, not acted upon (Mumford, 2011, p.83).

**Conclusion**

I have briefly outlined two propositions. The first is that regulatory regimes are experiments, and novel regulatory regimes are particularly experimental. The second is that it is possible to codify a generic set of best practice principles and performance indicators that can be applied at the regime level as benchmarks for design and administration, and at the systems level to gauge how well policy experiments are working.

I have attempted to demonstrate, by reference to the failure of the 1991 building control regime, how treating the regime as an experiment and assessing it against the principles, having regard to the particular vulnerabilities of performance-based regulation as a class of regulation and the challenges of regime change, may have revealed weaknesses within the regime which increased the risk of failure.

Performance-based regulation is a particular class of regulation that reflects certain objectives and similar design features, and has certain vulnerabilities associated with these. A shared objective is a regulatory regime which facilitates innovation, and this is done through a regulatory design which values flexibility. A key vulnerability arises when innovation involves risk-taking; flexibility requires expert judgement, as the efficacy of such a regime depends on having the right people making the decisions, and robust feedback loops and a capacity to respond appropriately to that feedback. It is an increasingly popular class of regulation (OECD, 2002; External Advisory Committee on Smart Regulation, 2004).

So the 1991 building control regime was not unique, at least in relation to certain key attributes. It was unique in so

far as it failed. Does this reduce its value as an analogy for other performance-based regulatory regimes? In other words, was the combination of factors that led to the failure specific to the built environment? The answer must be that while performance-based regulatory regimes may not necessarily fail, the building case demonstrates that they can fail, and as public policy advisers it is incumbent on us to minimise the risk of failure.

In complex decision-making contexts we often revert to heuristics, or ‘rules of thumb’. In an experimental frame the two that we might emphasise are ‘thinking ahead’ and ‘thinking along the way’ (Amanda Wolf, personal communication). Thinking ahead in the regulation context means being aware of the many things that could go wrong, based on a good historical understanding of the strengths and weaknesses of different classes of regulation. Thinking along the way means taking a real-world approach by asking what is happening in practice and whether this is consistent with the objectives, and being prepared to adjust the regime as you go.

I will conclude with two questions. The Treasury initiative to describe a set of best regulatory practice principles and performance indicators assumes that we are able to apply these across the broad range of regulation as an initial diagnosis of whether there is potential for improvement within regimes – to shift closer to the best practice frontier – and to detect latent weaknesses which may result in regulatory failure. However, at one level regulatory regimes are not the same. While they may have a similar underlying philosophy, and performance-based regulation is an example of this, they have different design features and the context in which they apply is different. Is it possible that in applying a generic set of principles and indicators we miss

something fundamental to the efficacy of a regime?

My second question reflects an alternative view. In this highly complex world in which we live, will a set of partial indicators, which the best practice principles inevitably are, applied widely as benchmarks and an initial diagnostic and early warning device, cast more daylight on the performance of our

regulatory regimes than would otherwise be the case?

<sup>1</sup> For example, see OECD, 1995, 1997; President of the United States, 1993, 2011; Coalition of Australian Governments, 2007; APEC and OECD, 2005.

#### Acknowledgements

I thank Dr Amanda Wolf, Senior Lecturer in the School of Government, and the Regulatory Quality Team, Treasury, for

their comments on this article. The views, opinions, findings, and conclusions or recommendations expressed in this article are those of the author. They do not necessarily reflect the views of the New Zealand Treasury or the Ministry of Economic Development.

#### References

- APEC and OECD (2005), *APEC–OECD Integrated Checklist for Regulatory Reform*
- Bardach, E. and R.A. Kagan (1982) *Going by the Book: the problem of regulatory unreasonableness*, Philadelphia: Temple University Press
- Breyer, S.G. and V. Heyvaert (2000) 'Institutions for regulating risk', in R. Revesz, P. Sands and R.B. Stewart (eds), *Environmental Law, the Economy, and Sustainable Development*, Cambridge: Cambridge University Press
- Brown, P. (1987) 'Popular epidemiology: community response to toxic waste-induced disease in Woburn, Massachusetts', *Science, Technology and Human Values*, 12 (3–4), pp.78-85
- Bryner, G.C. (1994) 'Trends in social regulation', in D.H. Rosenbloom and R.D. Schwartz (eds), *Handbook of Regulation and Administrative Law*, New York: M Decker
- Council of Australian Governments (October 2007) *Best Practice Regulation: a guide for ministerial councils and standard setting bodies*, Canberra
- Driesen, D.M. (2004) 'The economic dynamics of environmental law: cost-benefit analysis, emissions trading, and priority-setting', *Boston College Environmental Affairs Law Review*, 31 (3), pp.501-28
- Ericsson, K.A., N. Charness, P.J. Feltovich and R.R. Hoffman (eds) (2006) *The Cambridge Handbook of Expertise and Expert Performance*, Cambridge University Press
- External Advisory Committee on Smart Regulation (2004) *Smart Regulation: a regulatory strategy for Canada. Report to the Government of Canada*, <http://dsp-psd.pwgsc.gc.ca/Collection/CP22-78-2004E.pdf>
- Government Administration Committee (2003) *Weathertightness of Buildings in New Zealand*, Wellington: New Zealand Government
- HM Treasury (1996) *The Setting of Safety Standards*, London: HM Treasury
- Kraft, M.E. and N.J. Vig (1988) 'Evaluating technology through public participation: the nuclear waste disposal controversy', in M.E. Kraft and N.J. Vig (eds) *Technology and Politics*, Durham: Duke University Press
- May, PeJ. (2003) 'Performance-based regulation and regulatory regimes: the saga of leaky buildings', *Law and Policy*, 25 (4), pp.381-401
- Mumford, P. (2011) *Enhancing Performance-based regulation: lessons from New Zealand's building control system*, Wellington: Institute of Policy Studies
- OECD (1995), *Recommendation on Improving the Quality of Government Regulation*, Paris: OECD
- OECD (1997), *Policy Recommendations for Regulatory Reform*, Paris: OECD
- OECD (2002) *OECD Review of Regulatory Reform: regulatory policies in OECD countries*, Paris
- Oregon State University (2002) *Adaptive Management*, <http://oregonstate.edu/instruction/anth481/ectop/ecadm.html>, accessed 10 April 2008
- President of the United States (1993) 'Regulatory planning and review', executive order 12866, 30 September, *Federal Register*, 58 (190), 4 October
- President of the United States (2011) 'Improving regulation and regulatory review', executive order 13563, 18 January, *Federal Register*, 76 (14), 21 January
- PricewaterhouseCoopers (2009) *Weathertightness: estimating the cost*, Wellington: Department of Building and Housing
- Ross, P.E. (2006) 'The expert mind', *Scientific American*, 24 July, [www.scientificamerican.com/article.cfm?id=the-expert-mind](http://www.scientificamerican.com/article.cfm?id=the-expert-mind)
- Sapolsky, H.M. (ed.) (1986) *Consuming Fears: the politics of product risks*, New York: Basic Books
- Slovic, P. (1987) 'Perception of risk', *Science*, 236 (4799), pp.280-5
- Smith, M.K. (2001) 'Chris Argyris: theories of action, double-loop learning and organizational learning', *Encyclopedia of Informal Education*, [www.infed.org/thinkers/argyris.htm](http://www.infed.org/thinkers/argyris.htm), updated 7 September 2009; accessed 11 April 2008
- Vogel, D. (1986) *National Styles of Regulation: environmental policy in Great Britain and the United States*, Ithaca, NY: Cornell University Press

Tony Burton

# Financial Incentives for Welfare Recipients with No Other Income

## Introduction

The Welfare Working Group final report in 2011 focused on households whose working age members have a marginal attachment to the labour market. The main conclusion of this article is that a better understanding of the available options is needed if the welfare system is to motivate people in those households to move into paid work.

A large majority of working-age people whose main income is a welfare payment do not declare other income; thus, where the policy objective is increased

participation in paid work, the focus needs to be on motivating that participation. Policy to improve work incentives has been based on mapping bureaucratic rules, but these rules do not adequately reflect the incentives and the decision to start work. A better analysis would

examine the sources of income and the uncertainty of work for people with low skills. It would also look at the incentives created by additional sources of benefit income and informal income.

This has important practical implications for policy to increase participation in paid work. Most importantly, there need to be increased resources for support to find and maintain work, and non-financial interventions which change work motivation. Financial incentives need to be targeted where they are likely to be effective, such as encouraging more than minimal participation in work.

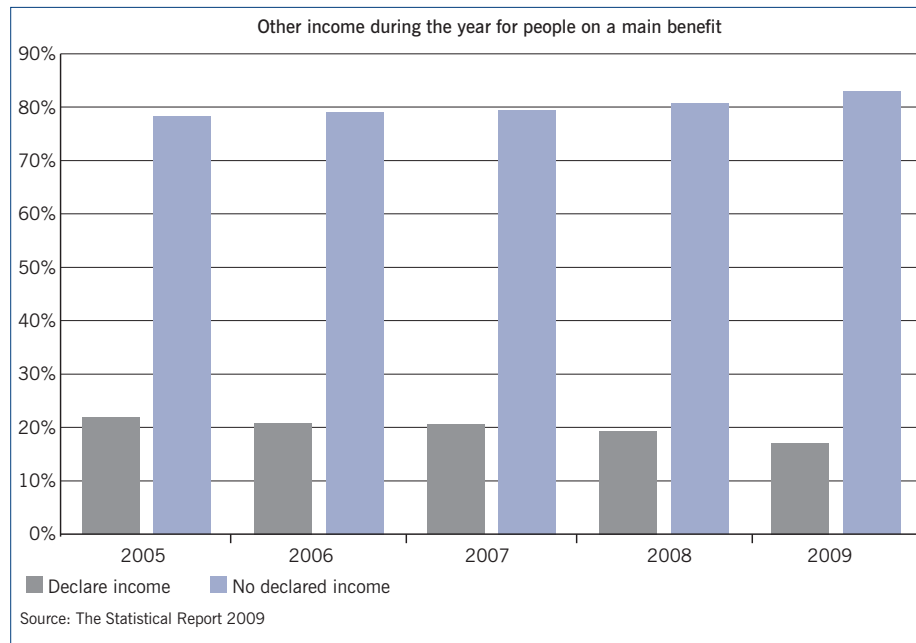
## Benefit payments and labour market participation

The great majority of people receiving a main benefit, mostly unemployment, invalid's, sickness or domestic purposes benefits, do not declare additional income. As Figure 1 shows, this has been true during recessionary and non-recessionary years. While there is variation between benefit types, more than two thirds of the recipients of each benefit have no other income each year (Ministry of Social Development, 2010, tables OB.1 and OB.2). Of those who first went onto a benefit in 1999, this was the main source of income for most of the following ten years for a third of the individuals, and for

---

Tony Burton is a Principal Advisor in the Labour Markets and Welfare team at the New Zealand Treasury

Figure 1: Proportion with a benefit income declaring earnings



more than five of the subsequent ten years for a further third (WWG, 2010, p.10). This article discusses work incentives for these people, the substantial majority of those receiving a main benefit. This article discusses these incentives.

Before doing so, however, it is worth noting two alternative approaches which claim that participation incentives are irrelevant to policy on the labour market participation of people receiving welfare payments.

One approach argues that a person's participation in paid work is an ethical, not an incentive, issue. It emphasises the obligations created by receipt of taxpayer-funded payments and that people should support themselves wherever possible, even if they are financially worse off by doing so. In this view, a focus on the financial rewards of working provides an excuse for moral failure. A different ethical perspective focuses on income as a requirement for a decent life and draws attention to the adequacy of payments. From this perspective, giving some priority to participation incentives creates additional hardship for people already suffering great personal and financial distress through low income.

This article does not offer an ethical judgement on whether or not people should respond to financial incentives. Practical policy design is helped by understanding the reasons why people

do not meet their obligations to take up paid work; or why a person who wants to work does not take an available job. Thus, the argument in this article is about what we need to do if we wish to encourage participation in the labour market.

