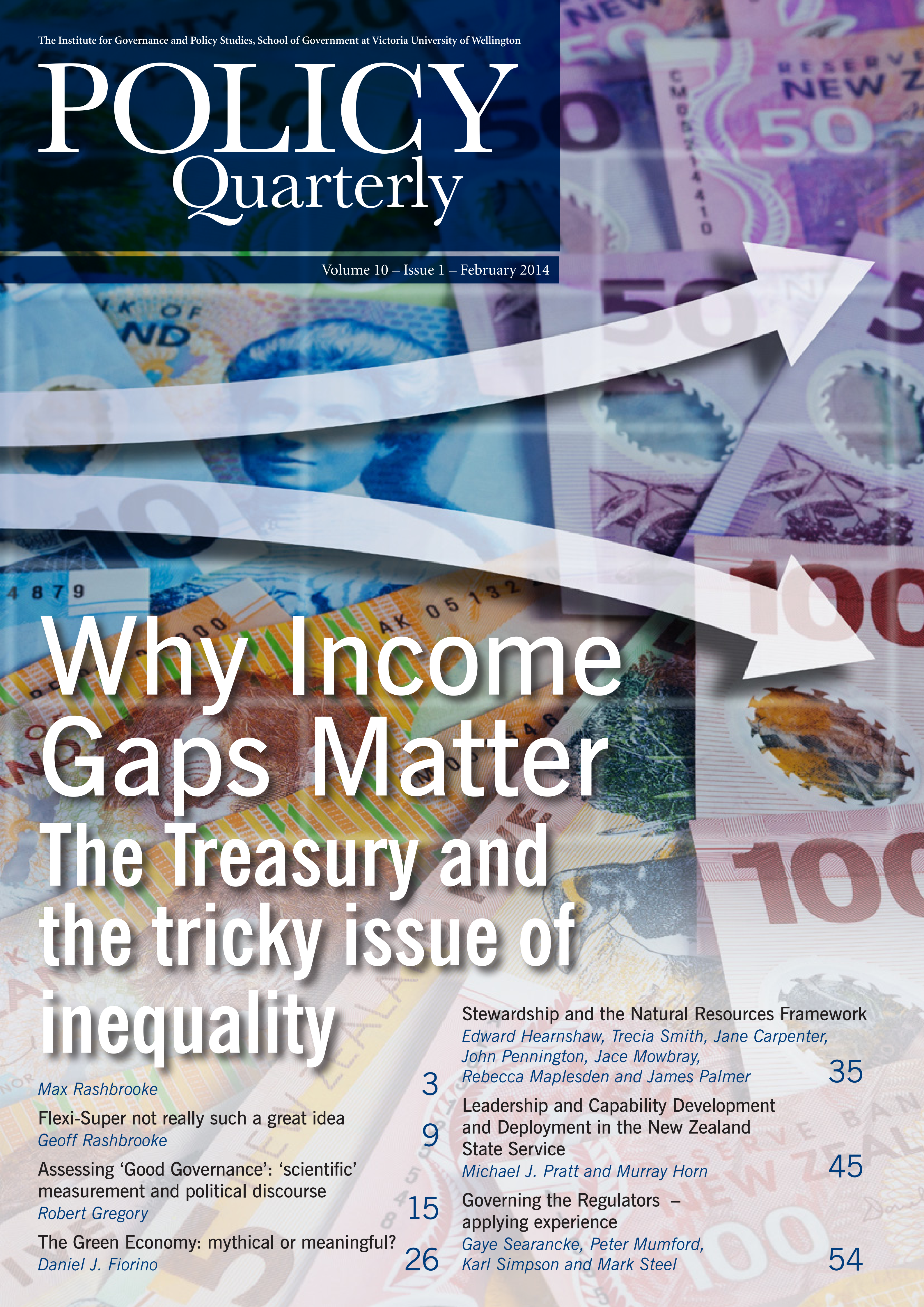

The Institute for Governance and Policy Studies, School of Government at Victoria University of Wellington

POLICY Quarterly

Volume 10 – Issue 1 – February 2014

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VICTORIA UNIVERSITY OF WELLINGTON TE WHARE WĀNANGA O TE ŪPOKO O TE IKA A MĀUI
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Editorial Note

New Zealand will hold its next general election on Saturday 20 September 2014. Judging by recent opinion polls, the top five policy issues for voters are, in their current order of importance, education, health care, jobs, child poverty and wages. Interestingly, at least three of these issues have a strong social dimension. Inequality is also among the top 10 issues – so clearly many voters are troubled by matters of income distribution and material deprivation. Why education ranks so highly with voters across the political spectrum is not entirely clear. Presumably, the long-standing troubles with Novopay, continuing debates over National Standards and charter schools, and concerns over New Zealand's declining PISA results are contributory factors. Significantly, environmental issues, such as climate change, deep-sea mining and water quality, are not matters of major public concern. Whether this situation changes in the months leading up to the general election, remains to be seen.

Over the coming year, *Policy Quarterly* will include articles on many contemporary policy issues, some of which are unlikely to rate highly in the forthcoming election campaign. There will be a special issue on the policy implications of population ageing in August, and we plan to give particular attention in forthcoming issues to government transparency and integrity, various regulatory matters, gender equity, and the Better Public Service reform agenda.

The first two articles in this issue of *Policy Quarterly* address the ability of New Zealanders to participate meaningfully in their communities. Max Rashbrooke points out that because income inequality is much greater than it was several decades ago policy makers now face a pressing problem. In particular, he discusses the Treasury's Living Standards Framework and the approach to equity which it enunciates. This understandably emphasizes the importance of social mobility, but largely ignores the implications of having large income gaps. One consequence of this approach is that it offers little to people receiving welfare benefits, those in precarious forms of employment and those on low wages, and gives little attention to the negative – often life-long – effects of those who experience significant material deprivation during much of their childhood.

Geoff Rashbrooke takes a holistic, actuarial look at the proposal to let people select when they will begin to receive New Zealand Superannuation, currently set at age 65. This topic is now a matter of debate following the release of a government discussion paper on Flexi-Super. Giving citizens such a choice will radically change the underlying philosophy of New Zealand Superannuation from a 'social participation' scheme to one like a personal retirement income scheme. Viewed from a financial perspective, it attempts to apply – inappropriately – a market mechanism to the scheme. Viewed from a government income perspective, it encourages a choice between relative poverty sooner and relative poverty later, while simultaneously allowing some people to take up a financially advantageous position at taxpayers' expense. Noting the discussion paper's figures are more optimistic for some options than real-life actuarial assumptions allow, he wonders why Flexi-Super has been proposed at all.

A new focus on governance emerged at about the same time as the rise of neo-liberalism. Bob Gregory distinguishes governance from government, stating that the latter is well-understood among informed lay-people, while the former is not, partly because there is little agreement on what can be considered essential to good governance and partly because of the concept's complexity. The proliferation of indexes purporting to rank criteria of good governance detracts from meaningful understanding because the complexities of governance cannot be reduced to a precise number or ranking. Many indexes are also ideologically driven and may in the longer term, because they appear to be scientific studies, displace the informed debates necessary in a healthy democracy.

An increasingly important question is whether humanity can realise its economic and social aspirations without exceeding the planet's ecological boundaries. Daniel Fiorino, the Sir Frank Holmes Visiting Fellow in 2013, explores this critical matter, drawing on the extensive international debates about 'the limits to growth', 'sustainable development', 'green growth' and 'the green economy'. His argument, in short, is that the only realistic path for avoiding irreversible ecological degradation is to adopt a 'green' policy agenda, but he readily acknowledges the political challenges of doing so.

Focusing on environmental developments in New Zealand, Hearnshaw and colleagues from several government departments describe the Natural Resources Framework, a multi-agency collaborative initiative to underpin policy development concerning natural resources issues. The initiative has parallels with the Treasury's Living Standards Framework, but there are many differences. The Natural Resources Framework has four underlying concepts – people, institutions, the multiple perspectives of people and their values, and integrative thinking – and six components, each of which has a specific task. The authors explain these features, highlight the complexities, and emphasize the collaboration that is needed to work within the framework. The concepts and components together should enable an evolving stance of human stewardship towards the country's natural resources.

The article on stewardship indicates the complexity of the policy world within which government agencies must operate. Pratt and Horn address the need to develop high-quality leadership today for tomorrow's challenges in describing the design and implementation of a new model for leadership and capability development and deployment. They identify the need for a public service whose agencies value a more unified, collaborative approach even as they serve differing client groups. This requires stronger central agencies and collaboration with highly-focussed private-sector providers.

Finally, Gaye Searancke and colleagues argue that an important outcome of recent regulatory failures in New Zealand – such as leaky buildings and failed finance companies – has been a better understanding of the kinds of regulation that are required, not least the better design of legislation. Legislation now includes detailed purpose statements and clearer principles to guide regulators in understanding their roles. The aim is to develop regulators who not only understand the sector well and what is needed for good regulation, but also have the capability to deliver.

Jonathan Boston and Vic Lipski

Max Rashbrooke

Why Income Gaps Matter

The Treasury and the tricky issue of inequality

The income gap between rich and poor, which is now much larger in most developed countries than it was 30 years ago, has become one of the more pressing problems facing both the public and policy makers. One approach to this problem of (in)equality is to argue that the income gaps themselves are concerning, and should be narrowed. If we think of the income distribution as a ladder, this is the equivalent of saying that the rungs on the ladder are too far apart. A second approach, however, is to say that income gaps per se are not of concern; what matters is whether people can move freely between those different incomes – whether they can jump, as it were, from one rung to another. There are still other approaches, of course, but the contrast between these two is very revealing and merits closer scrutiny.

Max Rashbrooke is the editor of *Inequality: a New Zealand crisis*, published in June 2013 by Bridget Williams Books.

In New Zealand one of the most important recent efforts to address these questions can be found in the Treasury's Living Standards Framework, which argues that 'increasing equity' is a key goal. The Treasury has, so far, embraced almost exclusively the second approach outlined above. But its thinking is still in development, and in the hope of contributing to that process this article highlights the strong evidence for putting much more emphasis on income inequality per se. In doing so, it makes three principal arguments. The first is that social mobility itself is less important than is argued: it often is either the wrong goal or fails to address some of the key problems of poverty and inequality. Second, even if social mobility remains of interest, it cannot be tackled without also addressing income inequality; the divide between the two concepts is a false one. And third, there is considerable evidence that income inequality is worth more attention than it has been given. There are, in other words, good reasons to think that it is the gaps between the rungs that matter most, not people's ability to move between them.

Moving on up?

In New Zealand since the mid-1980s incomes have increased by 80% for people in the top tenth, while increasing very slowly for those in the lowest tenth, and indeed for those in the middle (Rashbrooke (ed.), 2013, pp.27-8). This issue of widening inequality is addressed, at least partially, in the Treasury's Living Standards Framework. The Treasury has said that it sees itself as 'working for higher living standards for New Zealanders. This means thinking beyond just economic growth and considering the broad range of human, social and environmental factors that contribute' (Treasury, 2013, p.1). The Living Standards Framework gives this new thinking concrete form by arguing that policy options should be evaluated on five fronts: economic growth; sustainability for the future; managing risks; social infrastructure; and increasing equity. (While the structure of this framework, and indeed the role of a finance ministry in driving something designed to move beyond financial measurement, could both be questioned, such points are beyond the scope of this article.)

The Treasury's argument about equity and how it relates to income distribution (made in the greatest depth in its background note on equity published in August 2013) is, unfortunately, far from clear, but it can be summarised as follows. Participation in society is central to equity, and low income matters because it can be a bar to that participation. However, only long-term low income is a problem, so the sole policy issue of any importance is how to boost social mobility and help people out of poverty. That in turn implies a laser-like focus on making the school system do more to counteract socio-economic status, and on boosting work incentives (Treasury, 2013).

There are a number of problems here, not least the fact that the Treasury has not defined what it means by 'equity' with any great precision. It says simply that the 'starting point' for its thinking about equity is 'the ability to participate' in society. It also suggests that equity is equivalent to fairness, but does not explain what 'fairness' might be. Nor does it explore the difference between 'equity' and 'equality', potentially a major problem given the divergent ways in which those terms can be defined.

It is also unclear why the Treasury puts so much emphasis on 'the ability to participate'. This is only one part of the broader concept of equality of opportunity, which is itself part of a wider set of 'equalities' includes equality before the law and equality of outcomes. It is true that, as Jonathan Boston has argued, there is merit in an approach of 'equalising opportunities to enable people to enjoy those *specific* goods and services that are essential for life and citizenship' (emphasis in original), which is perhaps not too far away from 'the ability to participate' (Rashbrooke (ed.), 2013, p.79). The idea of 'participation' also highlights that what matters is not just that people have achieved some absolute standard of living, but that they have a standard of living that approaches those of others around them. Nonetheless, the leap from equity to participation is not well-justified, and one hopes that the Treasury will define all the above issues in much greater depth as it develops the Living Standards Framework.