The second alternative is to argue that demand for labour is the reason for unemployment, and thus an analysis of supply-side incentives is simply irrelevant for understanding Figure 1. If there are no jobs for people on benefits it is hardly surprising that they are not working. The rise in unemployment since 2008 makes this a particularly salient argument.

However, participation incentives still matter. Even in periods when there is an overall decline in the number of jobs, jobs are being created, people are moving between jobs and others are retiring (March 2010 quarter LEED data, at [www.stats.govt.nz](http://www.stats.govt.nz)). Thus, disincentives created by welfare payments act as a barrier to people taking up what opportunities are available when the labour market is tight.

Further, in the recent past long-term unemployment and persistent unfulfilled demand for labour co-existed, and it is reasonable to believe that this will happen again when the labour market improves (WWG, 2010, p.32). Since substantial policy reform requires several years of detailed development, legislation and implementation, the process needs to

start now to have settings in place, ready for when the economy improves again.

**An analysis of current welfare incentives**

The economic analysis of work incentives describes the choices faced by a person deciding on a 'work/life' balance. The result is referred to as a 'budget constraint' which maps the feasible levels of time in paid work that will give the highest income. The actual balance chosen will depend on the individual and their circumstances.<sup>1</sup> For example, a person whose only income was working 20 hours a week at \$15 an hour could not feasibly earn more than \$300 minus any taxes in that job. The budget constraint would include this and other options for doing different hours of work, subject to the cost and availability of things like child care, transport and so on. Knowing what people actually choose requires doing the empirical research.

Broadly, there are two measures of the incentive to work. One is the extra amount earned by taking up work, usually expressed as the 'replacement ratio' of unemployment income to income when in work. The other is the proportion lost of each extra dollar earned; that is, the effective marginal tax rate (EMTR). The lower both measures are, the greater the work incentive.

As noted by Prebble and Rebstock,

in considering the effects of taxes and benefits we cannot focus only on effective marginal tax rates. We must also consider the margin between the amount that can be earned in paid employment and the amount that could be received when living on a benefit. (Prebble and Rebstock, 1992, p.9)

Moreover, recent evidence suggests that:

the range of estimates reported by different studies is in fact rather similar across countries .... The bulk of this evidence indicates that ... a 1% change in the income gap between working and not working is associated with a 0.2% change in the participation rate in the same direction. (Immervoll and Pearson, 2009, p.26)

Despite this, design of welfare policy has focused on changing EMTRs, even when there is an explicit intent to incentivise people to *begin* participating in the labour market. For instance, despite one of the objectives of Working for Families being to ‘achieve a social assistance system that supports people into work’, incentives were analysed using only the EMTR (Ministry of Social Development and Department of Inland Revenue, 2010, p.7; for other examples see Fletcher, 2011 and Department of Work and Pensions, 2010). Even worse, these analyses, including the Working for Families evaluation, are typically done by naively analysing bureaucratic tax and benefit rules, and usually only a proportion of these.

#### Five reasons why EMTRs do not tell us about the financial incentives on households with no earnings

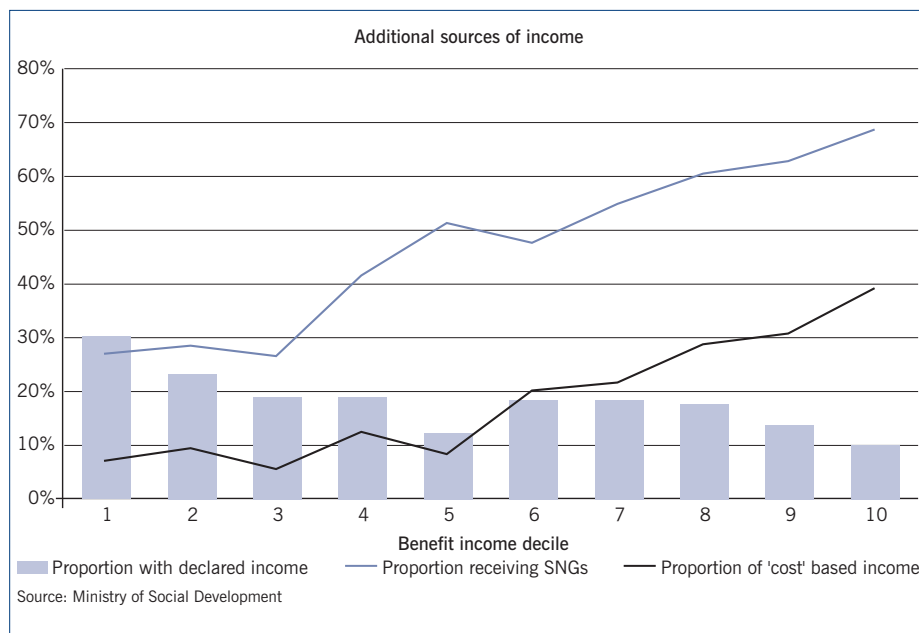
For policy purposes, the question is whether or not focusing on this one measure leads to poorer policy design. This section discusses five reasons for believing that there are significant gaps in understanding incentives when using an EMTR analysis; the following section considers how policy might change with a better understanding of the incentives.

The arguments below are based on neo-classical economics to the extent they are derived from thinking that is part of that tradition; however, they are framed in terms of influences on the choice of whether or not to work, rather than ‘costs of working’. Partly this is to avoid discussion of what is essentially an ethical judgement about the extent of the state’s obligations to subsidise work participation. But more importantly, it recognises that ‘people make their decisions on the basis of their perceptions and beliefs – and these perceptions can be related in a systematic way to the parameters set by policy’ (Millar et al., 1989, p.80). Thus, the focus for policy is the people making decisions between available options, not government welfare rules.

#### Work is not a feasible option

The budget constraint is made up of different potential ways of balancing

Figure 2: Inverse relationship between earnings from paid work and level of benefit income



paid work and other activities. In this sense, doing no paid work is a point of balance as much as any other; but the obvious impossibility of doing less than no work qualitatively alters whether the motivation provided by financial incentives will change behaviour (Borjas, 2009, sections 2.5 and 2.6). One possibility is that a person is not working because there are no feasible job opportunities, because of, say, lack of child care, poor transport options, or lack of jobs available locally. The outcome is not the result of a lack of financial motivation to work but of a lack of real job options. Since the incentive is not the reason for doing no work, changing the incentive does not alter behaviour unless it also makes work feasible.

#### Other activities than work are more highly valued

Similarly, welfare payments themselves may reduce the incentive to work. Of those doing no work: around a third of those receiving the unemployment benefit, more than three quarters of domestic purposes and sickness beneficiaries, and more than 90% of those on an invalid’s benefit report that they are not looking for work. Indeed, the majority of people on the latter three benefits report that they do not intend to look for work for at least a year (Department of Labour, 2008–2010).<sup>2</sup> The constraint is not the financial

incentive, but the high value placed on having the time to do other activities. An example of this might be a sole parent whose family are willing and able to provide child care, but who does not work because he or she places a high value on looking after the children themselves. In these circumstances, altering the EMTR, even for small amounts of work, makes no practical difference to the work incentive because time spent working has not being balanced against the time spent engaged in other activities. The level of benefit income is enough that time can be spent on activities regarded as more valuable.

#### Benefit as an alternative to paid work

A further problem with using EMTRs is that they are developed using administrative rules that are assumed to describe the choices faced by those receiving welfare payments.<sup>3</sup> Intuitively, it seems odd, and a little patronising, to treat the rules prescribed by an agency as a description of how people make their choices. For instance, the tax rules for schemes like KiwiSaver are designed to encourage savings, and, while these rules influence savings choices, a diagram of them does not describe why people choose to save.

An important example of bureaucratic rules poorly describing the choices for people receiving welfare payments is when recipients choose between welfare

income and earnings. For example, obtaining temporary additional support (TAS), for which a person needs to re-apply every 12 weeks, requires that person to go through a process of gathering information, collating and reviewing their costs, an interview with a case manager, and other administrative tasks, all of which can take several hours' work. If the applicant is choosing between the time and difficulty involved in applying for TAS and the time and difficulty involved in work, then they are choosing *between* income from TAS, and income from paid work. However, a typical EMTR analysis ignores the time taken to apply for TAS and just assumes the recipient is deciding

whether or not to do paid work in addition to receiving the benefit income. Some evidence of people treating benefit payments as an alternative to paid work is shown in Figure 2. The graph is derived from Ministry of Social Development data of households paid a main benefit for longer than a year in March 2010. The horizontal axis is the benefit income decile: decile '1' includes the people whose income from a benefit (excluding Working for Families and special needs grants (SNG)) is in the lowest 10% of benefit incomes, '2' is those in the next 10% of benefit incomes, and so on. The bars show the proportion receiving earnings from work in each of these deciles.

## Two key policies can be re-balanced to better use available incentives: policy to motivate welfare beneficiaries to take up paid work, and targeting financial incentives in the welfare system.

benefit income decile. However, there is still a strong relationship between income from SNGs and other sources of income, with the proportion receiving these grants decreasing as income from earnings increases. The diagram understates the effect, since those on higher benefit incomes also receive more SNGs, as well as being more likely to receive SNGs.

In fact, the New Zealand system exacerbates this problem by linking benefit income to costs over which the person receiving welfare has some control. This is the case for most supplementary benefits, including accommodation supplement, temporary additional support, disability allowance, the tax credits (which are

asked about paid work, with the risks of losing any job they find frequently cited as an important reason for remaining on a benefit (Millar et al., 1989; Jenkins and Millar, 1989; Benyon and Tucker, 2006). Assessment of LEED data suggests that New Zealand is no different from other countries in this regard. Crichton and Dixon (2007) found that during 2001–02, a period of sustained economic growth, the average number of employers worked for in the two years after going off a benefit was 2.7 and the average employment spell was nine–ten months (Crichton and Dixon, 2007).

Again, this is a problem exacerbated by the way welfare payments are made. In particular, most benefits are paid after a 'stand down' period during which people are expected to use their savings to cover costs – of up to two weeks for those who have been working for longer than 26 weeks and up to 13 weeks if a person is judged to have left work voluntarily. Thus, a person thinking of coming off benefit has the strong disincentive of knowing that if they need the welfare system again – and it is reasonable to believe they will – they will have at least two weeks without income.

Some evidence of people treating benefit payments as an alternative to paid work is shown in Figure 2. The graph is derived from Ministry of Social Development data of households paid a main benefit for longer than a year in March 2010. The horizontal axis is the benefit income decile: decile '1' includes the people whose income from a benefit (excluding Working for Families and special needs grants (SNG)) is in the lowest 10% of benefit incomes, '2' is those in the next 10% of benefit incomes, and so on. The bars show the proportion receiving earnings from work in each of these deciles.

Since benefit is abated – withdrawn as more is earned from paid work – we would expect some relationship between benefit income and earnings. Special needs grants are one-off payments designed to deal with spikes in cost but are not included in the definition of

intended to cover the cost of children) and child care subsidy. If an individual can alter their circumstances to increase benefit payments then the individual's budget is not limited by the "budget constraint" and the ETMR does not describe the incentives.

### *Attitude to income from different sources*

A fourth reason EMTR analyses may be misleading is that they assume people do not care about the source of income. If it is not true, however, that 'income is income from whatever source it is derived from', then the incentive property of (say) \$20 earned and a \$20 TAS will be different, regardless of tax and abatement rules (Cowell, 1986; Moffitt; 1983).

More importantly, the riskiness of earnings for people with low skills is so great, no sensible person could ignore those risks, particularly if they are responsible for children. The 'employment lottery' is raised whenever people receiving welfare payments are

### *Informal material support*

The issue of informal support that is not declared to authorities is often confused by the question of legality; yet many forms of informal support are not only legal, they are crucial in ensuring people on benefit remain engaged with society. Such support would include in-kind payments such as family meals, swapping services (hairdressing in exchange for child care, for example), gifts and so on. While these may seem of low financial value, the cost of purchasing these goods and services will be much higher than the cost of receiving them informally. Because these are often arrangements with friends and family, their non-monetary value increases the financial compensation from formal work be needed to replace them.