This article is most interested, however, in the high-level choice between reducing income gaps and increasing social mobility, and the extent to which that choice is played out in the Living Standards Framework. Assuming that participation is a valid goal, we can then ask: is the Treasury right to argue that enhancing social mobility is the best means to that end? In doing so the Treasury has not defined precisely what it means by social mobility, but we can take the UK government's definition that it is about increasing the degree to which 'patterns of advantage and disadvantage' are disrupted, either within an individual's lifetime or across generations (HM Government, 2011, p.11, quoted in Nunn, 2012). So, does the Treasury's policy prescription – measures to boost both within-lifetime mobility (helping beneficiaries into work) and intergenerational mobility (a better education system) – seem the right one for enhancing equity and participation? The answer, in short, is no, for a host of reasons both philosophical and practical.

The Treasury's thesis rests on the assumption that short-term low income leaves no lasting impact, as long as people can rise out of it. But that assumption is strongly challenged by evidence from health and education research. First, the Dunedin longitudinal study, which looks (among other things) at children who grew up in poverty but later escaped it, finds that those children have better health than the ones who remained in poverty, but worse health than those who were never poor (Poulton et al., 2002). Second, the Competent Learners study found in 2002–03 that only 27% of 14-year-olds who had lived in low-income homes at age five had reading comprehension scores at the median level, 'even though many of their families had increased their incomes over the period'. In comparison, 74% of those from high-income homes had scores at the median level (Rashbrooke (ed.), 2013, p.136). In other words, even temporary poverty leaves a mark that later social mobility cannot erase. This suggests a need to focus not so much on social mobility but on reducing income inequality.

The shortcomings of the social mobility agenda are further evident when one looks at how little it offers to three key (and overlapping) groups: people on

> **The shortcomings of the social mobility agenda are further evident when one looks at how little it offers three key ... groups: people on benefits, people in precarious work and people on low wages.**

benefits, people in precarious work and people on low wages. In the case of the first group, while it is arguably right to encourage more people on benefits into full-time work, perfect mobility will never be attained. There will always be those who are unable to work, through illness or other reasons, and those who are unemployed for long periods because of a shortage of work in their area, or because their lack of employable skills will take a long time to address. Given that benefits are often set too low to enable people to participate in society (a point explored in more detail below), the Treasury's social mobility policies would fail to provide equity for many, even if one accepts the Treasury's narrow definition of equity as participation.

The stress on mobility also fails to consider what mobility really looks like for many people, especially those shifting frequently between employment and unemployment. A seamless transition from benefits to a well-paid, stable job, for instance, is seldom the reality. Increasing numbers of people – at least 30% of the workforce, and probably much more, on one recent estimate – are in part-time, poorly paid, unstable, 'just in time' or otherwise precarious work (New Zealand Council of Trade Unions, 2013). There is good evidence that this kind of precarious work has severe negative consequences, for the individual's health, for their families and for their communities. Yet these are the people who would be deemed to be succeeding under a social mobility agenda, because they might, over a period of time, move regularly in and out of the bottom fifth and not technically be in 'persistent' poverty. In other words, it is not enough to stress mobility by itself without thinking about where and into what conditions people will become mobile.

Similar points can be made about people in the third group outlined above: those on low wages. While a social mobility agenda may help some people move from low-paid to high-paid work, there will always be those who remain in low-paid jobs for considerable periods. And it is far from clear that policy makers should be trying to shift those workers out of their jobs. Consider a typical aged-care worker with one dependant, earning $14.80 an hour, a pay rate that is standard in this industry (Rashbrooke (ed.), 2013, pp.87-8). That equates to a budget of $490 a week after tax, which leaves little room for going to the movies, fixing a car, or even buying new clothes, and which is clearly insufficient for participation in society. But should this person look to become socially mobile by seeking other work? What she (it is invariably she) does is essential work, and since she has built up skills and knowledge in her many years in the job it is not obviously in New Zealand's interests that she stop doing it. Arguably, what she and the thousands like her need is not a social mobility agenda but a system in which their existing work is better paid.

... we accept that some emphasis on social mobility is reasonable, and that we want to increase... 'the opportunities that matter for people seeking to make the most of their chances in life... , especially for people experiencing hardship'...

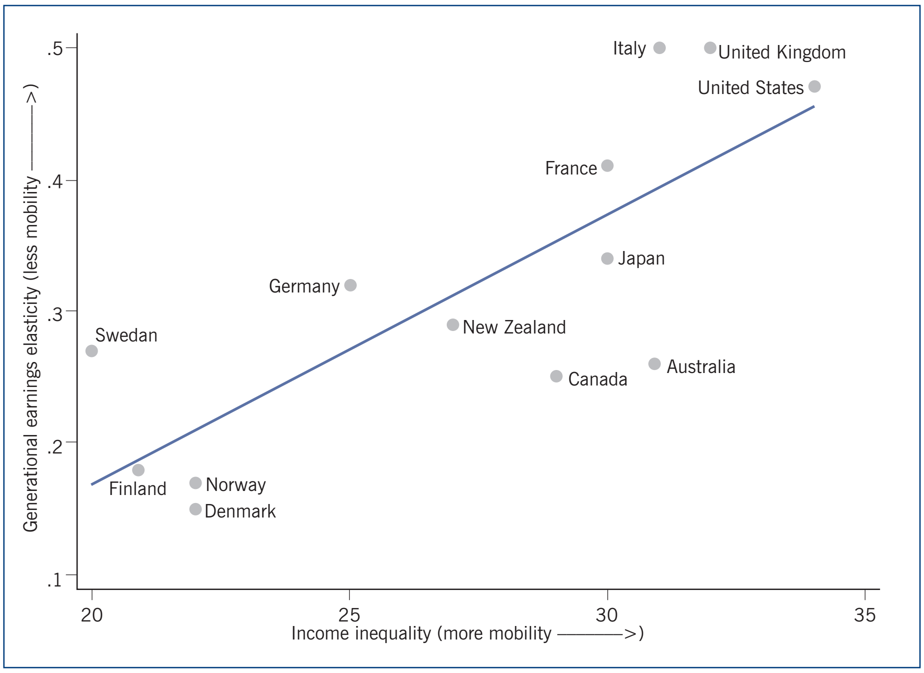
Some of these issues could be resolved by pursuing a far more thorough social mobility agenda. That would involve aiming for something close to full employment; otherwise, once all job vacancies were filled people who found jobs would just be displacing those already in the workforce, which is a zero-sum game as far as both mobility and participation are concerned. But even then there would still be those unable to work or find work, who would need more generous benefits in order to be able to participate in society. There would also be those who were in work but on wages too low to allow them to participate fully; resolving that issue would involve either major labour market reform to boost their bargaining power, a much higher minimum wage, or a definitive shift to a high-wage, high-skill economy.

The central point, underlying this whole argument, is that the social mobility agenda's apparent acceptance of large income gaps – across which people are supposed to be mobile – is difficult to justify either pragmatically or philosophically. While some income gaps (typically based on greater rewards for significant talent, effort or contribution) may be useful and justified, it is not clear that the very large gaps we have now are defensible. To return to the definition of social mobility given above, while it may be right to try to break 'patterns' of advantage and disadvantage, it also seems reasonable to question why so many people should be advantaged or disadvantaged in the first place. Stressing social mobility as a paramount objective may be defensible only if that mobility occurs within a relatively limited range of incomes, none of which confers either great advantage or great disadvantage. Without greater income equality, in other words, social mobility is much harder to defend as a policy agenda.

False divisions

Indeed, even to the extent that we accept that some emphasis on social mobility is reasonable, and that we want to increase, in the Treasury's words, 'the opportunities that matter for people seeking to make the most of their chances in life, especially for people experiencing hardship', simply *achieving* it is arguably incompatible with very high income inequality (Treasury, 2013, p.3). The Treasury argues that international research 'suggests generally [that] countries with high income inequality have relatively low intergenerational mobility, but this is not always the case' (p.9). This reading, however, does not perhaps give the full flavour of the research. Figure 1 shows what is known as 'The Great Gatsby Curve' (Corak, 2013). What it shows is that there is a very strong correlation

Figure 1: The Great Gatsby Curve: More Inequality is Associated with Less Mobility across the Generations



Source: Corak(2013)andOECD.

between inequality and social mobility. (The measure of social mobility used here is intergenerational earnings elasticity: in non-specialist terms, how much of a person's income can be predicted from the earnings of their parents, or, in many studies, the earnings of their father.)

As figure 1 demonstrates, in the developed world's more equal countries less than 0.2 – one fifth – of a person's income can be predicted from what their parents earned, but in the most unequal countries, such as Britain and the United States, fully half of someone's income can be predicted from their parents'. Other studies on inequality and social mobility draw similar conclusions. Jäntti et al. (2006) show that in the United States only 8% of children born into the bottom fifth of households make it into the top fifth in adulthood; the majority stay either in the bottom fifth or the next quintile up. In more egalitarian Denmark, in contrast, 14% of those born into the bottom fifth make it into the top fifth, and relatively few remain in poverty.

Correlation, of course, is not the same as causation. But Miles Corak provides a convincing explanation for the link:

> Socio-economic status influences a child's health and aptitudes in the early years – indeed even in utero – which in turn influences early cognitive and social development, and readiness to learn. These outcomes and the family circumstances of children, as well as the quality of neighbourhoods and schools, influence success in primary school, which feeds into success in high school and college. Family resources and connections affect access to good schools and jobs, and the degree of inequality in labour markets determines both the resources parents have and ultimately the return to the education children receive. This entire process then shapes earnings in adulthood. (Corak, 2013, pp.7-8)

One might also point out that, in a very unequal society, those with higher incomes are able to some extent to monopolise the best opportunities, while those on lower incomes are frequently dealing with multiple, overlapping forms of disadvantage that make it extremely difficult to take up the opportunities that exist. More equal societies tend to avoid both these issues (Rashbrooke (ed)., 2013, pp.14-15).

The Treasury may be right to point out that there are other factors at play, among them 'wealth, parental employment, parental education and the structure of the household (particularly the number of sole parent households)' (Treasury, 2013, p.9). But many of these factors are themselves influenced by households' levels of income. And the Treasury's subsequent caution against expecting success from reducing income inequality 'on its own' is a classic straw person argument, largely irrelevant to the well-argued cases being made for tackling inequality *alongside* a range of other measures.

The Treasury does claim that New Zealand's intergenerational mobility 'is higher than would be expected by the level of [its] income inequality' (ibid.). It is not clear why this might be so, but one can speculate that it is because New Zealand has had less income inequality than other countries for much of its history, and thus built up stores of trust, social cohesion and mobility – stores that it is now, in an era of much higher inequality, starting to run down.

The gaps between rungs

Income gaps are important not just to social mobility but in their own right. These gaps matter, firstly, in the sense that poorer households will struggle to fully participate in society. But this claim raises two questions: at what point does low income interfere with participation; and second, what about the argument that most people in short-term poverty are not in long-term poverty?

On the first point, it is unfortunate that, while the Treasury acknowledges that low income can be a problem (if it is persistent), it does not define what level of income is too low. It does briefly mention that there is a measure of 60% of median equivalised household disposable income: in other words, how many households have less than 60% of the after-tax income (adjusted for household size) of the typical household. But the Treasury fails to point out that this 60% figure has been recognised in international poverty measurement, and confirmed by New Zealand focus groups, as a level below which people tend to struggle to participate fully in society (Rashbroke (ed.), 2013, p.8). So it could be suggested that income inequality excludes from full participation the very large number of people living below the 60% line, some 800,000 people in 2011. (It would be highly complex, of course, to try to lift those 800,000 people above the poverty line, but those complexities are precisely what the Treasury needs to be addressing.) And since, as the Treasury notes, 65% of households that receive benefits are below the 60% poverty line, a discussion of benefit levels would seem to be crucial to any examination of participation and thus equity. Its omission is, therefore, hard to understand.

The Treasury's counter-argument to the above seems to be that the households living in poverty are not necessarily all struggling. Only half of those in poverty are in chronic poverty (defined as poverty lasting for seven years), and only one third of those in chronic poverty are technically in hardship. But, while this is important evidence, the picture is a little more complicated than those bald facts suggest. First, as described above, people who rise out of poverty may not rise very far above it, and may end up in unhealthy, unstable forms of work, still unable to participate fully in society. Second, the measure of hardship the Treasury uses is the number of households reporting three or more of the eight official markers of deprivation. It does not set out how many poor households report one or two of the markers – and since those markers are inherently significant things, such as having to visit a foodbank, even reporting one might be taken as a sign of non-participation and thus constitute a problem for equity, as defined by the Treasury.

Third, many poor households avoid these markers of deprivation through means that are both sub-optimal and unlikely to be captured in official statistics: borrowing, relying on the support of family and friends, working in the black economy, or even crime. In short, the extent of non-participation in society among those in temporary poverty is likely to be far greater than the Treasury suggests, reinforcing the value of low income as a marker, and highlighting the centrality of income measures – and income inequality – to these arguments.

Income inequality matters also at the other end, in the sense that some people have significantly more than the median income. The Treasury's work is noticeably silent on this issue, despite its obvious implications for equity, especially if equity is conceived as being similar to fairness (though one could, of course, challenge this definition). Leaving aside the moral aspects of this issue, it can simply be noted that these very high incomes can be a concern in their own right – given, for instance, the evidence that large pay gaps in the workplace are demotivating for low- and middle-paid staff – or because households with very high incomes can translate that income into preferential access to education, health care, political power and other advantages (High Pay Commission, 2011). This should prompt discussion of a range of initiatives, from measures to constrain unjustified high pay through to those aimed at breaking the link between high income and preferential access (measures sometimes described as 'blocking exchanges', to use Michael Walzer's term).

It is also important to recognise the connections between inequality at both ends. Increasing incomes at the top and stagnant incomes at the lower end are produced by the same mechanisms. Weaker bargaining power for many low-paid workers is the flipside of greater power for company managers. Resources are insufficient for those reliant on benefits in part because insufficient tax is collected from those at the top end (many of whom do not even pay the top tax rate), which could have helped fund those resources. Low wages pave the way for increased returns to shareholders. The same underlying philosophy – that people's pay accurately reflects their worth as determined by the market – is used to defend both very low and very high pay. Top-end inequality, in other words, is intimately linked to questions of low income, and therefore participation and equity.

This point about the intertwining of rich and poor leads neatly to a final claim: the importance of income inequality in the round, both for narrow questions of participation and more broadly for society. In its background paper, the Treasury underplays the evidence that more unequal societies suffer significantly more health and social problems. It argues that there is at best a 'modest' linkage between inequality and social problems. But a range of authors and organisations, including Michael Marmot and the World Health Organisation, have presented persuasive evidence that income inequality is a significant cause of those problems (Marmot et al., 2010; Commission on Social Determinants of Health, 2012). The literature on this subject also suggests a number of plausible causal mechanisms: principally, the psycho-social stress, stigma and shame engendered by large income gaps. The findings of works such as *The Spirit Level* (Wilkinson and Pickett, 2009) have not been overturned in the peer-reviewed literature; indeed, that book's conclusions have been broadly endorsed by expert independent reviewers – including, curiously enough, one of the

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authors, Karen Rowlingson, whose work the Treasury cites as evidence for not paying much attention to *The Spirit Level*. There is, in short, good evidence that the greater health and social problems of more unequal countries are real, and that they therefore constitute an equity (and participation) problem for those at the lower end, and for society more generally. There is, further, some evidence that income inequality distorts politics so that it favours the interests of the wealthy (Gilens, 2005). Inequality has also been linked to lower long-term economic performance (Berg and Ostry, 2011).

Income inequality does matter

In the debate about social mobility and inequality, it is clear that much more attention needs to be given to the latter. A focus on social mobility seems justifiable only when income inequality is low enough that it no longer creates significant problems, either for individuals or for society as a whole. This recasts the task of social mobility from ensuring that people can rise out of poverty to that of guaranteeing that people can choose from a wide range of paths, each with a decent level of income attached. In any case, the evidence is that without greater income equality, efforts to boost social mobility are unlikely to be very effective. So there are, to return to our opening metaphor, good reasons to think that, if there are rungs on the income ladder whose inhabitants struggle to participate in society, we might be better off lifting those rungs into a more comfortable position rather than just trying to make people's stay on them a little shorter than it would otherwise be.

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Geoff Rashbrooke

Flexi-Super not really such a great idea

This article is an abridged version of an IGPS working paper of the same title published October 2013. The working paper was commenced earlier in the year, but completion became timely after the government put out a discussion document outlining the Flexi-Super concept and invited submissions. Accordingly, this is not a response to the discussion document per se, but rather a holistic review of the policy option of letting people select starting dates for New Zealand Superannuation (NZS).

Conceptual basis for New Zealand superannuation

Behind the idea that individuals can have a choice about the age at which their New Zealand Superannuation commences is the notion that NZS is an individual entitlement: a pot of money, if you will. This is unambiguously wrong. The object of NZS, simply put, is to ensure that all New Zealand residents above a certain age (currently 65) have sufficient income to be able to participate in society, to at least a certain minimum acceptable extent.[1] The level of NZS is therefore intentionally above that which might be considered necessary to alleviate poverty, certainly in the sense of destitution.[2]

Behind this policy lies an egalitarian solidarity which requires a minimum equal income to be provided to each and every older New Zealander as of right.[3] It takes the form of an income stream, expressed in statute. A change in statute can change the income, and indeed this has happened at different times in the past. A change can be challenged politically, but it cannot be challenged legally because there is no property right; that is, there is no entitlement enforceable in a court of law.

Some countries do offer flexibility of eligibility age and a consequent adjustment in pension payments. However, most of these, such as Sweden, feature an individual pension entitlement based on individual contributions. Only Ireland is like New Zealand in having a level universal pension regardless of paid employment history, and Ireland offers no flexibility.

The United Kingdom is moving towards a flat-rate pension (operating alongside a voluntary but strongly tax-favoured private pension system), and has a deferral arrangement which permits any pension not taken to be accumulated and paid later either as a taxed lump sum or as additional pension. The

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Australian means-tested flat-rate pension, which operates alongside tax-favoured compulsory superannuation savings, can also be deferred. But neither of these state pension schemes is strictly comparable to New Zealand's, and neither offers early pension at a reduced level.

For completeness one should record that there are issues in respect of the affordability of NZS, important to its continuation. These are not, however, the focus here, and Flexi-Super does not purport to address them in any case.

In short, there is no legal or moral basis within NZS to posit an individual pension pot to support exercise of choice. Further, the core principle and purpose of NZS would disappear were any group to receive a lower amount of benefit than others, or were any group to receive more.

Someone at age 65 earning $70,000 or more who can defer their NZS until they cease to be taxed at the highest rate will cause government to collect less revenue.

Technical issues

Background

The working paper on which this article is based sets out a detailed actuarial approach to establish the price of early uptake or deferral of NZS, and readers wanting that detail are referred to that paper. Here I discuss one by one the relevant factors in pricing, and then present the actuarially derived results from the working paper at the end.

The basic trade-off for early uptake (taking pension at age 60 instead of age 65) is a longer period of payment against a lower pension. Similarly, the basic trade-off for deferral (taking pension at age 70 instead of age 65) is a shorter period of payment against a higher pension. A simplistic way of calculating the trade-off is to use New Zealand life expectancy, ignoring a small technical adjustment.[4] From the New Zealand 2010–12 life tables,[5] life expectancy[6] at ages 60, 65 and 70 is broadly 25, 20 and 15 years, taking the population as a whole and ignoring gender differences. Looking at early uptake first, the trade-off is a lower pension for 25 years against the standard pension for 20 years. The proportion is 20/25; that is, ignoring all other considerations, the pension payable from age 60 should be about 20/25ths or 80% of the standard pension payable from age 65.

Similarly, for deferring the standard pension from age 65 to age 70 the proportion is 20/15, suggesting that the deferred pension, ignoring all other considerations, could be payable from age 70 at a level of 20/15ths or 133% of the standard pension.

This gives the general idea: early uptake from age 60 would get 80% of the age 65 pension, deferral to age 70 would give 133% of the age 65 pension. However, it is overly simplistic. To calculate the cost-neutral percentage adjustments properly requires other factors to be taken into account.

Different rates of mortality

As is generally known, on average women live longer than men. Also reasonably well-known is that on average people of higher socio-economic status (SES) live longer than those of lower SES. Possibly less appreciated is the way in which mortality rates by age have declined, particularly in the last 30 years, something like 2% per annum, thereby giving rise to appreciably greater longevity.

The impact of differential mortality for different groups works as follows. If one group lives longer on average than another, then early uptake is less advantageous because the reduction goes on for longer and hence they can have a greater percentage of the standard pension than the lesser long-lived group. Conversely, deferral is more advantageous for those who live longer, because they have greater time to enjoy their relatively higher pension, and a lesser percentage of the standard pension should apply for them compared to those who can be expected to die earlier.

The extent to which mortality has been decreasing has been different for different groups – male/female, higher or lower SES group. Overall, however, ongoing decrease in mortality rates means people live longer, and thus, compared to not making any allowance for improving longevity, a greater percentage of the standard pension would apply for early uptake and a lesser percentage for deferral.

Discounting

If NZS is deferred, an income stream is delayed. If NZS is taken early an income stream is brought forward. Making allowance for this requires calculating the net present value of the different income streams at some appropriate discount rate, and then setting the percentage of the standard pension payable for early uptake or deferral as the figure required to equate to the net present values.

The impact of discounting on the early uptake percentage is to lower the percentage, because the immediate payments are of greater relative value than those further in the future. For the same reason, the impact on deferral of discounting is to increase the percentage. In other words, whichever option gives more right now – taking early uptake rather than waiting for the standard pension, taking the standard pension rather than deferral – is favoured by discounting.

Lost income tax receipts

Someone at age 65 earning $70,000 or more who can defer their NZS until they cease to be taxed at the highest rate will cause government to collect less revenue. Since there is no apparent policy advantage from allowing this tax advantage, the percentage adjustment for deferral should be calculated to ensure that there is, in fact, no lost revenue.

Assumptions

The future is unknown (even to actuaries), so some reasonable assumptions are needed to calculate and discount the income stream options. The assumptions used in the working paper are:

- Mortality follows New Zealand life tables 2010–12 rates, with a compound decrease in mortality rates of 1% per annum.[7]
- The impact of socio-economic differences is modelled by taking Māori and non-Māori mortality as proxies for lower and higher SES, with mortality rates in the higher SES group decreasing as above, 1% per annum, while rates in the lower SES group will decrease at a slightly greater rate so as to maintain the current differences in period life expectancy.[8]
- The impact of income tax reduction in deferral is modelled by reducing NZS payments from age 65 to age 70 for the maximum difference in tax.
- A reasonable approach to setting the discount rate would be to begin with a nominal risk-free rate of 5% p.a., reducing to 4% after tax. The payments of NZS are indexed to the greater of price inflation and wage growth; the Treasury in its long-term fiscal forecast assumes NZS will grow around 3.5% p.a., made up of 2% inflation and 1.5% real wage growth. This would suggest a discount rate of 0.5% p.a. However, to give some sense of the significance of this assumption, calculations are made using both a zero discount rate and a relatively high 3% discount rate, noting only that the latter assumes a rather higher nominal risk-free rate and/or lower price inflation and average wage growth than is currently the case.[9]

Results

The results based on these assumptions are shown here for both a discount rate of 0% p.a. (Table 1) and a discount rate of 3% p.a. (Table 2). Each table shows early uptake and deferral percentages in relation to the age 65 pension for higher SES and lower SES groups within male and female.

Table 1: relativities by gender and SES: zero discount

Discount: 0%	Male		Female	
	High SES	Low SES	High SES	Low SES
Early uptake (from age 60)	80%	77%	82%	78%
Deferral (to age 70)	123%	138%	120%	134%

Table 2: relativities by gender and SES: 3% discount

Discount: 3%	Male		Female	
	High SES	Low SES	High SES	Low SES
Early uptake (from age 60)	73%	69%	75%	71%
Deferral (to age 70)	133%	153%	130%	149%

What may we take from this?

Firstly, male/female differences for the same SES group seem small, and could be averaged without any great concern, which is useful to know. Secondly, the rate suggested in the government discussion document for early uptake was 73% of the standard pension. The results above for the lower SES group, the presumed target for early uptake, are either side of that figure, being around 77–78% at the 0% p.a. discount and 69–71% at the 3% discount. Something like 75% at age 60, being 5% for each year before 65, appears not unreasonable.

Thirdly, the 160% proposed in the discussion document for deferral to age 70 appears much too generous, and it is unclear how this figure could have been arrived at. The focus needs to be on the higher SES group (since one may reasonably ask who else is going to contemplate deferral), and the range of results then is between 122% (0% discount over wage indexing) and 132% (3% p.a. discount over wage indexing).[10]

In my judgement, the highest discount rate appropriate at the current time for costing early uptake and deferral relativities should not exceed 1% pa in excess of wage indexation. It follows that the work here supports a relativity of 75% for early uptake and 125% for deferral as tentative best estimates, assuming no selection effects other than in respect of SES group.[11]

An immediate implication is that responses to the discussion document in favour of a deferral option based on a relativity of 160% will unfortunately be unreliable and of no utility from a policy development perspective. Were the discussion document to have put forward the 125% that analysis here suggests, or even a tax-favoured 130%, say, it seems likely that enthusiasm for having choice to defer NZS would be considerably muted. A less obvious but important implication is the need for the government to set aside contingency reserves on its balance sheet should the proposal go ahead. There is clearly uncertainty in any 'best estimate' of relativities, and a private company would be required to hold regulatory capital sufficient to ensure promises to pay will be met in all reasonably foreseeable circumstances.[12]

Outcomes and fiscal neutrality

Rational behaviours

When pricing options allow people to make voluntary choices, anyone from an insurance background will be very conscious of adverse selection. Customers for life insurance, for example, who are in poor health will get better-than-average value if they can obtain the insurance on normal terms. A person in very good health conversely may not consider life insurance worthwhile. In the section above on technical issues I assessed the rate for the early uptake option on the basis that it would appeal to low SES groups, and assumed a proxy mortality to get a rate which would be about right on average for that whole population. However, consider a 60-year-old diagnosed with motor neuron disease. Age 60 is a not uncommon onset age, and death before age 65 is almost a given in such circumstances. Someone in this position will opt for early uptake regardless of their SES group because they will get something rather than nothing.