The key point is that informal arrangements within the domestic or civil spheres can reduce the incentives to take up paid work. It would be absurd to abate the benefit of someone who was regularly invited to meals by extended

family, yet the cash equivalent of these arrangements might easily be more than the earnings from a day's paid work at a low wage.

### Some policy implications

Incentives to take up work are only one objective of welfare systems, and welfare policy requires this to be balanced with other practical and ethical objectives. But even where the focus is these incentives, the realities of the labour market and alternative options for income mean analysing the EMTR of payment rules is inadequate for policy development.

Currently, the EMTR is adjusted so that a person receives almost 90% of the earnings for each hour of work for one day of work, and is then varied to target different levels of work for people on different benefits. For instance, the unemployment benefit rules create a disincentive for two to four days of work a week, while the combination of domestic purposes benefit and Working for Families create a disincentive for three to four days of work a week.<sup>4</sup> A person working this number of days a week will pay 90–100% of their earnings for some of the hours they work.

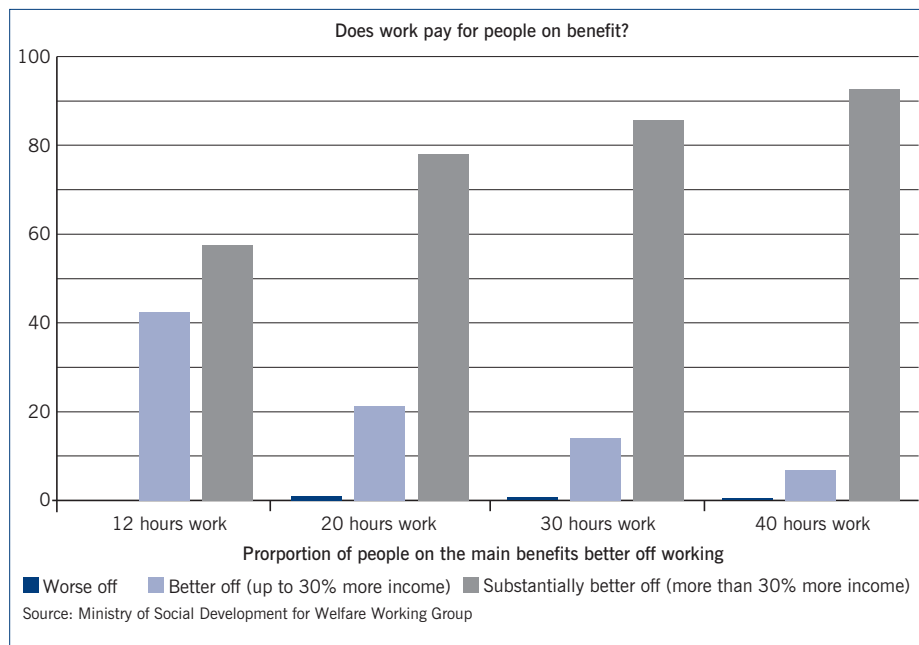
Two key policies can be re-balanced to better use available incentives: policy to motivate welfare beneficiaries to take up paid work, and targeting financial incentives in the welfare system. To do this we need to take into account total additional earnings, as well as the marginal payment for each hour, because this has a greater influence on participation decisions. The discussion below also links the analysis to recommendations in the Welfare Working Group report.

### The enhanced role of non-financial motivation

If manipulating payment rules has a limited influence on the motivation to take up work, then policy to increase participation needs to have a greater focus on non-financial reasons why people do not work.

First, where people are not engaging with the labour market, there need to be stronger work expectations attached to welfare payments so that far more people are motivated to take up work (WWG,

Figure 3: Improvement in income from working at the minimum wage in March 2010<sup>6</sup>



2011, p.1). The main instruments include early intervention for those with sickness and disability problems, assessment focused on capability, building stronger partnerships with the medical profession and employers, and motivating the welfare agency by making them more accountable for the financial implications of long-term welfare dependence (ibid., particularly sections 4.5, 4.6, 9.5 and 9.6).

Second, there needs to be a far greater emphasis on services to support people into work, and these services need to go to people who were not previously supported. The scale of this is such that the WWG recommended increasing by up to a third the resources to support participation in work (an increase of \$285m on the \$770m currently spent) (ibid., pp.83, 171).<sup>5</sup> The services discussed include improved provision for sole parents, more help for people with sickness and disability, and placement services catering for those needing additional support (ibid., sections 10.4, 10.3). In addition, it was recommended that more child-care funding be targeted at people moving into work, and that more of the funding for people with disabilities be available to facilitate work (ibid., p.26, recommendations 17 and 18; pp.89-90).

Thus, the key to 'making work pay' is ensuring people have the motivation

and opportunity to benefit from available work.

### The use of financial incentives in the welfare system

While manipulating the EMTRs may not be effective at motivating people on welfare to start work, this is not to say people receiving welfare payments do not respond to financial incentives. If benefit payments are to be targeted at those needing income support, they have to be withdrawn when a person earns enough to support themselves. Both the payment and its withdrawal potentially create disincentives, and the question is whether policy could create more effective work incentives.

In particular, the current policy of not withdrawing payments for small amounts of work increases the rate at which they are withdrawn for higher amounts of work. Thus, to incentivise those staying on benefit to do a very small amount of work, the benefit system creates a disincentive for those wanting to work enough to potentially move out of the benefit system.

As Figure 3 shows, even at 12 hours of work more than two fifths of people on a main benefit will increase their income by less than 30%. Thus, those who highly value time not working would be giving up that time for a relatively small increase in income. Even those looking for more

income than their usual benefit will find earnings similar to their income from additional welfare payments and informal earnings. Further, the fact that such additional benefits are designed to be temporary or one-off merely replicates the uncertainty of labour market income for people on benefit. The current system targets the incentives in payment rules precisely where they are least effective.

If the aim of policy is to encourage participation in work, particularly if this is to be a step to moving off benefit, then a better use of the incentives would be to target them towards higher numbers of hours. As Figure 3 shows, substantially more people are better off when working 20–30 hours, even with the disincentives in the current system, and the financial gain is far greater than alternative sources of income. Thus, the incentive is targeted to financially reward those who have taken a major step towards replacing welfare income with earnings. This was operationalised in the WWG report by starting abatement earlier, and at a higher rate for some people, but maintaining that rate when the current system increases the rate. This is one example of a system that better aligns incentives with the objective of encouraging paid work and has the additional advantage of greater simplicity than the current system (WWG, 2011, section 5.7).

Of course, this decreases overall earnings from smaller amounts of work, and where people are unable to work longer hours would reduce hours worked.

Whether or not this means the welfare system should accept the poorer overall incentive is beyond the scope of this article. However, it should be noted that the current system reduces the earnings of people who could work two to four days a week by discouraging them from working as long as they could. Thus, whichever way the incentive is designed, some people are worse off. Further, there are ways to ameliorate the impact for those unable to work longer. For instance, the WWG report suggested identifying those whose disability or long-term illness meant they were not expected to work and removing abatement altogether for feasible amounts of work.

### Conclusion

This article has argued that the incentives created by policy based on analysing EMTRs derived from bureaucratic rules do not meet the need to improve motivation to start paid work. Given that welfare rules are poor at creating incentives to participate, the argument here has been that non-financial motivation is more important for encouraging participation, and that financial incentives should be targeted at increasing the level of work as a step towards no longer needing welfare payments.

- 4 For sole parents see Fletcher (2011), pp.39-41. The shape of the EMTR is broadly the same for other benefits, but they differ as to where the worse incentives start. For full details see the WINZ websites in note 3 above. One alternative is to not target the incentives and thus spread the disincentives evenly. See Rankin (1991) for a supporting view, and Treasury (2010) for an assessment. The key point for this article is that the disincentives still remain and this is just an alternative way of distributing them.
- 5 A substantial part of the \$770m is case-management time spent on administering benefit payments, so this understates the increase needed in resources to encourage participation in work.
- 6 Note that both the minimum wage and the level of benefit payments has increased since March 2010. Most of those worse off are on invalid's benefits.

### Acknowledgements

The author would like to acknowledge his huge debt to Nick Carroll and David Rea for discussions on the topics in this article, and support provided by Margaret Dyer, Michael Fletcher, Don Gray, Doug Gorman, Paula Rebstock and Steven Sue. My thanks to Jonathan Boston and Bill Ryan at Victoria University and Simon MacPherson at Treasury for their help during its drafting. The views expressed, and any mistakes made, are the author's alone and do not reflect their views or the views of the New Zealand Treasury.

### References

- Benyon, P. and S. Tucker (2006) 'Ill health, disability, benefit and work: a summary of recent research', *Social Policy Journal of New Zealand*, 29, November, pp.78-101
- Borjas, G. (2009) *Labor Economics*, Singapore: McGraw Hill
- Cowell, F. (1986) *Welfare Benefits and the Economics of Takeup*, discussion paper 89, London: London School of Economics and Political Science, Suntory and Toyota International Centres for Economics and Related Disciplines
- Crichton, S. and S. Dixon (2007) 'The longer-term employment outcomes of people who move from a benefit to work', *Social Policy Journal of New Zealand*, 31, July, pp.137-57
- Department of Labour (2008–2010) New Zealand Income Survey, [www.dol.govt.nz/publications/lmr](http://www.dol.govt.nz/publications/lmr)
- Department of Work and Pensions (2010) *Universal Credit: welfare that works*, London: HMSO
- Fletcher, M. (2011) 'Some policy issues for reforms of assistance to sole parents', *Policy Quarterly*, 7 (2), pp.38-45
- Immervoll, H. and M. Pearson (2009) *A Good Time for Making Work Pay? Taking stock of in-work benefits and related measures across the OECD*, OECD social, employment and migration working paper 81, Paris: OECD
- Jenkins, S. and J. Millar (1989) 'Income risk and income maintenance: implications for incentives to work', in A. Dilnot and I. Walker (eds), *The Economics of Social Security*, Oxford: Oxford University Press



Ministry of Social Development (2002) *Evaluating the February 1999*

Millar, J., K. Cooke and E. McLaughlin (1989) 'The employment lottery: risk and social security benefits', *Policy and Politics*, 17 (1), pp.75-81

*Domestic Purposes Benefit and Widows Benefit Reforms: summary of key findings*, Wellington: Ministry of Social Development

Ministry of Social Development (2010) *The Statistical Report 2009*, Wellington: Ministry of Social Development

Ministry of Social Development and Department of Inland Revenue (2010) *Changing Families' Financial Support and incentives for Working, Annex Report 1: effective marginal tax rates for Working for Families recipients*, Wellington: Ministry of Social Development and Department of Inland Revenue

Moffitt, R. (1983) 'An economic model of welfare stigma', *American Economic Review*, 73 (5), pp.1023-35

OECD (2010) *OECD Economic Outlook*, 87, Paris: OECD

Prebble, M. and P. Rebstock (eds) (1992) *Incentives and Labour Supply: modelling taxes and benefits*, Wellington: Institute of Policy Studies

Rankin, K. (1991) *The Universal Welfare State: incorporating proposals for a universal basic income*, policy discussion paper 12, Department of Economics, University of Auckland

Treasury (2010) *A Guaranteed Minimum Income for New Zealand: a preliminary assessment of the tax and equity implications*, <http://ips.ac.nz/WelfareWorkingGroup/Meetings.html>

Welfare Working Group (2010) *Long-term Benefit Dependency: the issues*, Wellington: Institute of Policy Studies

Welfare Working Group (2011) *Long-term Benefit Dependency: the recommendations*, Institute of Policy Studies: Wellington

# Enhancing Performance-Based Regulation

Lessons from New Zealand's building control system

Peter Mumford

Performance-based regulation establishes mandatory goals rather than enforcing prescriptive standards. Performance-based regulation has become popular over the past two decades as an alternative to prescriptive regulation, as it holds out the promise of simultaneously achieving health, safety, and environmental outcomes while facilitating innovation and reducing regulatory costs.