Fortunately motor neuron disease is not very widespread. However, it illustrates the point that when people can make a voluntary choice on an option priced on an average, then choice will give rise to a bias against whomever is making the offer. Diagnosis of terminal illness in one's early 60s would almost invariably trigger exercise of an early uptake of NZS were it available with no offset.

As another example, suppose the deferral relativity was set higher than the estimated cost-neutral 125% arrived at above. Deferral would then become advantageous to those still in employment and earning over $70,000 p.a., and the people who took advantage would create a direct additional cost on provision of NZS.

In the case of insurance, companies underwrite applicants in order to weed out the more extreme cases of adverse selection. It is difficult to see, however, how the government can underwrite the offer of either early uptake or deferral. Even carrying out pricing on the basis of the sub-groups most likely to take up the option, as done in the previous section, will not eliminate adverse selection. It follows then that the government will inevitably lose money if people behave rationally, by which is meant:

- those who are broadly average for their group may or may not take up the option, depending on their circumstances;
- those who have characteristics which make the offer poor value to them will not take it up;
- those who have characteristics which make the offer of particular value to them will take it up.

If Flexi-Super has other benefits to offset the adverse selection cost, then the government could carry out a cost-benefit analysis. This would, however, be a rather hypothetical exercise, and possibly comes into the 'how long is a piece of string?' category of enquiry. Whether loading additional costs onto NZS would ever be sensible must be doubtful when NZS cost pressures are increasing; much better to deal directly with concerns, as outlined later here.

The current Ministry of Social Development benefit payments system is efficient at what it does, but any change to what it is currently designed to do ... could be extremely expensive.

Poor or constrained decision-making

The above discussion on choice has assumed rational agents, with a good knowledge of their own longevity prospects and high financial literacy. It is particular-ly necessary to focus on the early uptake choice with a different lens because the target, the lower SES group, generally have lower financial knowledge than the higher SES group: refer, for example, to the 2006 ANZ/Retirement Commission Financial Knowledge Survey. It is reasonably clear that a not insignificant number will fix on a guaranteed income to the exclusion of any other factors, including comfort in old age. Use of a low-enough percentage adjustment for early uptake may result in broad fiscal neutrality in respect of NZS cost alone, but either other welfare benefits will have to rise or greater poverty in old age become generally acceptable. And people who arrive at age 60 with no prospect of finding work, or are indeed unable to work, having been in arduous occupations and worn out (or poisoned in their work places, as were some Bay of Plenty timber mill workers), will not really have options. They will feel compelled to exercise early uptake, in the absence of any other resource. This is not choice.

A parallel is the case of Prison Service officers, who used to have a separate section of the government superannuation scheme. This section was compulsory and required members to contribute 8.5% of their salary in return for a pension from age 58 of 1.875% of final average salary. In 1992 the government made the scheme optional, allowing members to withdraw their own contributions, plus meagre interest. At the same time, subsidised rental housing was withdrawn. For most rank and file prison officers their GSF contribution became too onerous now that they had to pay market rents, and the lump sum was attractive, so they 'chose' to withdraw. The number in the scheme fell from about 1,700 in 1989 to a little over 600 by 1994. For most this was a necessary but financially disadvantageous 'decision'.

One could not unreasonably argue that those who arrive at 60 with no reasonable prospects of work and no other resource deserve better support than they obtain currently. But attempting to provide this by rearranging NZS provision is not giving meaningful choice. And it means we are abrogating our current policy of ensuring that those over a certain age have enough to live on in order to participate in society at least to some extent.

Individual versus financial discounting

The technical section earlier identifies the significant effect of the discount rate in measuring value. The work of David Laibson and others has shown that many people (and not just lower SES groups) apply hyperbolic discounting: that is, a low discount for immediate payments but a very high discount for delayed payments. For those who make financial judgements in this fashion, early uptake will appear very attractive even when not financially sensible from a more informed viewpoint. Deferral, on the other hand, unless at a fiscally ruinous relativity will not be attractive even if, again, it would be financially sensible.[13]

Other considerations

It could be argued that not many people will exercise a choice away from age 65 entitlement, and certainly this has been the experience of Australian and UK deferral arrangements. It could then be argued that the additional NZS costs described above may be insignificant in the scheme of things. Whether or not experience in New Zealand will follow that in Australia and the UK will depend on where relativities are set, especially for deferral. However, there will be significant fixed costs in establishing Flexi-Super. Apart from the cost of putting it in place, including the legislative process, rate-setting mechanisms and accounting changes, there will need to be changes to payment systems to cater for different rates. The current Ministry of Social Development benefit payments system is efficient at what it does, but any change to what it is currently designed to do – such as more than three basic NZS rates – could be extremely expensive. A figure of $25 million was quoted to me when I worked at the ministry. The issue is the need for exhaustive testing of alterations, since interdependencies within the system are imperfectly understood. It follows, then, that if there are only a few who exercise a choice under Flexi-Super the overhead cost per head will be considerable, and it may be questioned whether this is a sensible use of taxpayer funds.

Alternatives

Deferral

If receiving NZS while working is seen as an issue for some, facilitating diversion of it into a KiwiSaver account would seem a low-cost option. Payments would be subject to PAYE as usual, and the accumulation uplifted when paid work ceases or reduces. Work and Income would need to offer the facility, and legislation may be needed to enable those who had attained age 65 without a KiwiSaver account to open one. (Whether or not a kickstart $1,000 would be available to anyone who had not already obtained one is worth consideration; there is an equity argument in favour.) The accumulation should be available to be taken on a drawdown basis, i.e. as regular non-taxable (as income) instalments until the money runs out.

It may be that some in favour of Flexi-Super have promoted it because it effectively provides additional, wage-indexed and government-guaranteed annuity payments in return for those forgone payments. If such annuity provision is seen as desirable from a policy perspective, one would think it should be provided openly, rather than through some backdoor method, and subject to full scrutiny and regulation.[14] Be that as it may, some greater attention by government to the management options in retirement of accumulated KiwiSaver funds does appear necessary, and was included in the retirement commissioner's recent review of retirement income policy.

Early uptake

There is good argument for greater resources to be provided for the worn-out and the structurally unemployable than are at present available. There is no obvious solution to that problem other than a targeted benefit at or around NZS levels, requiring higher taxes or diversion of other spending.

However, for those with KiwiSaver balances there is an argument for relaxing eligibility to some extent. Allowing payment of a regular monthly drawdown payment from age 60 or later when not in work would seem worth exploring.

Conclusion

The basic problem with Flexi-Super is that it attempts to apply a financial market mechanism to something for which financial market mechanisms are just not appropriate. As well as being wrong in principle, it will inevitably cause difficulties for a government in application, due to the impossibility of guaranteeing accurate pricing, the impacts of adverse selection, the absence of true choice for those with income constraints, and the likelihood of behaviours rather different from those assumed for rational agents.

The opportunity to exercise 'choice' is held as a benefit of the proposal, but in this instance 'choice' is meaningless, unless one means (in the case of early uptake) choice between poverty now and poverty later, or (in both cases) the choice to exercise a financially advantageous option against the government. The first of these is really still no choice at all, and the second will inevitably add to NZS cost, with no other discernible benefit.

If the main problem is receipt of NZS while still working, this article and working the paper on which it is based put forward a pragmatic solution that will not disrupt NZS and will increase the utility of KiwiSaver. If, however, the underlying problem is the absence of any opportunity to obtain additional, wage-indexed annuities, then note: Wage-indexed annuities are just not practicable as financial market instruments.

Annuity products generally are certainly desirable, but are very difficult to provide on a cost-neutral basis because of the tendency for individuals to apply hyperbolic discounting, making annuities appear unattractive on price. Also, for prudential reasons contingency reserves need to be established and held as segregated funds (whether provided publicly or privately),[15] adding to cost.

It is not unreasonable to wonder why Flexi-Super has been proposed at all. It will do nothing positive for lower SES groups, and will be of utility only to those in robust good health with sufficient private wealth that they can allocate part to increasing their state pension, to be underwritten by all taxpayers. One might suppose a certain myopia in those responsible for policy development, and, at the least, a woeful lack of understanding of insurance principles.

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1 Refer to the 1972 Royal Commission of Inquiry into Social Security, p.65: 'beneficiaries to enjoy a standard of living "much like" that of the rest of the community and which would enable them to participate in and belong to the community'. This was further supported in the 1988 Royal Commission on Social Policy. It may be noted that the extent to which this conceptual approach has been applied to benefits other than NZS is arguable.

2 NZS is quite successful in alleviating poverty among the elderly, and ranks very highly in this regard in international comparisons of social security systems (using a 50% of median income comparison). As measured by standard of living surveys, domestically far fewer of our over-65 population are in hardship compared to families (parents with children under 18).

3 One of the ways New Zealand exercises the solidarity principle is to require NZS to be offset by any social security pension received by a New Zealand superannuitant from another country. This is logical in terms of the policy objective of NZS, but again runs counter to the idea of a pension pot, which may be why some confusion exists on this aspect of NZS policy as well.

4 Strictly speaking it should be life expectancy at age 65 assuming one has survived from age 60 to age 65, and life expectancy at age 70 assuming one has survived from age 65 to age 70.

5 Statistics New Zealand 2010–12 life tables, while based on actual deaths over the period 2010 to 2012 as the numerator, necessarily use estimates of the population as the denominator in the absence of census information delayed by the Canterbury earthquakes. They show greater relative improvement in male mortality than in female mortality.

6 These are period life expectancies, assuming no change in mortality rates in future years.

7 This might be seen as too low by a number of experts; for a comprehensive discussion in the New Zealand context refer to O'Connell (2012).

8 There is no direct investigation of the impact of socio-economic differences on New Zealand mortality rates, but the work by Blakely et al. in the Decades of Disparity series identifies that some 50% of the difference between

mortality rates for Māori and non-Māori can be put down to socio-economic factors. In a presentation, an author suggested that, given the limitations of their study (the only socio-economic factors available were those that can be derived from census information), rather more of that difference could be due to socio-economic difference. Using published mortality rates for Māori and non-Māori as proxies for low and high socio-economic status groups is likely to be conservative, as non-Māori rates include some lower SES non-Māori lives, and Māori rates include some higher SES Māori lives. The difference in period life expectancy for males between higher SES and lower SES groups on this approach is 3.8 years, and for females is 4.6 years.

9 In considering what is an appropriate discount rate the context is the 'safe' investment open to individuals in relation to the NZS income stream amounts, not government or corporate finance.

10 These results incorporate the advantage from lower tax in deferral. Without this, the range would be 129% to 142%. Even so, the likelihood that those choosing deferral will be longer-lived than others even within the same SES group counsels caution in using a higher range, even if one were not convinced of the need to exclude tax advantaging.

11 Selection effects in deferral, i.e. that those choosing deferral will do so in the belief they will be long lived, might suggest a lower relativity than 125%.

12 Government will also need to record on its balance sheet: (1) a credit, under early uptake, for anticipated reduced NZS from age 65 in respect of those who elect that choice; (2) a debit, under deferral, for anticipated increased NZS from deferral age in respect of those who elect that choice. This will be needed to ensure transparency of NZS cost.

13 This may explain the low take-up of deferral in the UK and Australia.

14 As referred to earlier, pricing can never expect to be accurate, and the government would need to set aside reserves on the same basis as private annuity companies.

15 The cost of holding contingency reserves necessarily has to be included in the annuity price, and hence products such as annuities deferred to a later age, by reducing uncertainty, are the most promising for investigation since they require lower reserves.

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Robert Gregory

Assessing 'Good Governance': 'scientific' measurement and political discourse

The publicity of the government, the press, and a host of private organisations constantly assures the public that New Zealand leads the world in this, that, and the other. So often is the point repeated and asserted about so many features of the Dominion's life that it is now earnestly believed by the majority. It is held as a faith which few call in question … Under its worst forms it can degenerate into smugness and complacency, the national delusion of the self-satisfied.

– Leslie Lipson (2011) *The Politics of Equality: New Zealand's adventures in democracy,* pp.459-60

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What is 'good governance'?