In the early 1990s New Zealand adopted a performance-based building control regime. This regime demonstrably failed, resulting in the 'leaky building' crisis. In *Enhancing Performance-Based Regulation: Lessons from New Zealand's building control system* Peter Mumford examines whether the failure can be attributed to the performance philosophy and features of the regime.

Mumford explores two strategies for resolving the challenges of decision making in a permissive

performance-based regulatory environment: improving the predicative capability of decision-making systems through the better application of intuitive judgement associated with expertise and wisdom, and treating novel technologies as explicit experiments. Peter Mumford works for the Ministry of Economic Development. He has a broad public policy background, ranging from small and medium-sized enterprises policy and technology policy to regulatory impact analysis and regulatory policy in areas as diverse as securities

# Enhancing Performance-Based Regulation

Lessons from New Zealand's building control system

Peter John Mumford



Institute of Policy Studies

markets regulation, building controls and international regulatory coordination.

**An Institute of Policy Studies publication by Peter Mumford**

**Publication Date: April 2011**

**Format B5 Paperback, pp 205**

**ISBN ISBN 978-1-877347-43-6 – IPS/PUB/171 Price - \$27.60**

**(including P&P within New Zealand)**

**Place your order by email, phone, fax or mail to**

**Institute of Policy Studies, Victoria University of Wellington**

**Email [ips@vuw.ac.nz](mailto:ips@vuw.ac.nz) Telephone +64 4 463 5307**

**PO Box 600, Wellington, New Zealand**

**An invoice will be issued with your order**

Institute  
of  
policy  
studies

# A **society** that highly values **lives** and continually enhances our **full participation**

The final report of the Welfare Working Group (WWG) (2011) was released at midday on Tuesday 22 February. Pre-publicity promised a shake-up of the welfare system. Within an hour the 6.3-magnitude Christchurch earthquake struck, and words like 'shake-up' and 'ground-breaking' took on new and terrifying meanings, while over the coming weeks understandings of 'welfare' changed. A few days earlier the prime minister had suggested that people used foodbanks because they made poor lifestyle choices (Trevett, 2011). Now people queued up for emergency financial assistance, as well as for the basic human needs of water, food and portable toilets. Electricity, water, housing, employment and education are still insecure for many Christchurch people. Those in the back rooms of the public service worked long hours over many weeks to support workers on the front line. In a mammoth but unreported task, dozens of disabled people were visited, and many temporarily or permanently relocated elsewhere around New Zealand.

The earthquake dominated the media for many weeks, distracting attention from the WWG report, which was relegated to corners of the blogosphere. But work on its implementation continued. What, then, are the implications of the report for the thousands of individuals and families coping with disability and welfare support?

## **Disability policy and the New Zealand Disability Strategy**

It is generally estimated that one in five New Zealanders has a physical, intellectual, vision/hearing or neurological impairment or difference, mental health condition or learning disability, although only 17% identified themselves with the specific conditions listed in the last disability survey (Statistics New Zealand, 2007). Disabled adults are over-represented in statistics for poverty, lack educational qualifications, and many are on benefits (Ministry of Health, 2004).

Many in the disability sector hold suspicions and strong feelings about the work of the WWG, and to understand these it is important to consider New Zealand's current disability policy context and its history, and why language in the report such as the 'fit notes' (p.86) and 'reassessment processes' (p.70) causes alarm. Only a generation ago many disabled people were living

---

Hilary Stace of the Health Services Research Centre, Victoria University, recently submitted her PhD thesis on autism and the policy process.

Dr Martin Sullivan is a senior lecturer in the School of Health and Social Services at Massey University, Palmerston North, and coordinates the Social Policy and Disability Studies programmes.

in institutions or with their parents. The main employment option was sheltered workshops; a few may have been lucky enough to find unskilled jobs in manufacturing industries or the public sector. Life expectancy for most was low. But times have greatly changed. One consequence is that after many significant policy victories, New Zealand disabled people now expect engagement in policy initiatives which affect them. The international disability rights slogan 'nothing about us, without us' (Charlton, 1998) has been heard in the top levels of the New Zealand government, to the extent that disabled people worked in partnership with New Zealand government officials in New York on the drafting of the 2006 United Nations Convention on the Rights of Persons with Disabilities (UNCRPD).

However, although the disability industry was represented on the WWG, neither disabled people nor disabled people's organisations (DPOs) were, and the inferred message for many in the sector was that it did not value their lives. The mission of the WWG was tackling 'welfare dependency', although this was couched in the more aspirational language of 'promoting better work outcomes for sole parents, sick people, disabled people and other people at risk of long-term benefit dependency' (WWG, 2011, p.1). An alliance of DPOs, Christian and other non-government organisations, social justice activists, academics and others soon formed Welfare Justice, the Alternative Welfare Working Group to provide a contrasting narrative of welfare. Welfare Justice ran several open forums around New Zealand to encourage input into the work of the official WWG and their alternative report which was published in December 2010 (Welfare Justice, 2010).

The title of this article comes from the first page of the 2001 *New Zealand Disability Strategy* (NZDS) (Ministry of Health, 2001), a policy document developed by disabled people and their organisations in partnership with government. The NZDS promotes the 'social model' of disability, whereby people have impairments but disability is understood as a process imposed by

the rest of society, producing 'disabled' people. Its introduction explains:

Disability is not something individuals have. What individuals have are impairments. They may be physical, sensory, neurological, psychiatric, intellectual or other impairments. Disability is the process which happens when one group of people create barriers by designing a world only for their way of living, taking no account of the impairments other people have. (Ministry of Health, 2001, p.1)

## After hearing complaints of poor treatment, Parliament's social services select committee conducted an inquiry into the quality and care of disability service provision which reported late in 2008.

In this paradigm, a spinal cord injury is an impairment requiring a person to use a wheelchair to get around, but a lack of ramps creates disability. In the alternative, 'medical' or 'individual model' paradigm, the impaired individual is the inconvenient problem, whose life is often portrayed as tragic and their carers as heroic.<sup>1</sup>

The NZDS has 15 sections, and, although it is not legally enforceable, government departments and agencies are required to measure against it in their annual reports. Particularly significant for this article are government objectives to provide opportunities in employment and economic development for disabled people (objective 4); foster leadership by disabled people (objective 5); foster an aware and responsive public service (objective 6); and create long-term support systems centred on the individual (objective 7) ([www.odi.govt.nz](http://www.odi.govt.nz)).

The NZDS was the result of disability sector activism. Kingdon (1995) has written of the significance of policy 'entrepreneurship' and policy 'windows'. During the 1990s disability 'entrepreneurs' lobbied politicians, particularly through

the Labour and Alliance parties, on the need for new, social model-based disability policy. The election of the Labour-led government in November 1999 opened a window of opportunity. The results were several successes for disability activism, including the NZDS, the creation of a ministerial portfolio and an Office for Disability Issues within the Ministry of Social Development; significant policy development, such as the 2006 closure of Levin's Kimberley Centre, New Zealand's last psychopaedic institution; the end of sheltered workshops, and the right

of disabled people to the employment conditions enjoyed by non-disabled people with the repeal of the 1960 Disabled Persons' Employment Promotion Act; and the recognition in 2006 of New Zealand Sign as the country's third official language. One of the last acts of the Labour government was the 2008 ratification of the UNCRPD, following the passage of the Disability Act to ensure that New Zealand legislation was compliant with it. In 2007 New Zealand's record on disability was recognised with the Roosevelt international disability award (Dyson, 2007).

In spite of these high-level achievements, however, many services for disabled people remained inadequate. After hearing complaints of poor treatment, Parliament's social services select committee conducted an inquiry into the quality and care of disability service provision which reported late in 2008. The new, National-led government took note of many of the recommendations, and in 2010 signalled a 'new model' for supporting disabled people which would have a stronger focus on person-centred supports (Office of the Associate Minister

of Health, 2010). A programme of work is now being implemented through the Ministry of Health's Disability Support Services, including the establishment of a reference group comprised of disabled people and service providers.

Given their involvement in disability policy over the last decade, disabled people and their organisations now expect to be engaged in the design, process, implementation and evaluation of policies and programmes that affect them. Disabled people and their families have a great deal of valuable expertise and wisdom from their

Security Act, with its underpinning values of compassion and progressive taxation supporting a 'cradle to grave' welfare state. It is easy these days to underestimate the effect of this legislation. Until then New Zealand had largely depended on a charity model of disability welfare. The first disability pension was introduced in 1915 for miners with phthisis. Blind people were the first to get an impairment-specific pension, in the 1920s, following advocacy from returned soldiers (Tennant, 2007). This pension was not means tested, and welfare payments for people with vision

It is noted that independent specialist assessment is expensive and should be reserved for only the most complex cases, implying that fitness for work assessment will normally be carried out by approved medical doctors (WWW, 2011, p.70). The problem with this is that it individualises and medicalises disability, which is at odds with both the NZDS and the UNCRPD, both underpinned by the social model of disability, and to which the WWG appeals in its mantra that disabled people have a strong desire to be in paid work (WWG, 2011, pp.114, 113). Of course disabled people want 'to lead an ordinary life and make a contribution to society' (ibid.), but for the WWG the only way they can do this is through paid work.

## ... modern disability policy is about the social construction of disability (social model) but operations are based on fixing individual deficit (medical model).

lived experience which can be well utilised in the disability policy process. After all, who better to improve a system than those who live with its effects every day?

### The relevance of disability and welfare history to the WWG

As part of the WWG work a forum was held in Wellington in July 2010 at which several speakers were challenged to consider the perspectives of disabled people. The urgency of this challenge needs to be understood within the 20th-century context of eugenics-based policies targeting disabled people, grading their 'fitness', linking disability with inferiority and immorality, and of institutionalisation. In 1903 W.A. Chapple published *The Fertility of the Unfit*, in which he preached the sterilisation of the 'unfit', meaning, at that time, people with mental, moral and physical 'defects'. The WWG suggestion of contraception for single mothers receiving a benefit is alarming for its resonance to such attitudes. In 1911 the Mental Defectives Act classified groups of 'other' into idiots, imbeciles and feeble-minded to indicate whether a person had any potential for education or employment.

At the Wellington forum there were also many references to the 1938 Social

impairment are still the only category of disability benefit not to be means tested. However, other disabled people had to find work or rely on the generosity of family or charities.

In his book *The Quest for Security in New Zealand* government economist W.B. Sutch (Sutch, 1966) deplored the make work-schemes of the Depression and cited the example of a woman who pushed her husband in a wheelchair a considerable distance to report each day for relief work. An early response by the first Labour government to this kind of indignity was the 1936 creation of invalidity pensions, followed two years later by the more encompassing 1938 act which brought in means-tested invalid's and sickness benefits. The government's premise was that the state should be responsible for its citizens, and it rejected the idea that insurance be required before support would be given.<sup>2</sup> We suggest that work-for-the-dole programmes, or the 'jobseeker' label proposed by WWG, need to be carefully thought through so as not to reflect back to the indignity and human waste of the Depression relief schemes.

Under the WWG's recommendations all people on invalid's and sickness benefits would be reassessed and assigned a 'fit note' to signal their ability to work.

### Changing definitions and mixing models

As already indicated, the final WWG report uses two contradictory concepts of 'disability'. On the one hand it continues to use medical model understandings which link disability and illness, and has general practitioners as gatekeepers (even though current medical training in disability and disablement is minimal). Key aspects of the report conflate sick and disabled people and the invalid's and sickness benefits (for example chapter 6: 'Support for sick people and disabled people with long-term needs' and recommendation 6: 'Work expectations for people who are sick or disabled') (WWG, 2011, pp.113, 21). On the other hand it uses the social model/ rights-based language of the NZDS and talks of the disabling nature of the welfare system, rights to work and participation, and acknowledges recipients' dislike of the invalidating term 'invalid's benefit'. This mixing of disability with illness and welfare with charity has long been problematic for disability activists, who asked for an independent Disability Commission in the recent social services select committee inquiry (Social Services Select Committee, 2008).<sup>3</sup>

Disability policy theorist Dana Baker has analysed this dilemma of contradictory understandings of 'disability' and notes that although 'modern disability policy is close to the constructivist end of the continuum, current policy tends to retain limited essentialist elements' (Baker, 2006, p.177). This means that

modern disability policy is about the social construction of disability (social model) but operations are based on fixing individual deficit (medical model). This explains the confusing situation operating in New Zealand: a rights-based policy orientation (NZDS) but a needs-based service delivery system (Jane has a right to a wheelchair versus Jane needs a wheelchair). The WWG report uses the language of the NZDS, but the 'benefit dependency' assumption reveals medical/individual-model thinking that disability is the problem, even the fault, of the individual. In this scenario an unmotivated individual is held back by their personal disability, which can be resolved if the individual becomes motivated. Gestures towards employment support are all that are required; but this picture ignores the reality that even in times of full employment disabled people still have a high rate of unemployment (WWG, 2011, pp.42-3). There is little recognition that society and its structures disable, that society needs to tackle its discriminatory attitudes and to recognise that people's lives are complex and that impairments plus poverty create extra barriers; little recognition that government must create jobs and provide incentives for employers to employ disabled people as well as improve access to education, training and transport. But the WWG report optimistically claims: 'The initiatives presented in this Report are expected to lead to increased employment of sick people and disabled people and therefore higher incomes' (p.176).

#### **Paid work as a moral good**

Underpinning this report is an assumption that paid 'work' is a moral good for individuals. Welfare is no longer to do with reciprocity from the state to create jobs or any sense of community well-being, values which created the welfare state. Welfare is now actively work-focused. People on the invalid's benefit are assumed to be able to work unless proved otherwise through 'a comprehensive assessment of their ability to work' and 'engagement through work-focused interviews, action plans and work-related activity' (WWG, 2011, p.68). The report values only work for money,

while ignoring the 'social capital' value of unpaid work such as caring for relatives, bringing up children and voluntary work. 'Civic contributors' is a suggestion raised (p.117), whereby welfare money would be channelled through non-profit organisations and unemployed people would negotiate contracts with these organisations for 'non-essential' duties. However, this would mean less money for the person than a direct benefit payment to them, as the organisation would take its cut. Would that organisation then be required to provide proper employment

pushing people 'off benefits and into low paid, insecure and health-damaging work is not a desirable option' (Welfare Justice, 2010, p.87). With respect to the invalid's benefit, two important consequences flow from the WWG's insistence that the only work which counts is paid work: first, it fails to acknowledge 'the fluctuating capacity, suitable work or understanding [of] the total impact of having more than one impairment, which is the experience of most disabled adults'; second, it overlooks the value of the 18.9 and 15.7 hours voluntary and unpaid work single

## **We are told lack of work is bad for people's health whereas we would have thought that dealing with negative societal attitudes, navigating Work and Income, and coping with poverty were what was unhealthy for beneficiaries.**

conditions? The suggestion is also patronising as it assumes that the work volunteers do is 'non-essential', whereas much of the voluntary work beneficiaries do is vital not only to the functioning of many organisations but also to the New Zealand economy (Tennant et al., 2006).

We are told lack of work is bad for people's health whereas we would have thought that dealing with negative societal attitudes, navigating Work and Income, and coping with poverty were what was unhealthy for beneficiaries. Under a work-focused welfare regime there would be a general obligation on all beneficiaries to accept any reasonable job offer (WWG, 2011, p.73), the rationale behind this being that research shows that it is far healthier to be in work – even low paid work – than on a benefit, as this provides a stepping stone to better incomes (ibid., fn 57, p.73). In adopting this position the WWG rejects the evidence provided by the Alternative Welfare Working Group which shows that the quality of work matters: 'Insecure and poor quality employment is also associated with increased risks of poor physical and mental health'; and that

and partnered invalid's beneficiaries carry out each week respectively (WWG, 2010, pp.98, 90). If such people were forced into low-quality, low-paid work a significant opportunity cost would be incurred.

Other flawed assumptions in the WWG report are that the only work beneficiaries can aspire to is low-skilled, low-paid, low-status work, and that the 'high' minimum wage prevents employers employing disabled people currently out of work.

#### **Reclassification of disabled beneficiaries**

If the recommendations of the WWG's report are adopted all beneficiaries apart from a small minority (the terminally ill and single parents with very young children) will have a new status of 'jobseeker' and access to a basic benefit, less than the current rates, with additional supplements for various assessed needs (described in recommendation 21, p.112). Our experience suggests that this layered system will mean frequent visits to the new agency Employment and Support New Zealand, more paperwork and more bureaucracy. The WWG further argues that this renaming removes the disabling connotations of terms such as 'widow's

benefit', 'domestic purposes benefit' and 'invalid's benefit' (WWG, 2011, p.14). Its concern for the well-being of invalid's beneficiaries re-emerges later when it suggests a new term for 'case management', which disabled people find 'old-fashioned and demeaning' (ibid., p.88). It suggests instead 'co-ordination' and 'co-ordinators'. This renaming from on high is not only highly ideological but also patronising.

Recommendation 13 (ibid., p.24-5) outlines the new assessment process

(Gentleman, 2011). Their 'simple tool' is a computer-based checklist administered by a private multinational company, Atos, with incentives to reduce beneficiary numbers and rewards including further contracts, something also promised by the WWG (WWG, 2011, p.116). Critics decry the lack of any relationship between assessor and disabled person, and that there is no account of medical or other history such as mental health. 'Invisible' impairments are often overlooked. Those who don't

birth to prevent bullying in schools, support for families so that those with disabled children don't break up, housing, transition support, mental health support, training for employers, skilled professionals who understand' (Asperger's Syndrome New Zealand, 2010).

Simplistic solutions disguise other fish-hooks, such as the suggested removal of the invalid's benefit from disabled 16-17 year olds, a group who find it hard to get after-school work and have more transport, personal and other expenses than their non-disabled peers. Disabled parents are another group with complex support requirements. Additionally, the elimination of the child disability allowance alarms, as that small amount is vital for many parents, enabling them to get essential support for their disabled child.

## We agree that in New Zealand the lack of quality, flexible, adequately-paid work opportunities, particularly for disabled people, is problematic.

which includes a 'simple' assessment tool and various levels of support, from none – 'self-directed job search' – to support for those considered to have no 'employment expectations'. As a cost-saving measure the WWG suggests that this 'work assessment process would leverage off new computer-based systems being developed to enable patient records to be accessed by multiple medical practitioners and across organisations' (p.69). This raises the possibility of the emergence of a screen-based bureaucracy in which decisions are formalised, standardised and pre-programmed, squeezing the space for discretion (Bovens and Zouridis, 2002) when this discretion is vital in assessing ability and the degree to which one can work. In the case of disability, one would expect that a just system of work assessment would be highly personalised and nuanced in order to provide an accurate reading of the person's capacity to enter paid work in light of his or her impairment.

This process describes what has been recently implemented in the United Kingdom where extensive 'welfare reform' is also taking place, in which disabled people are also being reclassified as 'jobseekers' with access to contestable additional supplements. However, it is causing a backlash across the disability sector for its insensitive and inappropriate methods

score enough points are moved onto the 'jobseeker's allowance', which is about a quarter less than the current benefit and provides no employment support. Those scoring higher are classified as those deemed capable of work but requiring employment support and those deemed too disabled to work. This new system has already resulted in a large and expensive appeals process. Such a scoring process also harks back to the 'human worthiness' gradings of New Zealand's 1911 Mental Defectives Act.

### Discussion

We agree that in New Zealand the lack of quality, flexible, adequately-paid work opportunities, particularly for disabled people, is problematic. Currently many are forced to survive financially on a stretched welfare system, and consequently many endure poverty, poor health and poor educational outcomes. But labelling it as a problem of individual 'welfare dependency' which can be solved by harsher compliance requirements has framed the argument too negatively, and has caused many of the WWG's more positive suggestions, such as more cross-government collaboration and better education, training, employment support and child care, to be overshadowed. Many disabled people have much to contribute to society but require 'investment from

### Conclusion

There are policy lessons to be learned here. Government must appoint disabled people to all working parties whose brief affects disabled people. Without this lived experience there cannot be authentic understanding of the nuances of historical oppression of disabled people, the complexity of disability, nor the disabling nature of society. When pākehā no longer speak for Māori and men for women, why should the 'able' speak for disabled people? Recommendation 36 of the WWG report suggests that implementation be supported by 'an Advisory Board (involving expertise on social policy, welfare delivery, organisational design, managing a forward liability, and Māori and employer perspectives)' (p.33): again the lived expertise of disabled people is overlooked. To make progress on such a complex issue as welfare in 2011 requires respect, credibility, partnership, and a willingness to value and enhance lives. Without it we fear a policy opportunity has been squandered.

1 There was wide cross-party support for retaining the NZDS when the question was raised during the 2008 general election campaign.

2 The current Canadian model is based on welfare insurance.

3 The first disability commissioner is about to be appointed, but this will be a role within the Human Rights Commission; disability service provision is still considered a responsibility of the 'health' system.

## Human stories and implications of the WWG report:

**Andrew** is a young man with intellectual impairment. He is a valued part-time worker in a government agency but it cannot afford to extend his hours. The job was gained through a supported employment programme, and he received intensive employment support for the first year. He also volunteers with social groups of younger disabled people. He boards with his sister and her family as he cannot afford to live independently and still has support needs himself. He has been on the invalid's benefit for ten years and is classified as a long-term beneficiary. Under the new system he will most likely be reclassified as a jobseeker and on a lower benefit rate.

**Patrick** has been a beneficiary for most of the last 20 years and has had a long history with mental health services. A few years ago he heard about Asperger's Syndrome, which he suspected explained the difficulties in his life. As there is no adult autism diagnostic pathway in the public system he obtained a private diagnosis at the cost of several hundred dollars, which he is still paying off. He is a valued community member, always available to mind houses or pets. He has had several short-term jobs but is always fired

after a few weeks as he often does not fully understand what is expected of him. His dream is to have a second-hand goods shop, but he cannot afford a phone line, let alone obtain the capital to start such a venture. He is an expert on the welfare system, having been cut off many times due to communication issues, lost files, or incorrect paperwork, and regularly has to explain his situation to new staff. Under the new system he would probably be reclassified as a jobseeker without any supplementary support.

**Jane's** husband left her when their autistic daughter was three. Now she is at school, and Jane is keen to find work or training to get off the DPB, but there is nothing available in her provincial town and she cannot afford a car, or broadband for online study. Her daughter is ineligible for any support through the ministries of Health or Education. The school often rings Jane to ask her to collect her daughter as they cannot cope with the girl's behaviour, and she is not allowed to go on school outings unless Jane attends as well or pays for a teacher aide. How would the new recommendations address her complex multi-agency issues?