The idea of governance – as distinct from government – has become intellectually fashionable in academic circles over the past decade or so, constituting a new conceptual paradigm that embodies ideas about the dispersal and fragmentation of formerly centralised state authority, the increasing involvement of civil society in the delivery of public goods and services, and the networked collaboration of a wide range of governmental and non-governmental bodies in the pursuit of public purposes and the public interest (for example, Bevir, 2009; Bovaird and Löffler, 2003; Kjaer, 2004; Osborne, 2010; Pierre and Peters, 2000, 2005; Rhodes, 1996, 1997, 2007; Sörensen and Torfing, 2007; Stivers, 2008). According to Rhodes (2007, p.1247), writing with particular reference to Britain, the model of Westminster hierarchical government is 'no longer acceptable', requiring 'a different story of the shift from Government with its narrative of the strong executive to governance through networks'. This paradigm shift – which Marsh (2008, p.735) has critically described as 'the new orthodoxy' – has been strongly contested by other scholars who are also less convinced about the scope of actual change in governing relations (for example, Bell and Hindmoor, 2009; Frederickson, 2005; Hill and Lynn, 2005; Grix and Phillpots, 2011; Lynn, 2010, 2011; Olsen, 2006; Robichau, 2011).

While 'government' can be understood as an entity, embodying such components as the 'machinery of government', governance is better understood as a process. 'Good governance', therefore, refers to processes that work well or badly according to certain criteria. Just what these criteria are or should be is a matter of political choice. As Holmberg, Friedrich (1940, p.6) famously observed, 'Public policy is being formed as it is being executed, and it is likewise being executed as it is being formed.'

'Good governance' is probably best defined experientially: for example, people living in what have come to be known as 'failed states' probably share a sense of living in a society that is chaotic, unpredictable and largely indifferent to their welfare, individually and collectively. Diamond (2007, p.119) does not paint a glittering picture:

> There is a specter haunting democracy in the world today. It is bad governance – governance that serves only the interests of a ruling elite. Governance that is drenched in corruption, patronage, favouritism, and abuse of power. Governance that is not responding to the massive and long-deferred social agenda of reducing inequality and unemployment and fighting against dehumanizing poverty. Governance that is not delivering broad improvements in people's lives because it is stealing, squandering, or skewing the available resources. The Philippines, Bangladesh and Nigeria lie at different points along the path of democratic decay, but they reflect a common problem. Where power confers virtually unchecked opportunities for personal, factional, and party enrichment, it is difficult if not impossible to sustain democratic rules of the game. The democratic spirit of elections drowns in vote-buying, rigging, violence, or all three.

Reversing, in summary form, Diamond's dimensions of 'bad governance' it follows that its opposite – 'good governance' – occurs in a democratic polity in which officialdom (political and administrative) serves the interests of all, is non-corrupt, is not given to the abuse of power, seeks effectively to reduce inequality, unemployment and poverty, uses public resources in the pursuit of collective purposes, operates according to the rule of law, and maintains fair and open electoral processes.

We might assume that, if they were asked, most New Zealand citizens, for example, would say that they prefer to be subjected to 'good governance' than to 'bad governance', notwithstanding the likelihood that some people will see any form of government as 'bad'. But 'good governance' and 'bad governance' are rhetorical categories rather than scientific ones. One person's 'good governance' is another's 'bad governance', in the same way that 'One person's "red tape" may be another's treasured procedural safeguard' (Kaufman, 1977, p.4).

Such evaluations are obviously political rather than scientific. Citizens of virtually all of the world's developed nations are likely to believe that their countries are more or less 'well governed', with their positive or negative judgements being based on a myriad of often conflicting assessments, impressions, experiences and biases. 'Good governance' is experienced by people in a wider community of shared interest, a polity – which may be another way of saying that 'good governance' is a process which effectively promotes and secures some albeit elusive notion of 'the public interest'. As Rothstein (2013, p.12) says, 'Trying to define good governance while ignoring the normative issue of what should constitute "good" defies logic.' He cites Offe's (2009) argument that the concept is empty of agency: 'There is no verb form of the word like there is for government. Members of the government can govern but what is it that members of a network of governance are doing? In reality, the concept tends to capture all forms of collective social co-ordination, outside pure market relations or the family' (Rothstein, 2013, p.8). For his part, Offe (2009, p.553) claims that 'the use value of the concept of governance for the social sciences is jeopardized by a tendency of "over

'Good governance' ... is a process which effectively promotes and secures some albeit elusive notion of 'the public interest'.

Rothstein and Nasiritousi (2008) point out, 'because "good governance" is such a broad concept and encompasses a range of issues, empirical analyses hinge on the definition of the term'. However, it must also be true that the assessments as to whether 'governance' is good or bad, or better or worse, must depend to some extent on the outcomes that they give rise to, support, facilitate or enhance. It is possible to conceive, theoretically at least, of a country which displays 'good governance' but repeatedly produces disastrous policy and governmental outcomes, and a situation in which the converse is true. (Even if such possibilities seem to offend common sense, this in itself is an insufficient reason for academics to desist from conceiving them.) Thus, there is an ongoing relationship between means and ends, process and result, and so on. And while this involves interaction between two clearly separable components at a conceptual level, in practice they are always in an iterative, mutually constitutive relationship. As aggregating" the phenomena it refers to … It is not surprising that the concept has not been introduced by an authority in social theory, but by the World Bank, which suggested it in 1989 – with rapid and obviously lasting success.'

Nor, as Rothstein (2013) argues, should elements which need explanation, in and of themselves, be included in any definition of 'good governance', if the quality of how the state manages to govern society is considered to be a truer measure of 'good governance' than how access to power is organised in a representative democracy. In this regard, Rothstein cites Sen (2011), who claims that on most standard measures of human well-being, the People's Republic of China now clearly outperforms democratically-governed India. For their part, Holmberg and Rothstein (2011) find weak, sometimes negative and sometimes no correlations between standard measures of human well-being (including child deprivation) and the level of representative democracy. They cite a study by Halleröd et al. (2013), using data from 68 low- and middle-income countries, measuring seven aspects of child poverty and showing no positive effect of democracy on levels of child deprivation for any of the indicators – access to safe water, food, sanitation, shelter, education, health care and information. Rothstein's conclusion is that 'Representative democracy is not a safe cure against severe poverty, child deprivation, economic inequality, illiteracy, being unhappy or not satisfied with one's life, infant mortality, short life-expectancy, maternal mortality, access to safe water or sanitation, gender inequality, low school attendance for girls, low interpersonal trust or low trust in Parliament' (Rothstein, 2013, p.4). Presumably, given the experiences of countries like Britain, the United States and New Zealand over the past couple of decades or so, he might have added high levels of income inequality to this list.

Apart from the idea of governance that grew out of the critique in Western democracies of what has been seen as the growing inefficiency and rigidity of traditional Weberian public administration, Rothstein identifies two other emergent conceptualisations of governance. The first is the idea of 'participatory governance', which focuses on means of overcoming a 'democratic deficit' by involving citizens in 'broad based and open systems for collective deliberation in public decision making either as a complement or an alternative to the system of representative democracy' (Rothstein, 2013, p.9). The second is what Rothstein calls the 'political economy approach to governance'. This idea has not emerged from any dissatisfaction with public administration and policy in mature Western democracies, but from cross-national research on development and economic growth in so-called 'third world' countries. Here, 'good governance' – central to which is the effective fight against corruption – is seen to be essential in achieving social and economic development.

The latter approach has been central to the work of international donor organisations, and is exemplified in the World Governance Indicators (WGI) developed in recent years under the imprimatur of the World Bank, covering more than 200 countries since 1996 and updated annually (Kaufmann, Kraay and Mastruzzi, 2008, 2010).[1] The WGI are widely publicised and draw upon data from many sources in ranking countries on six aggregate measures of governance: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. The first two dimensions address the process by which governments are selected, monitored and replaced; the second and third ones are intended to cover the capacity of the government to effectively formulate and implement sound policies; and the latter two deal with the respect of citizens and the state for the institutions that govern economic and social interactions among them (Kaufmann, Kraay and Mastruzzi, 2010, p.4).

Because of the ambiguity of the idea of 'governance', and because complex definitions are too difficult to operationalise for comparative purposes, Rothstein (2013) prefers a parsimonious conceptualisation of the 'quality of government'. This is built on the Rawlsian normative understanding of what should be seen as a just political order, and the Machiavellian strategy of practical implementation in enhancing human well-being, social trust, life satisfaction, peace and political legitimacy. Discarding the six dimensions of the WGI, Rothstein instead argues that the *sine qua non* of quality government is impartiality in the exercise of political power. Rothstein is aware of the objections that can be raised against such a parsimonious procedural conceptualisation.[2] The main point is to contrast such a conceptualisation of 'good government', one that can be operationalised for meaningful comparative purposes, on the one hand, with the WGI attempt to operationalise for cross-country comparisons six dimensions of governance, all of which in themselves embody complex relationships between 'input' and 'output' sides of government.

One inevitable by-product of the emergence of such indexes has been a burgeoning of academic criticism of the methodologies adopted in formulating them.

It may be, after all, that 'good governance' is something of an indefinable abstraction. Of course, in practical terms the notion speaks to a community's collective capacity to ensure that the haunting spectre of which Diamond speaks is not allowed to visit its calumnies on that particular polity. But which factors most enhance or diminish the risk of any of these tragic outcomes? What actions are necessary to ensure that any of these tragedies are avoided? What theoretical knowledge is available to inform such action, providing governors and people with some useful understanding of the relationships among a range of variables? These are challenging questions for public policy makers.

Political considerations of what constitutes either 'good government' or 'good governance' have been around a long time. Citizens in states the world over have always engaged in arguments about the quality of the regimes under which they live. And if, for the sake of argument, we can distinguish crudely between two groups – the governors and the governed – then the former have always tried to ensure the acquiescence of the latter, just as the latter have or have not been more or less compliant. The French patriots who sought the head of Louis XVI, Hitler's Nazis who brought an end to the Weimar Republic, the revolutionaries who overthrew Libya's Colonel Gaddafi, and so on, are all dramatic examples of the 'conversation' between the governors and the governed. They differ only in scope, intensity and consequences, rather than in kind, from the more mundane judgements made, for example, by voters in the regular electoral processes of stable liberal democracies.

What has emerged in recent years, however, and which by implication seeks to supplant political ways of judging governmental quality, is the attempt to generate comparative measures of 'good governance', as if such quantitative evaluations can be based on detached, better informed, rational and scientific calculation, even assuming that we know what 'good governance' actually is. Apart from the WGI, there has been an explosion of indexes and indicators, as various international organisations develop measures to rank comparatively the performances of different countries, both globally and regionally. Among the most widely cited of other indexes to have emerged within the past 20 years, Transparency International's Corruption Perceptions Index (CPI), established in 1995, ranks countries according to the degree of corruption experienced across all areas of society. Others include the Asia Foundation's Economic Governance Index, the OECD Better Life Index, the United Nations Development Programme's Human Development Index, the Fund for Peace Failed States Index, the Economist Intelligence Unit's Democracy Index, the World Justice Project Rule of Law Index, the Open Budget Index, the Freedom House Index of Press Freedom, the UN Industrial Development Organisation's Competitive Industrial Performance Index, and the Reporters Without Borders' Press Freedom Index. Then there is Hofstede's (2001) heroic attempt to rank countries on a set of six indexes which purport to measure, respectively, 'power distance' (PDI), 'uncertainty avoidance' (UAI), 'masculinity versus femininity' (MAS), 'individualism versus collectivism' (IDV), 'long-term versus short-term orientation' (LTO) and 'indulgence versus restraint' (IVR). And so it goes on, seemingly without end.

Probably the most common criticism of the World Governance Indicators is that the vast complexities of 'good governance' cannot be reduced to any meaningfully precise single index number.

One inevitable by-product of the emergence of such indexes has been a burgeoning of academic criticism of the methodologies adopted in formulating them. While it is not the purpose of this article to canvass and try to assess the relative merits of all such criticisms, it is worthwhile mentioning some of those pertaining to the WGI, to at least gain a sense of how problematic are the foundations of such indexes in general.

Criticisms of the WGI

Indexes result from simplistic reductionism

Probably the most common criticism of the WGI (and other indexes) is that the vast complexities of 'good governance' cannot be reduced to any meaningfully precise single index number. Arndt and Oman (2006, 2010) and Arndt (2008), perhaps the most widely cited critics of the WGI, emphasise this point in their critiques. While a single composite number is seductive, and enables quick comparisons to be made among countries, the problem is that for comparative purposes these numbers are virtually meaningless, since they are based on sources and information which vary greatly between countries, and even within countries, over time (Anderson, 2009). As Pollitt (2008, p.19) argues, the concept of 'governance' itself is 'so vague, abstract, value-laden and multi-faceted as to present an insurmountable challenge for expert measurers and lay decision makers alike … the idea of reducing governance to six composite indicators – let alone one, as some indices attempt – seems just too Olympian'.

Indexes are ideological and ahistorical

The WGI emerged out of, and were intricately connected to, the neo-liberal ideas which constituted the so-called 'Washington Consensus' in the 1980s. This sought to progressively replace 'Weberian' public administration with market-driven modes of policy formulation and service delivery. It also, however, sought to 'roll back the state', by means of economic deregulation, cutting back public expenditure, guaranteeing individual property rights against collective predation, and privatising state assets. In this view, diminished governance is good governance, and the 'sound policies' of which Kaufmann and his collaborators speak are assumedly those policies which serve such ends, as distinct from those that might serve other – perhaps more social democratic? – ones. It may not be necessary to agree fully with Pollitt's trenchant assessment in taking his point: the operationalisation of the elusive concept of 'governance' has been taken over by 'a group of technocrats employed at an intergovernmental, non-majoritarian institution which is both well-heeled in resource terms and well-insulated against conventional political questioning' (Pollitt, 2008, p.20).