### References

- Asperger's Syndrome New Zealand (2010) *Submission on the draft report of the Welfare Working Group*, Wellington
- Baker, D.L. (2006) 'Autism as Public Policy', in D. Pothier and R. Devlin (eds), *Critical Disability Theory*, Vancouver: University of British Columbia Press
- Boven, M. and S. Zouridis (2002) 'From street-level to system-level bureaucracies', *Public Administration Review*, 62 (2), pp.174-84
- Chapple, W.A. (1903) *The Fertility of the Unfit*, Melbourne, Christchurch: Whitcombe and Tombs
- Charlton, J.I. (1998) *Nothing About Us Without Us: disability oppression and empowerment*, Berkeley and Los Angeles, University of California Press
- Dyson, R. (2007) 'NZ wins Roosevelt International Disability Award', Minister of Disability Issues press release, 3 December
- Gentleman, A. (2011) 'The medical was an absolute joke', *Guardian*, 23 February
- Kingdon, J.W. (1995) *Agendas, alternatives and public policies* (2nd edn), New York: Longman
- Ministry of Health (2001) *The New Zealand Disability Strategy: making a world of difference/whakanui oranga*, Wellington: Ministry of Health
- Ministry of Health (2004) *Living with disability in New Zealand*, Wellington: Ministry of Health
- Office of the Associate Minister of Health (2010) *Ministry of Health's New Model for Supporting Disabled People*, Wellington: Office of the Associate Minister of Health
- Social Services Select Committee (2008) *Inquiry into the Quality of Care and Service Provision for People with Disabilities*, Wellington: House of Representatives
- Statistics New Zealand (2007) *2006 Disability Survey*, Wellington
- Sutch, W.B. (1966) *The Quest for Security in New Zealand, 1840-1966* (2nd edn), Wellington: Oxford University Press
- Tennant, M. (2007) *The Fabric of Welfare: voluntary organisations, government and welfare in New Zealand, 1840-2005*, Wellington: Bridget Williams Books
- Tennant, M., J. Sanders, M. O'Brien and C. Castle (2006) *Defining the Nonprofit Sector: New Zealand*, Baltimore: Johns Hopkins University
- Trevett, C. (2011) 'Food parcel families made poor choices, says Key', *New Zealand Herald*, 17 February
- Welfare Justice – the Alternative Welfare Working Group (2010) *Welfare Justice For All: reflections and recommendations. A contribution to the welfare reform debate*, Wellington: Caritas Aotearoa
- Welfare Working Group (2011) *Reducing long-term benefit dependency: recommendations*, Wellington: Institute of Policy Studies

Maureen Baker

# Key Issues in Paid Parental Leave Policy

In 2002 New Zealand employees gained access to paid parental leave, but other countries established these benefits much earlier and/or used a mix of policy parameters. This article, which is framed within a comparative and feminist political economy perspective, compares paid parental leave programmes in two countries with similar welfare regimes: New Zealand and Canada. The article argues that delivering these benefits through social insurance, as is done in Canada, could elevate benefit levels for some workers but fewer women employees would tend to qualify. Benefits of short duration, as in New Zealand, and those with a low wage-replacement rate tend to discourage employment equity for women. Long-term unpaid parental leave creates similar problems for employment equity outcomes. The article concludes that policy parameters matter, yet the two countries share similar gender equity concerns relating to parental employment and paid leave.

---

Maureen Baker is a Professor of Sociology at the University of Auckland and a Fellow of the Royal Society.

## Introduction

For nearly a century paid parental leave has helped families balance or reconcile earning and caring. This kind of leave has been viewed as a policy which could promote foetal development and children's well-being, workers' rights, and employment equity and job continuity for women (Baker, 2006; Families Commission, 2007; Hantrais, 2004). As early as 1919 the International Labour Organization (ILO) developed a convention articulating women's right to maternity leave, nursing breaks, wage compensation and job protection for its member countries (Heitlinger, 1993, p.90). In 1952 the ILO recommended that governments ensure that workers have access to 12 weeks of paid maternity leave, and this was expanded to 14 weeks in 2000 (ILO, 2000).

In recent decades most developed countries, including New Zealand, have established such benefits, catering to the needs of fathers, partners and adoptive parents as well as birth mothers. This article examines some of the continuing debates about paid parental leave, drawing specifically on policy details from New Zealand and Canada, which are viewed as countries with similar policy backgrounds. However, the paper also



broadens the cross-national comparisons to several other countries.

New Zealand now provides 14 weeks of paid parental leave benefits at a flat rate, funded through general revenue. In contrast, Canada provides 50 weeks of benefits, financed through social insurance with employer/employee contributions. These different models highlight policy variations within similar countries, yet they share some of the same socio-political concerns about gender equity. It is argued here that the different policy parameters matter in terms of the generosity of paid parental benefits, but outcomes also vary by employees' employment status and sex. Creating more equitable policies for male and female employees in different socio-economic and employment circumstances remains challenging, given gendered patterns of paid and unpaid work.

#### **New Zealand and Canada: similar welfare regimes?**

Parental benefits in New Zealand and Canada are compared in this article because these countries have been viewed as similar in terms of their policy backgrounds.<sup>1</sup> Both countries have been categorised as 'liberal' or 'residual' welfare regimes, along with Australia, the United Kingdom and the United States (Baker, 2006; Esping-Andersen, 1990; Lunt, O'Brien and Stephens, 2008; O'Connor, Orloff and Shaver, 1999). These labels refer to the expectation that socio-economic well-being will be derived mainly from earnings and family-based care and that most state support should serve as a social safety net, with social assistance targeted to the poor and needy. In contrast, welfare regimes which depend largely on social insurance programmes funded by employers, employees and the state have been called 'corporatist' or 'conservative' regimes, and largely benefit middle-income earners. Regimes providing universal income support and services have been called 'social democratic', and were designed to promote both income and gender equity (Esping-Andersen, 1990). Numerous researchers have shown that the social democratic regimes typically provide the most generous social programmes, including paid parental

leave and public child care (Baker, 2006; Daly and Rake, 2003; Hantrais, 2004; OECD, 2007).

Researchers have disputed the accuracy and validity of classifying welfare regimes these ways, and argue, for example, that New Zealand and Australia differ from the other liberal countries because trade unions historically co-operated with governments in the regulation of wages, production, immigration, imports and exports, rather than encouraging extensive social assistance or insurance programmes (Mitchell, 1995; Castles and

Pierson, 1995; Castles and Shirley, 1996). In the historical development of social provision, Australia and New Zealand have been labelled 'wage-earners' welfare states' because high (male) wages were ensured through centralised bargaining and arbitration and limited immigration. In recent decades, however, because of neo-liberal restructuring, New Zealand has come to look more like North America in its social provision (Lunt, O'Brien and Stephens, 2008).

Viewing Canada as a liberal welfare regime is also problematic. While provincial 'welfare' programmes are funded and delivered as targeted social assistance, several federal programmes are financed through contributory social insurance schemes (including maternity and parental benefits) and a few programmes (such as the old age pension) are universal or have been in the past (Baker, 2011; Lightman, 2003). In contrast, New Zealand delivers most social provision through social assistance, except for injury compensation which is a partial social insurance programme and the old age pension, which remains universal (Cheyne, O'Brien and Belgrave,

2008; Lunt, O'Brien and Stephens, 2008). Despite these complications, this article views the welfare regimes in Canada and New Zealand as sufficiently similar and classifies them as 'liberal'. However, paid parental leave policies differ in these countries.

#### **The development of paid parental leave**

Before paid parental leave was developed, both countries offered unpaid maternity leave, which included job protection for female employees during the latter stages of pregnancy, pregnancy-related sickness, childbirth and recovery, and

**... parental benefits were introduced as a separate social programme which was available to women and men employees (gender-neutral or at least transferable from mothers to fathers).**

later adoption. Canada first introduced unpaid maternity leave in 1921 in the province of British Columbia (Morris, 2000), while New Zealand introduced it in 1980 (Families Commission, 2007, p.18). Furthermore, maternal employment rates increased in Canada decades before they did in New Zealand, and remain at higher levels (Baker, 2009). For example, 58.7% of mothers with children under two years of age were employed in Canada in 2005 compared to 45.1% in New Zealand (OECD, 2007, Table 3.2). In both countries, paid parental leave was introduced much later than unpaid leave.

In New Zealand paid parental leave was made available in 2002, despite much earlier initiatives in other countries (Families Commission, 2007). The New Zealand legislation originated as a private member's bill from a female member of Parliament (Laila Harré) of the left-leaning Alliance Party but was implemented by the Labour-led (Clark) government with a female prime minister (Baker, 2008). After considerable discussion, parental benefits were introduced as a separate social programme which was available to women and men employees (gender-

neutral or at least transferable from mothers to fathers). Initially, 12 weeks of paid job-protected leave was provided for new parents who had worked for the same employer for a year, but this was later extended (*ibid.*).

In Canada paid maternity leave was introduced as social insurance in 1971, at a time when maternal employment rates were rapidly increasing. Initially, gender-specific maternity benefits were developed by the (Trudeau) Liberal government (then centre-left) and offered

or from social insurance contributions (as in Canada). If parental benefits are financed from general revenue, the benefit level often approximates that of other 'welfare' payments, although benefits can be paid at a slightly higher rate (as is the case in Australia and New Zealand). If they are financed through social insurance and vary with employment earnings, payments are more generous for employees with higher pre-leave earnings (more often fathers and full-time workers), but fewer new

adoptions are falsely portrayed as illnesses or disabilities. However, providing gender-neutral leave programmes that could be used by either males or females has sometimes dampened employer opposition, especially to contributory social insurance schemes.

#### **Eligibility and duration of paid parental leave**

Fourteen weeks of paid parental leave are now available in New Zealand to eligible female employees giving birth to a child, to her employed spouse or partner if the birth mother chooses to transfer this leave, or to new parents caring for an adoptive child under 6 years of age (Department of Labour, 2011). Eligible employees must have worked for at least 10 hours a week for the same employer for 6–12 months depending on category of leave, or as a self-employed person, and could receive a maximum flat-rate payment (*ibid.*). Most mothers find that this period of paid leave is too short and either take additional unpaid leave (up to one year is permitted) or quit their jobs (Department of Labour, 2007). If they quit their jobs before the end of the 14 weeks, their payments cease.

In a 2007 report the New Zealand Families Commission argued that the duration of leave was too short and recommended that paid parental leave be expanded in three phases until it reached a maximum of 56 weeks by 2015. This would include 14 weeks' maternity leave, 4 weeks' paternity/partner leave and 38 weeks of family leave (Families Commission, 2007, p.9). Crichton (2008) found that the majority of birth mothers do not return to work immediately after their 14 weeks of paid leave, and only three-quarters return after one year. New mothers who return to work often reduce their paid working hours, change to less stressful but lower-paid jobs, or quit their jobs altogether. Baker (2010) found that mothers are more likely to follow this pattern in New Zealand than in Canada, especially after the second or third child. Canadian parental benefits are available for a much longer duration: 15 weeks for women's maternity benefits and 35 weeks for parental benefits, totalling 50 weeks altogether.

The ideal duration of parental benefits remains contentious internationally.

## **In a 2007 report the New Zealand Families Commission argued that the duration of leave was too short and recommended that paid parental leave be expanded in three phases until it reached a maximum of 56 weeks by 2015.**

to eligible female employees for 15 weeks as part of the existing Unemployment Insurance Program (later renamed Employment Insurance). In 1990 gender-neutral parental benefits were added, prompted by a challenge on the basis of the Canadian Charter of Rights and Freedoms by a man who successfully argued that biological fathers should have access to the same benefits as adoptive parents. Parental benefits were extended again in 2001, while the maternity benefits were retained (Marshall, 2008).

#### **Funding paid parental leave**

In New Zealand paid parental leave is funded from general revenue and paid at a flat rate. In Canada it is funded by contributions from employees and employers, and paid as a percentage of previous earnings and payroll. Canadian benefits are based on employees' work record and wage-related contributions to unemployment insurance, regardless of their household income.

The financing of maternity/parental benefits remains controversial internationally. These programmes are usually financed either through general revenue (as in New Zealand and Australia)

parents will qualify. Both employers and employees could be required to pay social insurance premiums. Alternatively, only one of these might pay, with government also contributing, as used to be the case in Canada.

The replacement rate of previous wages varies from 100% in several European countries (such as France, Germany and Norway) to 55% of previous earnings in Canada, to nothing in most of the United States (Baker, 2006). Where replacement rates are low and other social benefits for caring are unavailable, mothers often take less than the maximum leave entitlement because the household needs their full earnings for economic survival.