The WGI are based on a strong ideological orientation towards the amorphous notion of 'good governance', interpreting it as a product of 'less government', with a strong 'minimalist' bias in operating assumptions about the legitimate scope of state power and authority. In Offe's words (2009, p.555), 'governance' 'is not interested in enhancing state capacity, but in substituting or at least restraining it according to neo-liberal premises'. According to Oman and Arndt (2010), bias in the WGI stems from the imbalance between the weight given to household surveys and similar instruments, and that given to the opinion of firm surveys and expert assessments.

The indicators are also ahistorical, in that they tend to represent their key dimensions as central to a liberal democratic 'end of history' apotheosis. They say almost nothing about the complex historical, cultural and political forces which have shaped the present day representation of a state in the form of a series of index numbers. They say nothing, therefore, about how those historical factors can shape the future of governance in those states.

They are tautological, lacking in transparency, and non-theoretical

Langbein and Knack (2008) argue that the six dimensions of the WGI do not in fact measure different things, but rather that each of the indexes reflects the perceptions of the quality of governance more broadly. Similarly, the ambiguity of the idea of 'good governance' gives rise to tautology: as Rothstein and Teorell (2008, p.168) put it, 'What is required for the quality of life enjoyed by citizens? Quality of governance. What is quality of governance? That which promotes the quality of life'. This in itself assumes that 'good governance' is in fact that which enhances citizens' quality of life, which is what Rothstein and Teorell themselves quite reasonably argue. But if quality of governance is considered to be that which enhances economic production and commercial profitability, then, as the Economist (4 June 2005) critically observed, 'What is required for growth. Good governance. And what counts as good governance? That which promotes growth. And what is required for growth …'. Rothstein and Teorell's argument (p.168) that Kaufmann et al.'s conception of 'good governance' is 'just about as broad as any definition of "politics"' is hard to resist.

Do the six WGI dimensions simply say roughly the same thing, but with different words in each case? If there is indeed some substantive relationship between economic development and 'good governance', then is it a causal one – and if so, in what direction? – or is it a spurious correlation more explicable by other, independent variables? For example, do low levels of governmental and/or business corruption foster good governance, or does good governance keep the lid on governmental and/or business corruption? Is it possible to have simultaneously both good governance and high levels of corruption, and low levels of corruption together with not-so-good or bad governance? These are theoretical possibilities at least, but the WGI do not recognise them as such, since low corruption is taken a priori to be one of the six dimensions of good governance. The situation is clouded by the fact that low and high corruption, on the one hand, and good or bad governance on the other are relative not absolute concepts. Countries like the United States, Britain and Australia, for example, score relatively well on both good governance indicators and on the CPI, but not as well as a number of other countries, including New Zealand, on either indexes. It is not at all clear how the WGI can help to explain, as distinct from demonstrating, such differences (Andrews, 2008).

As Oman and Arndt (2010) see it, the WGI suffer from a transparency paradox, in that, while the construction of the indexes is itself not transparent, they are nevertheless used by international aid agencies as a means of enhancing the transparency and objectivity of their aid allocation decisions. The lack of transparency results in the main from the absence of any coherent theory or analytical framework of governance to guide their scoring systems. They simply produce scores according to aggregated subjective perceptions relating to each indicator. They do not say anything explicitly about the priorities that governments might be encouraged to attend to, or the sequencing of reforms and developments that might arguably be needed to lift a country's WGI scores. Are there social, political or economic 'tipping points', for example, which can have a major impact, for better or for worse (depending on the specific criteria by which 'better' and 'worse' are evaluated)?

Not only do the WGI tend to oversimplify complex realities, but the indexes themselves tend to become reified: that is, they become accepted as precise and objective measurements, as largely indisputable 'facts'.

Misuse

Not only do the WGI tend to oversimplify complex realities, but the indexes themselves tend to become reified: that is, they become accepted as precise and objective measurements, as largely indisputable 'facts'.[3] They therefore diminish rather than enhance the capacity for more insightful analysis and judgements about the countries themselves. Because they lack any coherent theoretical foundations, they say nothing about how individual countries can develop better governance (assuming that it is possible to know in what specific ways 'better' governance differs from 'good governance', or 'not so good governance').

Worse than this, however, to the extent that the WGI (and the CPI) become used as decision tools for international agencies, the WGI can actually impede what might be considered by many to be desirable forms of development, simply because the indicators do not necessarily provide valid and meaningful comparisons among different countries.

The problem lies with composite indexes, like the WGI, rather than with indexes per se. Pollitt (2008, p.18) argues that 'WGIs … are highly attractive to elite groups yet almost useless, if not actively misleading, for lay decisionmakers … By contrast PISA [the OECD's Programme for International Student Assessment] measures are attractive and useful, though with some significant pitfalls concerning what the tests do and do not mean, and with a considerable gap between the results and the drawing of policy conclusions.'

In other words, indexes are useful and valid to the extent that they measure what can sensibly and reasonably accurately be measured, rather than trying or purporting to measure accurately what they cannot so measure. In this regard, the Serendipity Prayer may be recast: 'Grant me the ability to measure those things than can sensibly be measured; the intelligence to understand those that cannot be measured; and the wisdom to know the difference.'

The timeless fallacy of the 'one best way'

The issue of the lack of a theoretical model or conceptual framework to explain what 'good governance' actually is and how it might be achieved undermines the implicit assumption that there is any single pathway to 'good governance' (or it defines 'good governance' in such a way that it is a function of a particular set of elements and factors – the tautological problem again). As discussed, the WGI, developed under the auspices of the World Bank, suggest that 'good governance' is essential to socio-economic development. Indeed, international donor organisations stress the need for the development of sound political institutions, together with effective anti-corruption strategies, to be key components in their decisions on the allocation of aid.

However, there has emerged a growing scepticism about these sorts of assumptions, one which rejects the idea that 'one size fits all' when it comes to development, and is much more open-minded about the relationships between such factors as economic development and the progressive establishment of the institutions believed to be central to 'good governance'. For example, in his comparative study of public financial management in a selection of OECD and non-OECD countries Andrews (2010) found that there was no single best way, no best practice model, in achieving sustained sound practice and that good public financial management means different things in different countries.

… there was no single best way, no best practice model, in achieving sustained sound practice and that good public financial management means different things in different countries.

In similar vein, Sundaram and Chowdhury, in their edited volume entitled *Is Good Governance Good for Development?* (2012), strongly question any received wisdom that economic development is dependent upon action that would substantially raise countries' scores on the six WGI dimensions. The rapid rates of economic development displayed over the past two or three decades by countries like China and Vietnam are obvious cases in point. In Vietnam the regime has deliberately eschewed the progressive development of Western institutions like 'the rule of law', in the apparent belief that economic growth is the main priority and any real concern over 'good governance' – if it is a concern at all – can be left until later (Painter, 2012). (The same can also be said of China, of course.) Painter (2006) has mounted a similar argument in regard to Vietnam's apparent adoption of some of the principles of Western New Public Management (NPM) before securing the rule of law and an administrative system based solidly on the principles of Weberian legal-rational authority. He is not convinced that some of the key ideas embodied in NPM cannot be successfully adopted in developing countries where legal-rational foundations have not been consolidated – a view that runs counter to the widely cited argument made by Schick (1998).

That there are indeed many different ways to achieve economic development, rather than a single technocratic template based on the sort of dimensions embodied in the WGI, is reflected in the pragmatic programmes of marketisation displayed in post-Mao China, according to the idea of 'crossing the river by feeling the stones' (Gabriel, 1998). More generally, Grindle (2004, pp.541-2) argues that the path to 'good governance' as a means of effectively tackling poverty in developing countries is 'fraught with ambiguities, challenges, and the potential for failure and less-than-anticipated results'. She suggests that the best that can be hoped for, at least in the shorter term, is 'good enough governance'.

Response

The authors of the WGIs have offered detailed and sometimes quite persuasive refutations of these and other criticisms (Kaufmann, Kraay and Mastruzzi, 2007, 2010). In response to Thomas (2010), who queries what the WGI actually measure, they argue that the absence of definitional consensus regarding governance 'would paralyze any effort to measure governance using any means' (2007, p.24).[4] Similarly, 'Endlessly waiting for the articulation of a complete, coherent and consistent theory of governance before proceeding to measurement and action (of course with due regard to limitations), while perhaps intellectually satisfying to a few, would be impractical to the point of irresponsibility' (ibid., p.26). They are particularly careful to offer caveats regarding the interpretation and use of the WGI, cautioning users that 'aggregate indicators such as the six WGI measures are often a blunt tool for policy advice at the country level', and that 'Users … can usefully complement their analysis with an in-depth examination of the detailed disaggregated data sources underlying the WGI, together with a wealth of possible [sic] more detailed and nuanced sources of country-level data and diagnostics on governance issues' (2010, p.21).

Regarding ideological biases, they point out that they found no substantial difference between the views offered by business people and those household surveys that they did use, nor any apparent bias in the ways rating agencies assessed the performances of governments of the political left or right. At least in regard to perceptions of corruption, this argument may be supported by Rothstein (2013, p.22-3), who cites a large survey of 'ordinary people' in various EU countries which produced results 'surprisingly similar' to expert-based measures (see Charron, Lapuente and Rothstein, 2013).

However, much of their response focuses on narrower methodological points, without really offering a convincing refutation of the argument that (a) 'governance' is too elusive a concept in the first place to be operationalised with the precision that the WGI purport to offer; and (b) their own assumptions as to what constitutes 'good governance' demand critical scrutiny. Moreover, their pleas for caution in the interpretation and use of the WGI – 'our estimation of, and emphasis on … margins of error is intended to enable users to make more sophisticated use of imperfect information' – while valid in itself, overlooks the reality that most (especially non-academic) users of the WGI are likely to have neither the time, expertise nor inclination to act on such warnings. As Pollitt (2008, p.20) asks, 'what percentage of the users of WGIs access the technical documentation [that supports them]?'

According to the WGI [New Zealand] is one of the best governed countries, with very little corruption – and it is a unitary and parliamentary system to boot.

Social science and social criticism: keeping a balance

Tsoukas's (1997) notion of the 'tyranny of light' gives pause for thought. In his words:

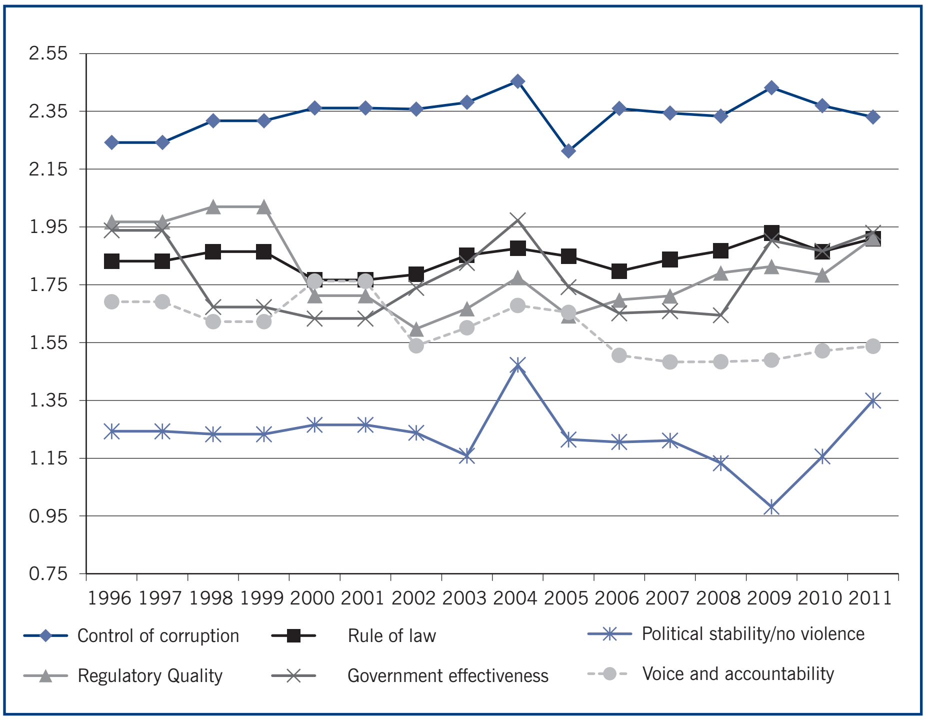
> Since the Enlightenment, knowledge has been viewed through the metaphor of light. More knowledge has been taken to mean a stronger human ability to see and thus an enhanced capability for action or, to be precise, for control … That more knowledge could cause problems, that light might prove another tyranny, that knowledge might bring suffering, were not thoughts the philosophers of the Enlightenment were prepared to entertain. (Tsoukas, 1997, p.838)

Tsoukas identifies three paradoxes of the modern age: there is more information, but less understanding; more information but less trust; and more social engineering and more problems.[5] Such contradictions suggest that a type of Gresham's Law in economics (that is, bad money drives out good money) applies to the extent that, in the comparative assessment of 'good governance', quantitative data tends to drive out qualitative assessment, a process hugely enhanced by the increasing sophistication and capacity of information technology. Experimental knowledge derived from spurious calculation that is overly abstracted from lived realities can tend to supplant insightful reflection on social and political experience.[6]

A good example is provided by Gerring and Thacker (2004). Their data enables them to calculate precisely that a country which swaps its federal, presidential system for a unitary, parliamentary one can reduce its level of perceived political corruption 'by somewhere between 0.335 to 0.860, or by 0.586 on average' (Gerring and Thacker, 2004, p.326). Admittedly, they qualify their calculation with '*ceteris paribus*', but of course when it comes to such a radical transformation of a political system all other things are most unlikely to be equal or to remain the same. While they themselves are not unmindful of this, the prospect of serious obstacles to such a change does not deter them:

> as a practical matter, the alteration of basic-level political institutions lies more directly in the control of governments than other factors that might ameliorate political corruption. It is usually easier to change political institutions than to achieve long-term economic growth, and it is of course impossible to change cultural and historical antecedents such as

Figure 1: New Zealand on WGI, 1995 – 2011. From Zirker, Scrimgeour and Gregory (2013).



Source: Zirker, Scrimgeour and Gregory (2013)

> religion (the presence or absence of Protestantism), legal origin (English or non-English), socialism or the tenure of democracy. Whatever its obstacles, constitutional reform may offer a relatively practical programme for the improvement of governance around the world. (ibid., p.327)

Again New Zealand could find itself touted as a model for reform, just as it was during the heyday of NPM in the late 1980s and early 90s. According to the WGI it is one of the best governed countries, with very little corruption – and it is a unitary and parliamentary system to boot. However, lest New Zealand should once again become the destination for hordes of academics, politicians and governmental officials from other countries, hell bent on discovering the Holy Grail of 'good governance', they might first pause to ask what New Zealand's scores on the WGI between 1995 and 2011 – see Figure 1 – actually mean, in their own terms as distinct from comparing them with those of other countries. (And for their part, New Zealanders might ponder this article's epigraph, from Lipson.)

Are they not largely meaningless? Or worse, are they not misleading? The scores indicate that things have not changed much over the best part of two decades, except – paradoxically – for 'Political Stability/No Violence', which seems to have suddenly spiked around 2004, before dropping below 'normal' levels around 2008–09. How can one sensibly explain these numerical changes? Does the drop around 2004 represent the widespread protest movement against the proposed foreshore and seabed legislation? Was this movement a manifestation of increased political instability and violence, or do both the spike and the drop reflect the political predispositions of those whose opinions shaped the scores? It would not be difficult to mount an argument to that effect, but no doubt other arguments could readily be made in refutation.

Similar ambiguity surrounds the scores for the other five dimensions. What does the graph tell us about the ongoing effects of the welfare reforms of 1990–93, described as 'the most radical social policy changes in 60 years' (Boston, 1999, p.4)? Probably nothing. In short, anyone looking at this graph for valid information about changes over time within New Zealand society and politics would probably be left imposing meaning on the graph rather than inferring meaning from it.

This is not just a problem of social inquiry, whether formally scientific or socially critical, *per se*, but is also, and paradoxically, an incipient threat to the democratic values which are supposed to be central to at least a Western notion of 'good governance'. It can be argued that indexes such as the WGI make it easier rather than harder for lay people to consider 'good governance' because they have available to them a neat figure and a set of rankings that they can readily understand, useful reference points to guide their own assessments. This may be so, but the question arises as to whether it is not in fact better to have no such indexes if such numbers disguise a whole host of methodological problems which by their nature tend to undermine the validity of the index itself; and secondly, whether the existence of what can easily become a reified index actually tends to disenfranchise lay people from what should be a much more inclusive debate. Most people do not display the mentality of Charles Dickens' typically Victorian schoolmaster in *Hard Times*, Thomas Gradgrind: 'A man of realities. A man of facts and calculations' (Dickens, 1961, p.2).[7]

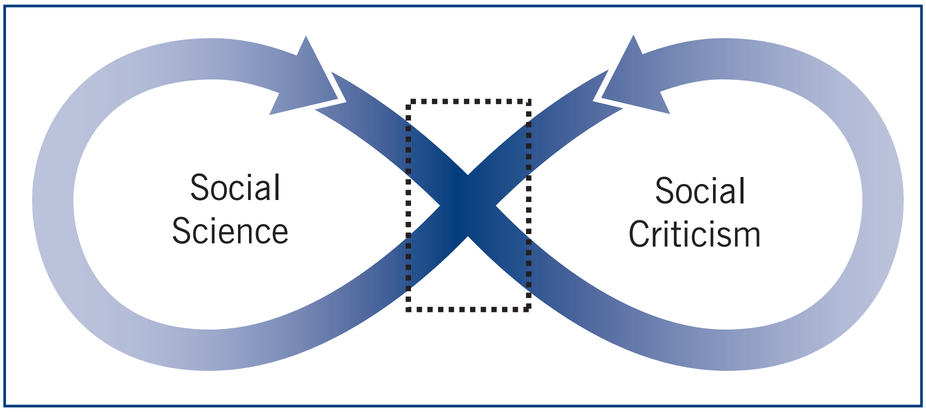
Today, in the era of what Pollitt (2008, p.18) calls 'the politics of quantification', numbers embody in themselves a claim to 'science' and 'objectivity', purporting to place them above political disputation. In this sense, the 'facts' always speak for themselves, a position not dissimilar to the argument invoked in New Zealand and elsewhere during the neo-liberal heyday that 'there is no alternative'. Tsoukas argues, in ways that are also analogous to the New Zealand experience of those times, that this claim to higher levels of scientific sophistication tends to alienate lay audiences, who see instead the machinations of a technological elite like the World Bank.

Paradoxically, however, there may be something of an inverse relationship between the artifactual nature of indexes such as the WGI, on the one hand, and their political force on the other. This is because, although these measures may often be treated with suspicion by lay people, lay people also – in the absence of anything better – will tend to accept them as unproblematic measures, if indeed lay people take more than a cursory interest in them at all. On the other hand, however, such indexes tend to become the lingua franca within elite discourse. They thus have a major impact, tending to become reified constructions which constitute a shorthand means of representing, if not understanding, what otherwise have to be seen as highly complex and contingent phenomena. They increasingly take on a life of their own as valid depictions of the 'real world'. Tools for research can too readily become masters of understanding. This can diminish thoughtful communication not only within elites, but also among lay people, and between elites and lay people.

What is more desirable in attempts to understand what constitutes 'good governance' – largely spurious objectivity or inevitably manifest subjectivity? And is it better to try to be roughly right than to strive to be precisely wrong? While formal social science, as exemplified in the burgeoning of numerical indicators, can usefully contribute to public debates on the extent to which any country displays 'good governance', it should not be allowed to displace such debate. As Bevir (2006, p.601) puts it, a challenge is how 'effectively to engage social scientists, most of whom still favour typologies, correlations and models, rather than skeptical narratives. Many social scientists are aware that their modes of knowledge create distortions and simplifications. They just regard these problems as necessary consequences of crafting generalizations that are capable of guiding action in the world.' Social science should be mediated by such open and usually informal inquiry and commentary as diagrammatically represented in Figure 2, where the shaping of a better informed understanding of what shapes and maintains 'good governance' emerges around the nexus point of an ongoing, mutually constitutive relationship.

The irony is that seeking after a scientific measure of 'good governance' (including levels of corruption), tends in itself to diminish the democratic essence which is so often thought to be central to

Figure 2: The crucial nexus



'good government'. Democratic virtue is thereby thrice reduced, in the hubristic pursuit of a scientific objectivity which by its flawed nature can only be spurious at best and politically self-serving at worst. Valid cross-national comparisons of factors in different countries which can be argued to diminish or enhance the quality of both government and governance are instead increasingly displaced by reified illusions.

Conclusion

Indexes and indicators such as those embodied in the WGI have a valid role to play in social science research into the means of promoting, establishing and sustaining government or governance which is 'getting better', 'good' or even 'outstanding', depending on the criteria by which such categorisations are made. Those who generate these measurements, as upholders of Tsoukas's 'tyranny of light', are not about to turn their ivory towers into tents and steal quietly into the dark night. However, in promoting the sharp illumination that they believe measurement provides they should not at the same time be allowed to extinguish the more diffuse, yet more authentic, glow of understanding that is emitted by democratic discourse on what these criteria should be in the first place.

All public institutions – including the Institute of Governance and Policy Studies – and all components of civil society have to be committed to fostering, developing and sustaining an intelligent and balanced relationship between social science and social criticism. In the quest for 'good governance' the real challenge is to ensure that while we have ever burgeoning stores of data and information, we also have more knowledge of what this data and information actually means, and – above all else – more wisdom in applying it.

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1 See http://info.worldbank.org/governance/wgi/index.asp.

2 For example, a procedural definition of political processes cannot preclude morally bad decisions which might violate the rights of minorities and individuals. Rothstein argues that 'the strategy suggested by John Rawls is the right one. His central idea is that if a society structures its systems for making and enforcing collective decisions in a fair way, this will increase the likelihood that the outcomes are normatively just' (Rothstein, 2013, p.115).

3 See Oman and Arndt (2010, pp.15-16) for a critique of the over-estimation of the accuracy of countries' point scores for cross-country comparisons and the identification of change (or the lack of it) in the quality of governance over time.

4 They were responding to an earlier (2006) draft of Thomas (2010).

5 This is reminiscent of T.S. Eliot: 'Where is the wisdom we have lost in knowledge? Where is the knowledge we have lost in information?'

6 As Bevir (2006, p.592) argues: 'If natural scientists and economists played the fullest role in directing the expansion of state activity after the Second World War, other social scientists also contributed, and a positivist concept of social science helped to legitimate their contributions at a time of optimism about technocratic reform. With state funding for social science favouring scientism and policy relevance, social scientists who defined themselves as delivering such goods were simply more likely to find stable employment. The positivist concept of science also appealed to some social scientists as a way of taking control of the mass of data then being generated. The new techniques and concerns of modernist empiricism had led, in this view, to "hyper-factualism"; social scientists were being overwhelmed by quantitative and qualitative data in the absence of a theoretical framework with which to make sense of it all'.

7 'A man who proceeds upon the principle that two and two are four, and nothing over, and who is not to be talked into allowing for anything over … With a rule and a pair of scales, and the multiplication table always in his pocket, Sir, ready to weigh and measure any parcel of human nature, and tell you exactly what it comes to. It is a mere question of figures, a case of simple arithmetic' (Dickens, 1961, p.2).

Note: This is a short version of a working paper, 'Assessing "good governance" and corruption in New Zealand: "scientific" measurement, political discourse, and historical narrative', published on the IGPS website: http://igps.victoria.ac.nz/publications/publications/show/347

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Daniel J. Fiorino

The Green Economy mythical or meaningful?

The conflicts among ecological and economic goals have been a central characteristic of environmental politics since the emergence of the modern environmental movement in the 1960s. On one side of the debate is the argument that reducing pollution and protecting ecosystems and other resources unnecessarily impairs economic expansion, competitiveness and prosperity. From this point of view, although some environmental safeguards are needed, public policy should favour growth as a general rule. On the other side is the assertion that human health and ecological limits demand a carefully managed path for growth, including little or even no growth, and a preference for ecological over economic goals when they conflict. Environmental politics has consisted of a struggle to define where the balance between these goals should be struck.

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Over the past few decades, as competition among ecological (including human health) and economic goals has escalated there has been growing interest in finding a way to reconcile them (Fiorino, 2010). Are economic growth and environmental protection necessarily a zero-sum game? Is there a choice beyond simply balancing these two sets of goals, one that recognises complementary and synergistic rather than simply conflicting relationships? The most significant effort to answer this question was the 1987 report of the World Commission on Environment and Development (WCED, 1987). The commission sought to lay out a strategy for respecting planetary biophysical limits while, at the same time, not foreclosing the possibility of economic growth and all of its consequences. In identifying this need to find an environmentally sound path to growth it was looking in particular at developing countries. The WCED offered a middle ground in the growth versus economy debate: poverty reduction and economic progress are a priority, but within a framework which respects ecological limits, over the long term, alongside more integrated policies.

A subset of this more general discourse of sustainability, the concept of the green economy aims to provide a pragmatic and even synergistic solution to the economy–ecological conflict. It asserts that, not only may economic and political development occur in ways consistent with recognition of planetary limits, but many potentially positive relationships exist among these two goals.

This article considers several issues associated with this concept of the green economy. What is the green economy? Where did it come from? Why do some embrace it while others disdain it? Is it a meaningful way of designing a path forward at a time when such a path is urgently needed? Is it just another passing fad, or, worse yet, a justification for business as usual?

What is the green economy?