Adding parental benefits to social insurance programmes changes the original understandings behind them. When they form part of unemployment insurance, the age-old expectation that the unemployed worker is available for work is altered. Furthermore, because payments are based on previous work record and earnings, fewer women than men qualify and women receive lower average payments than men (MacDonald, 2009). Where they form part of disability or sickness benefits, childbirth and

Many OECD countries offer a relatively short period of parental benefits (about 14 weeks), with the option of longer unpaid leave or extended leave at a lower rate. However, Sweden provides 480 days to either parent (but not both at once). A short leave period which forces employees to return to work quickly after childbirth could encourage maternal or infant health problems, discourage breastfeeding, and lead to difficulties finding and paying for infant child care (UNICEF, 2008).

#### Comparing the value of parental benefits

If we compare the maximum value of paid parental benefits in New Zealand and Canada, we find that they are worth slightly more than half of the national median wage in each country, although wages are somewhat higher in Canada (Statistics Canada, 2010). However, we need to acknowledge that many Canadian workers do not receive the maximum payment, yet the duration of benefits is much longer than in New Zealand.

The maximum value of paid parental leave in New Zealand is \$NZ458.82 before tax (Department of Labour, 2011), which is considerably higher than the unemployment benefit or the basic domestic purposes benefit for sole parents caring for children at home (WINZ, 2010).<sup>2</sup> The maximum value of paid parental benefits represents about 55% of the median wage of employed people (Statistics New Zealand, 2010). The 2007 Families Commission report recommended that this be raised to 100% of average weekly full-time earnings for 14 weeks of maternity and 4 weeks of paternity/partner leave and 66% for family leave (Families Commission, 2007, p.10).

In Canada, parental benefits have a maximum value in Canadian dollars of \$468 per week and replace up to 55% of average insured earnings to a yearly maximum of \$44,200 (Service Canada, 2011).<sup>3</sup> However, more women than men work part-time or in contractually limited jobs, and in this type of social insurance the value of benefits is directly related to the hours an employee worked in the previous year and to their earnings (to a ceiling).

To qualify for employment insurance (and therefore for maternity/parental benefits), Canadian workers must have accrued from 420 to 700 hours of 'insurable work' in the previous 52 weeks, with eligibility varying by the applicant's place of residence and unemployment rates in their region (Service Canada,

much higher rate, the national minimum wage of \$A570 per week before tax (Australian Government, 2011).<sup>4</sup> This will undoubtedly encourage advocacy groups such as the Child Poverty Action Group to pressure the government for improved paid parental leave in New Zealand (One News, 2011).

## Leaving employment for child bearing and returning years later was feasible for women when labour markets were expanding in the 1960s, enabling them to re-enter more easily.

2010). This means that women in low unemployment areas would have to work at least 13 hours per week in the previous year in order to qualify for paid parental leave. However, eligible mothers could combine maternity and parental benefits and receive them for 50 weeks (compared to 14 weeks in New Zealand), while men could receive a maximum of 35 weeks in Canada.

Researchers have attempted to compare the value of parental leave for different countries but this is complicated because leave may be long with low payments or short with high payments. UNICEF produced a table based on 2008 data comparing 'effective parental leave', which is calculated as the duration of statutory leave multiplied by salary paid. Table 1 includes selected countries from this table, showing that Canada's paid parental leave is more generous than New Zealand's, largely because of the duration.

Both countries pay considerably less than all the social democratic countries (especially Norway) and some corporatist countries, such as France (UNICEF, 2008, p.16). The United States continues to offer no statutory benefits at the federal level, but Australia introduced paid parental leave in January 2011 (postdating the data in Table 1). The Australian benefit is government-funded, like New Zealand's, but is paid for 18 weeks at a

**Table 1: Effective parental leave (duration of statutory leave multiplied by salary paid), 2008**

Country	Effective parental leave
Australia and United States	0
New Zealand	7
Canada	29
Sweden	48
Denmark	53
Finland	57
France	103
Norway	116

Source: UNICEF, 2008, p.16

#### Interest groups and maternity/parental leave

Over the past century the development of maternity/parental leave legislation throughout the Western world has served varying interests. The early gender-specific maternity leave policies were based on the reality that only women get pregnant, give birth and lactate, as well as a concern for maternal and child health and welfare. Allowing pregnant women to take job-protected leave recognises potential health risks to fetuses and mothers from overwork or exposure to work-related hazards. Permitting recovery

time acknowledges that childbirth is physically and psychologically exhausting. Consequently, health and safety advocates, religious groups, and conservative women's groups have argued for gender-specific maternity leave (Baker, 2006; Heitlinger, 1993).

Maternity leave legislation has also been used to increase women's employment rates. If, after working for a designated period, women are guaranteed paid leave while their positions are held open, they are more likely to enter paid

households can survive on one income and many parents are working longer hours (Families Commission, 2009; OECD, 2007). Furthermore, fewer homemakers can depend on another household wage in an era of high separation and divorce rates. Although women have always paid a heavy price in lifetime earnings for moving in and out of paid work, maternity leave provisions have improved their economic status considerably (OECD, 2007). Consequently, women's groups, 'progressive' reform groups

countries, such as Norway, have legislated that fathers must take several weeks of parental leave or the couple will forfeit this portion, which has slightly raised men's take-up rate (Duvander et al., 2010; Families Commission, 2007, p.40).

Despite the different interests and origins of parental and maternity leave, caring work continues to be gendered. In all OECD countries women tend to shoulder the responsibility for child care, housework and 'kin-keeping', and they more often work part-time, even in the social democratic countries (Baker, 2006; Leira, 2002; OECD, 2007; OECD, 2009). Feminists and progressive reformers argue that paid maternity/parental leave is essential for gender equity, as it can encourage young women to delay childbirth and establish full-time employment before pregnancy. In comparative analyses, paid maternity/parental leave and adequate childcare are two important factors in determining the lifetime earnings of women (Christopher, 2002; OECD, 2008). Paid parental leave can also contribute to poverty reduction, especially in sole-mother households, as there is no need to resign from employment in order to have and raise children.

## Gender-neutral parental leave legislation has been motivated by efforts to increase the opportunities and rights of fathers to care for their infants and young children with minimal income loss.

work and to ensure that they have met eligibility qualifications before becoming pregnant (Duvander et al., 2010; Families Commission, 2007). Leaving employment for child bearing and returning years later was feasible for women when labour markets were expanding in the 1960s, enabling them to re-enter more easily. It was also easier when technological change was slower, men were paid a family wage and separation/divorce rates were lower.

Under current conditions re-entering the workforce has become more challenging, with shrinking labour markets, increased global competition and rapid technological change. Considerable research now discusses the impact of the 'child penalty' or 'motherhood penalty' on the employment patterns and lifetime earnings of women, comparing mothers with childless women. This research notes that the number of children and time outside the labour force are critical variables reducing maternal earnings, especially for educated mothers (Baker, 2010; Correll et al., 2007; Families Commission, 2007; OECD, 2007; Zhang 2009).

As living costs and consumption increase, a smaller percentage of

and trade unions have fought for paid maternity leave, although there has been more debate about the wisdom of long-term leave for promoting gender equity in the home and workforce.

Gender-neutral parental leave legislation has been motivated by efforts to increase the opportunities and rights of fathers to care for their infants and young children with minimal income loss. For example, the creation of parental benefits in Canada resulted from a constitutional challenge focusing on the differential entitlements between adoptive parents and biological fathers, rather than from any substantial change in men's caring roles (Baker, 2006, p.132). Traditionally, men have been encouraged to give priority to earning rather than caring, but parental leave legislation acknowledges that some men want to play a larger role in their children's care and development. However, only a minority of fathers takes their full entitlement of paid parental leave even when their wages are fully reimbursed. Men who take parental leave spend more time caring for their children but they may be a self-selected group with more interest in nurturing (Marshall, 2008). Consequently, some

### Male biases in parental leave programmes

In the OECD countries wide variation is apparent in the motivating philosophy, the duration of benefits and the compensation levels of maternity/parental leave (OECD, 2007). Yet the underlying structure of legislation often assumes that male work characteristics are the norm. Entitlement (even for unpaid parental leave) is sometimes based on a lengthy work record in standard employment for the same employer, even though many women work in temporary or part-time positions (Baker, 2006; Whitehouse, 2005).

Policy makers have attempted to remove biases from parental leave legislation in recent decades. For example, France, Germany and Sweden now offer government benefits to pregnant women regardless of their workforce attachment (Baker, 2006). New Zealand and several Canadian provinces have reduced or eliminated the requirements of a lengthy employment record because

they disqualified many women from leave and benefits. In 1996 Canada began to base eligibility on the number of hours employees previously worked rather than weeks, allegedly to help more 'non-standard' workers become eligible, although benefit levels were reduced in the process (Baker and Tippin, 1999, p.97). The Canadian government also extended benefit duration from 10 to 35 weeks in 2001, bringing the duration of maternity/parental benefits up to 50 weeks (Marshall, 2008). In New Zealand, the duration of parental benefits was extended in 2005 from 12 to 14 weeks, after pressure from local interest groups but also from the ILO, and the continuous employment requirement was reduced. Now, additional pressure to reform paid parental leave in New Zealand will likely arise from the new Australian scheme.

The gendered nature of paid work and different use of parental leave by men and women contribute to the unequal sharing of economic and practical parenting, making it difficult to create social policies without gendered outcomes. When parenting is divided, fathers usually assume economic parenting, acquiring full-time or overtime paid work (Baker, 2009; Callister, 2005). In contrast, mothers often perpetuate their economic dependency through practical parenting (performing routine household tasks and child care), because they want to and because it is still viewed as 'women's work', but also because they are less able than fathers to find high-paying and permanent full-time jobs. If only one parent at a time is permitted to take parental leave, which is usually the case, the family is better able to survive on the father's (usually) higher wage (Families Commission, 2007; OECD, 2007). Both men and women view mothers as the logical choice for parental leave as mothers already take time off work for childbirth and recovery; therefore, the decision to take all or most of the leave could easily follow.

Fathers seldom take extended parental leave even when it is paid, but mothers with another household earner sometimes use extended unpaid leave instead of purchasing infant child care. However, taking unpaid leave is only possible for

households with adequate resources and could perpetuate a gendered division of labour at home. In other words, both the duration and level of parental benefits could influence parental behaviour, the household division of labour and women's employment patterns.

Women's employment rates are clearly influenced by access to paid parental leave and affordable child-care services, but are also influenced by high divorce rates, low wages or unemployment of male partners, ideologies elevating paid work

insistence on treating men and women equally in terms of employment leave benefits is ironic considering that women give birth and lactate while men do not. However, the US Constitution requires equal treatment for men and women (Baker, 2006).

A second trend is the extension of unpaid parental leave to periods of from one to five years. Offering extended leave can help resolve the high cost and shortage of infant child care without expanding public funding. In addition,

## **Women's employment rates are clearly influenced by access to paid parental leave and affordable child-care services, but are also influenced by high divorce rates, low wages or unemployment of male partners, ... lack of state support to raise children at home, and personal/cultural preferences.**

and economic self-sufficiency, women's educational qualifications, lack of state support to raise children at home, and personal/cultural preferences. Policies that pay mothers to stay home and care for their children for extended periods of time (more than several years) serve to reinforce traditional gender relations. After several years at home a woman's role as care provider and homemaker tends to become solidified and her job skills, employment experience and earning capacity are subsequently eroded (OECD, 2007; Ranson, 2009).

### **International trends in parental leave**

Two international trends have been apparent in parental leave policies. First, gender-neutral terminology is increasingly used to equalise benefits for males and females (as well as biological and adoptive parents), and paid parental leave has replaced maternity leave in some jurisdictions and workplaces. In the United States, for example, maternity benefits have been perceived as discriminatory to fathers unless they are incorporated into sickness and disability insurance. This

extended leave allows mothers who choose to care for their own children and who can afford to forfeit their earnings to do so without relinquishing their jobs. Extended parental leave also reduces absenteeism, by temporarily replacing parents of infants or young children with employees who have fewer domestic responsibilities. And finally, it can help reduce unemployment by offering short-term contracts as maternity replacements, providing invaluable job experience for otherwise unemployed or marginally employed people. Yet extended unpaid leave is only an option for higher-income and two-parent families, and could work against women's equality by solidifying traditional gender roles (Daly and Rake, 2003; Families Commission, 2007; Heitlinger, 1993).

### **Conclusions**

In the distant past New Zealand was viewed as a policy innovator for some forms of social provision, but this has not been the case for paid parental leave, which was introduced decades later than in Canada and with a much shorter duration.

Initiating or reforming social programmes clearly requires effective lobbying and coalition building. Advocates for improvements to parental benefits (such as the Families Commission and the Child Poverty Action Group) are now arguing that statutory supports and services for parents who are balancing employment and family life are essential for poverty reduction, women's employment equity and children's well-being. However, expanding social programmes requires political commitment and the investment of public money, which is especially difficult in an era of neo-liberalism, with competing demands for smaller government and lower income taxes.

Social conservatives continue to resist expanding any form of income support unless other benefits are simultaneously cut. An underlying concern in many

countries is that encouraging more women into employment could increase unemployment rates, reduce fertility rates, leave children with insufficient supervision, and diminish respect for the male breadwinner family. Clearly, the state must be seen as fair and equitable when providing social benefits and tax relief, ensuring that women and households are not penalised economically when they reproduce. Nevertheless, the persistence of gendered employment patterns raises questions about the adequacy of the welfare state in securing women's welfare (Daly and Rake, 2003).

Clearly, paid parental leave is essential for women's employment equity. Combined with subsidised child care services, these programmes can help to resolve the gender-based inequalities in the workplace and home. However,

the design of maternity/parental leave programmes must acknowledge that employment choices and constraints have never been the same for most mothers and fathers. Family obligations continue to encourage more mothers to accept part-time or temporary employment, to limit overtime, take unpaid leave, relocate with their partner's occupational moves, and accept low-wage jobs. Social programme development must acknowledge gendered patterns of work but also strive to promote gender equity in the workplace.

### References

- Australian Government, Family Assistance Office (2011) 'Paid parental leave scheme for working parents', <http://www.familyassist.gov.au/payments/family-assistance-payments/paid-parental-leave-scheme/>
- Baker, M. (2006) *Restructuring Family Policies: convergences and divergences*, Toronto: University of Toronto Press
- Baker, M. (2008) 'Low-income mothers, employment and welfare restructuring', in N. Lunt, M. O'Brien and R. Stephens (eds), *New Zealand, New Welfare*, Auckland: CENGAGE Learning
- Baker, M. (2009) 'Working their way out of poverty? Gendered employment in three welfare states', *Journal of Comparative Family Studies*, 40 (4), pp.617-34
- Baker, M. (2010) 'Motherhood, employment and the "child penalty"', *Women's Studies International Forum*, 33, pp.215-24
- Baker, M. (2011) 'Revisiting the 'dual welfare state': sickness, injury and unemployment programs in two 'liberal' regimes', *Women's Health and Urban Life*, special edition, 10 (1), pp.10-31
- Baker, M. and D. Tippin (1999) *Poverty, Social Assistance and the Employability of Mothers: restructuring welfare states*, Toronto: University of Toronto Press
- Callister, P. (2005) 'The changing gender distribution of paid and unpaid work in New Zealand', working paper 05/07, Wellington: Treasury
- Castles, F. & C. Pierson (1995). 'New Convergence? Recent Policy Developments in the United Kingdom, Australia and New Zealand', *Policy and Politics* 24 (3): 233-45.
- Castle, F. & I. Shirley (1996). 'Labour and Social Policy: Gravediggers or Refurbishers of the Welfare State?' In *The Great Experiment: Labour Parties and Public Policy Transformation in Australia, and New Zealand*, 88-106. Edited by F. Castles, R. Gerritsen and J. Vowles. Auckland: Auckland University Press.
- Cheyne, C., M. O'Brien and M. Belgrave (2008) *Social Policy in Aotearoa New Zealand: a critical introduction* (4th edn), Melbourne: Oxford University Press
- Christopher, K. (2002) 'Welfare state regimes and mothers' poverty', *Social Politics*, 9 (1), spring, pp.60-86
- Correll, S., S. Benard and I. Paik (2007) 'Getting a job: Is there a motherhood penalty?', *American Journal of Sociology*, 112 (5), pp.1297-338
- Crichton, S. (2008) *Work Patterns after Paid Parental Leave*, Wellington: Department of Labour and Statistics New Zealand
- Daly, M. and K. Rake (2003) *Gender and the Welfare State*, Cambridge: Polity Press
- Department of Labour (2007) *Parental Leave in New Zealand: 2005/6 evaluation*, [www.dol.govt.nz](http://www.dol.govt.nz)
- Department of Labour (2011) *Parental Leave*, [www.dol.govt.nz](http://www.dol.govt.nz)
- Duvander, A., T. Lappegard and G. Andersson (2010) 'Family policy and fertility: fathers' and mothers' use of parental leave and continued childbearing in Norway and Sweden', *Journal of European Social Policy*, 20 (1), pp.45-57
- Esping-Anderson, G. *The Three Worlds of Welfare Capitalism*. Cambridge: Polity Press, 1990.
- Families Commission (2007) *It's About Time: towards a parental leave policy that gives New Zealand families real choice*, research report 3/07, Wellington: Families Commission
- Families Commission (2009) *Finding Time: parents' long working hours and the impact on family life*, research report 2/09, Wellington: Families Commission
- Hantrais, L. (2000) *Social Policy in the European Union*, 2nd edn, UK: Macmillan
- Hantrais, L. (2004) *Family Policy Matters: responding to family change in Europe*, Bristol: The Policy Press
- Heitlinger, A. (1993) *Women's Equality, Demography, and Public Policy: a comparative perspective*, London: Macmillan
- International Labour Organization (ILO) (2000) International labour standards on maternity protection, [www.ilo.org](http://www.ilo.org)
- Leira, A. (2002) *Working Parents and the Welfare State: family change and policy reform in Scandinavia*, Cambridge: Cambridge University Press
- Lightman, E. (2003) *Social Policy in Canada*, Toronto: Oxford University Press

1 With the exception of Quebec.

2 As of April 2011 the value of the unemployment benefit and the DPB for a mother caring for a child is worth \$326.82.

3 The Canadian dollar equalled 1.26 cents New Zealand on 2 June 2011. The average weekly wage is about \$884 Canadian per week (Statistics Canada, 2010).

4 The Australian dollar was worth \$NZ1.31 as of 2 June 2011.

- Lunt, N., M. O'Brien and R. Stephens (eds) (2008) *New Zealand, New Welfare*, Auckland: CENGAGE Learning
- Marshall, K. (2008). 'Fathers' use of paid parental leave', *Perspectives*, June, pp.5-14
- MacDonald, M. (2009) 'Income security for women: what about employment insurance?', in M Cohen and J. Pulkington (eds), *Public Policy for Women*, Toronto: University of Toronto Press
- Mitchell, D. (1995). 'Women's Incomes, In *Women in Restructuring Australia: Work and Welfare*, 79-94. Edited by A. Edwards and S. Magarey. Sydney: Allen and Unwin.
- Morris, M. (2000) 'Some facts and dates in Canadian women's history of the 20th century', *Canadian Research Institute for the Advancement of Women Newsletter*, 20 (1)
- OECD (2007) *Babies and Bosses: reconciling work and family life* (vol 5), Paris: OECD
- OECD (2008) *Growing Unequal? Income distribution and poverty in OECD countries*, Paris: OECD
- OECD (2009) *Society at a Glance 2009. OECD social indicators*, Paris: OECD
- One News (2011) 'Calls to improve NZ's paid parental leave system', 18 January, Television New Zealand One News
- Ranson, G. (2009) 'Paid and unpaid work: how do families divide their labour?', in M. Baker (ed.), *Families: changing trends in Canada* (6th edn), Toronto: McGraw-Hill Ryerson
- Service Canada (2010) Unemployment insurance regular benefits, www.servicecanada.gc.ca
- Service Canada (2011) Employment insurance and maternity, parental and sickness benefits, www.servicecanada.gc.ca
- Statistics Canada (2010) Wages, salaries and other earnings, www40.statcan.ca
- Statistics New Zealand (2010) *NZ Income Survey*, June 2010, Wellington: Statistics New Zealand, www.stats.govt.nz
- UNICEF (2008) *The Child Care Transition*, Innocenti report card 8, Florence: UNICEF
- United Nations (2000) *The World's Women: trends and statistics*, New York: United Nations
- Whitehouse, G. (2005) 'Access to parental leave in Australia: evidence from negotiating the life course', *Australian Journal of Social Issues*, 40 (4), pp.489-503
- WINZ (Work and Income New Zealand) (2010) (www.workandincome.govt.nz)
- Zhang, X. (2009) 'Earnings of women with and without children', *Perspectives*, March, pp.5-13

## Resilience in the Pacific Addressing the Critical Issues

*Edited by Brian Lynch and Graham Hassall*

In February 2011 the New Zealand Institute of International Affairs and the Institute of Policy Studies, Victoria University of Wellington, co-hosted a conference that sought to bring fresh insights into the formidable array of challenges facing New Zealand's Pacific neighbours. The focus of the conference was on the nature, relevance and implications of the concept of 'resilience' as applied in the Pacific, in the face of those daunting challenges. Most of the texts presented at the conference are included in this book. It will be seen that collectively they highlight the seeming intractability of long-standing regional and local problems as well as the new range of issues confronted by our near-neighbours including climate change, cross-border crime, labour mobility, and the intrusion of great-power rivalries into the region.

Yet grounds for cautious optimism were also identified. Speakers pointed to areas of opportunity under-valued or untapped: in developing visionary

leadership, building self-confidence, utilising the strengths and loyalties of the Pacific 'diaspora', adopting more ambitious schemes of infra structure development, promoting better awareness of the quality of Pacific products, and focussing donor perceptions more on the potential of the formal aid programme to function as an enabler to progress not as growth constraint.

The dialogue on ways of tackling Pacific issues more effectively is destined to continue for a long time and this book is an important contribution to that on-going conversation.

**An Institute of Policy Studies and New Zealand Institute of International Affairs publication  
Edited by Brian Lynch and Graham Hassall**

**Publication Date: April 2011. Format A5 Paperback, pp 201  
ISBN 978-0-908772-36-0 Price - \$27.60 (including P&P within New Zealand)**

**Place your order by email, phone, fax or mail to  
Institute of Policy Studies, Victoria University of Wellington  
Email ips@vuw.ac.nz Telephone +64 4 463 5307  
PO Box 600, Wellington, New Zealand  
An invoice will be issued with your order**

## Resilience in the Pacific Addressing the Critical Issues



Edited by Brian Lynch and Graham Hassall  
With introduction by Brian Lynch and Jonathan Boston



Institute  
of  
policy  
studies

# STAND OUT



FROM THE CROWD.

## WHEN YOU'RE READY TO RISE ABOVE THE REST, CONTACT THE VICTORIA UNIVERSITY SCHOOL OF GOVERNMENT.

We're the only school of government in New Zealand. Located in the heart of government, we have access to the people, places and policy makers that will shape your future.

Our staff have extensive public sector experience and your study will be applied through relevant case studies.

Our courses are flexible to accommodate your work schedule. We also offer a range of study options to suit your needs and experience. Choose from Certificate or Diploma Courses that will take your career to the next level and open the door to a Masters Degree in Public Management, Public Policy or Strategic Studies.

Whatever level you study, you'll find our courses and those who take them are highly sought after.

To find out more and to enrol, contact the School of Government now.  
You can email [sog-info@vuw.ac.nz](mailto:sog-info@vuw.ac.nz), call 04-463 5453 or visit [www.victoria.ac.nz/sog](http://www.victoria.ac.nz/sog)