As the introduction suggests, the green economy is the idea that the economic and social aspirations of people and nations around the world may be fulfilled without exceeding the finite limits of local, regional and global ecosystems. It responds to a question posed by an American Association for the Advancement of Sciences report in 1971: how do we live a good life on a finite earth? (Daly and Townsend, 1993). Until the middle of the last century only the first part of that question was seen to matter: that is, how do we live a good life? More recently we have added the part about a 'finite earth'. Although most industrial nations have made progress in managing many forms of pollution and some of the effects of growth, growing evidence suggests that ecosystems at all levels and the natural resources that our social and economic well-being depend on are being degraded (Meadows, Randers and Meadows, 2004; Millennium Ecosystem Assessment, 2005; Boston, 2011). The concept of the green economy responds to this evidence and to the apparent inevitability of economic growth.

Many recent analyses have defined the green economy. One view comes in a 2011 report of the United Nations Environment Programme (UNEP). A green economy is 'one that results in improved well-being and social equity, while significantly reducing environmental risks and economic scarcities' (UNEP, 2011, p.9). The UNEP report asserts that a green economy 'is not generally a drag on growth but a new engine of growth', a 'net generator of decent jobs' and 'a vital strategy for the elimination of persistent poverty' (p.10). UNEP concludes that investing 2% of annual global gross domestic product (GDP), about $1.3 trillion, could deliver an economy in which growth is achieved within global ecological limits. This would be achieved through a strategy of sustainably managing and restoring the key natural capital sectors of agriculture, fisheries, forestry and water, while dramatically increasing efficiency and reducing the ecological impacts of such built sectors as transport, energy, manufacturing and buildings. The UNEP's macroeconomic model projects that a green investment strategy would, after a few transition years, deliver more growth, reduce poverty and generate more jobs than would a business-as-usual 'brown' strategy.

Another view of the concept, also from 2011, is that of the OECD. It looks to green growth rather than the more neutral concept of a green economy. Green growth is 'fostering economic growth and development while ensuring that natural assets continue to provide the resources and environmental services on which our well-being relies' (OECD, 2011, p.9). Green growth means sustainable natural resource use, energy efficiency and fair valuation of ecosystem services. It is 'centered on mutually reinforcing aspects of economic and environmental policy' (p.10). Like the UNEP report, this one gives an optimistic view of prospects for a green economy if needed policies and incentives are adopted. Among these, aside from investments in green economic sectors, are: eco-taxes; well-designed regulation that promotes innovation; education and training to support green energy and other sectors; and removal of harmful subsidies that promote unsustainable activity in fossil fuels, irrigation, mining and other brown sectors. The OECD report stresses the need to value the natural capital and ecosystem services on which human well-being depends.

Another approach is from the World Business Council for Sustainable Development (WBCSD), a group of mostly large multinationals formed after the 1992 Earth Summit. Its 2012 report *Vision 2050* begins with a good news-bad news statement. The good news for business is that 'growth will deliver billions of new consumers who want homes and cars and television sets'. The bad news is that 'shrinking resources and potentially changing climate will limit the ability of all 9 billion of us to attain or maintain the consumptive lifestyle that is commensurate with wealth in today's affluent markets'. The council presents a two-part vision for 2050. The first aims for 'a standard of living where people have access to and the ability to afford education, healthcare, mobility, the basics of food, water, energy, and shelter, and consumer goods'. The second envisions 'a standard of living [that] can be sustained with the available natural resources and without further harm to biodiversity, climate, and other ecosystems' (WBCSD, 2012, executive summary). It is a business group but the council stresses the need to respect ecological limits.

The World Business Council argues that, although it may sound utopian, this

The bad news is that 'shrinking resources and potentially changing climate will limit the ability of all 9 billion of us to attain or maintain the consumptive lifestyle that is commensurate with wealth in today's affluent markets'.

vision is achievable. A workable strategy involves many goals, among them meeting the needs of poor countries; halting deforestation; halving carbon emissions by 2050; doubling agricultural output with no increase in land or water used; incorporating the costs of pollution into the price of goods and services; and getting a four- to ten-fold increase in resources and materials used for a given level of well-being. The report outlines strategies for realising these goals in key economic sectors. Following a business-as-usual growth path, it argues, leads to us consuming the equivalent of 2.3 earths by 2050; a green path offers the alternative of consuming just over one earth by 2050. The council also hints at another issue that is not prominent in the other reports: that we should rethink our idea of well-being – our vision of the quality of life we wish to achieve – as well as our means of achieving it. This is the challenge of rethinking growth as a measure of progress.

Several aspects of these approaches to the green economy are worth noting. The first is that all three are highly optimistic. Our environmental and energy challenges may be solved, they all assert, if only we are able to put the needed policies in place. All are consistent in recognising that the current growth and development trajectory of nearly all nations will lead at some point to disaster. In this sense, all three recognise the existence of ecosystem limits, although the World Business Council is the most explicit. Most importantly, all three embrace the need for continued economic growth. Indeed, they argue that a greening of the global economy is not inconsistent with growth and increasing incomes, and that it may outperform a business-as-usual scenario.

The concept of the green economy goes back at least to forward-thinking economists in the late 1980s and the 1992 Earth Summit.

These reports suggest an approach to the green economy that may be distilled to five core features:

- *Ecosystem limits are recognised and incorporated into decision-making.* If there were no such limits we would not need to worry about how green we are. Without limits, a green economy is irrelevant. Although not always explicit in the analyses cited above, recognition of inherent ecosystem limits is central to the concept of a green economy.
- *Sources of natural capital – fresh water, forestry, biodiversity and so on – and the ecosystem services they provide are valued appropriately.* The world cannot survive by using up natural assets. Historically, the case for preserving these assets has been made in ethical, aesthetic, or practical but hard-to-measure terms. The case should be made in economic and instrumental terms as well. Ecosystems provide essential and largely irreplaceable services: regulating regional and global climate, providing fresh water, and treating wastes, among others.
- *Positive relationships among ecological and economic goals are seen to exist, even abound, in nearly all arenas of decision-making.* The challenge is to overcome the boundaries of particular interests and short-term thinking. For example, a long-term transition to energy efficiency and renewable sources offers huge benefits in both ecological and economic terms. Preserving coastal ecosystems offers tremendous benefits in protecting vulnerable areas and reducing storm-related damages.
- *Ecological considerations enter into all aspects of societal decision-making.* They are taken into account in land use, building design, transportation, infrastructure, tax policy and so on. This means that there should be analytical tools for integrating ecological and economic issues. Using alternatives to standard GDP, such as a green GDP, to measure progress is an example; another is assigning long-term economic value to ecological services.
- *There is serious, critical debate about quantitative economic growth as the overriding policy goal.* Aside from security, no other goal is as broadly embraced in modern political systems as the need for growth. Although the potential for far greener growth than occurs now is indisputable, at some point the sheer scale of economic expansion will stretch the limits of global ecosystems. A green economy will be a more balanced and equitable one.

These five features define a basis for distinguishing a green economy (or at least a greener one) from the more conventional 'brown' or business-as-usual one. Although not all advocates of the concept would include these as defining features, they are viewed as such here.

Origins of the green economy concept

Before going further, it is worth considering where the green economy concept comes from. Often we can trace the origins of a concept, or at least its emergence in public debates, to specific events. Although the concept of sustainable development existed before the late 1980s, especially in terms of sustainable yields in forestry and fisheries, widespread use of the term may be traced to the 1987 report of the WCED. The concept of the green economy goes back at least to forward-thinking economists in the late 1980s and the 1992 Earth Summit. Among the influences on the emergence and evolution of the green economy concept, four are particularly important.

Blueprint for a green economy

The first visible use of the green economy concept was a 1989 book by David Pearce, Anil Markandya and Edward Barbier, *Blueprint for a Green Economy*. The innovation in the book for its time was the case for the mutual interdependence of environment and economy. Just as the environment is affected by economic activity, so do our economic aspirations depend on the environment, specifically in terms of natural resources, ecosystem services and public health. The environment is not only a source of aesthetic, recreational or spiritual benefit, but the very foundation of economic success. In this argument, the fundamental economic failure is that markets do not assign value to ecological resources. Because markets do not value clean air and water, coastal estuaries, or the global climate system, these are consumed or degraded. Only when we value natural capital in a way that recognises its contribution to other forms of capital can ecological goals compete with economic. As the authors argue in a later book (*Blueprint for a Sustainable Economy*), 'valuation is important because it places the environment in the same political dialogue as economic activity generally' (Pearce and Barbier, 2000, p.7).

The Blueprint books were a landmark in the emergence of the green economy, but differ in significant ways from the meaning that was later attributed to the concept. One difference is that the authors do not explicitly accept the existence of inherent ecological limits, regardless of the sum of the monetised values people attach to them. Rather, they accept what has become known as weak rather than strong sustainability: in the former, natural capital is not seen as possessing distinctive, irreplaceable value and thus is not subject to 'special compensation rules'. (Pearce and Barbier, 2000, pp.23-4) A second difference is a reluctance to accept that there are limits to economic growth that at some point must be accepted if we are to remain within ecological limits. They argue that a slow- or no-growth strategy is unnecessary, risky and may undermine gains in the educational and social capacities of a society (ibid., pp.30-2).

Ecological modernisation theory

An intellectual influence on the emergence of the green economy concept is the academic literature on ecological modernisation theory. This line of thought emerged in the 1980s. It responded to political and social criticism that asserted the inherent incompatibility of existing capitalist and liberal democratic systems with the recognition of ecological limits. Much environmental writing to that point had argued for the need to fundamentally restructure existing economic and political systems, including a shift to authoritarian governance (Ophuls, 1977). Ecological modernisation theory presented the view that, by incorporating ecological issues into economic and political decision-making, and with technology innovation and policy change, the economy could be managed in ways that were consistent with the finite limits of ecosystems (Hajer, 1995; Mol and Sonnenfeld, 2000; Mol and Spaargen, 2000; Dryzek, 2013).

Ecological modernisation was a reformist, pragmatic and optimistic alternative to what John Dryzek (2013) has termed a 'survivalist' mindset and to the doubts about the capacity of existing institutions. It was reformist in asserting the need for economic, social and political change, but within existing democratic and market institutions. It was pragmatic in stressing policy reform, technology innovation and policy integration. At the same time, it was optimistic in arguing that institutions could be restructured to respect ecological limits, if the right policies were put in place. As a governance strategy, it was a forerunner of the green economy concept.

Ecological economics

Another source of the green economy concept is the field of ecological economics. In the last several decades, many economists grew increasingly unhappy with the orientation of their field. They thought that a near-total focus on expanding economies and increasing incomes was narrow and short-sighted, and that the field paid too little attention to such critical issues as ecological limits and social equity (Daly, 1973; Eriksson and Andersson, 2010; Cato, 2009). Of what value is a measure such as gross domestic product when it counts the destruction of a tropical rainforest or valuable coastal estuary as a net addition to well-being? What is the value of ever-increasing affluence when it comes at the price of the vital ecosystems on which life depends? In addition to an emphasis on ecological values in economic analysis, this school of thought made the case for reducing economic and political inequality. This focus has special relevance at a time when inequality is increasing in developed countries (Dadush, et al., 2012; Reich, 2010); among the effects are less capacity for collective action, a culture of consumption and status competition, erosion in social capital, and enabling of powerful interests (e.g. exploiters of fossil fuels) to impede a green economic transition (Wilkinson and Pickett, 2010; Boyce, at al., 1999).

Beginning in the 1980s, leading business scholars and firms have been engaged in a process of reframing the relationship between finance and the environment...

Ecological economists created a new approach within their discipline that recognised ecological limits and assigned appropriate value to ecosystem services. Like the *Blueprint* authors, they saw the need to use the tools of economics to protect the ecological system. This constituted an intellectual breakthrough that made the reframing of ecological issues in terms of the green economy possible. One of the contributions of this field was the development of analytical tools for assigning value to ecosystem services and resources. It was now possible to argue the benefits of a wetland, tropical forest or coastal estuary not just in aesthetic and conservationist but also in economic terms. This was vital to the reframing that made the green economy possible.

Business greening

A third place to look for the origins of the green economy is the literature on the greening of business. Beginning in the 1980s, leading business scholars and firms have been engaged in a process of reframing the relationship between finance and the environment (Cairncross, 1995). The old zero-sum view was that investments in environmental quality subtracted from the bottom line, were a cost rather than a source of competitive advantage. Among policy makers, this was reflected in a corresponding view that only regulation backed by sanctions could change industry behaviour, leading in the United States especially to highly adversarial relationships. This view began to change a few decades ago. In the business literature, a landmark was the writing of business professor Michael Porter and associates (Porter and van der Linde, 1995). Porter turned conventional business thinking on its head by arguing that innovation in environmental, energy and other such areas was not only compatible with but contributes to business success. In recent decades firms have changed how they view environmental issues. They seek win-win paths to competitive advantage; this shapes how policy choices are viewed at macroeconomic levels.

In sum, the green economy illustrates a process in which a range of thinking influenced the emergence of a concept that acquired political significance. Such books as *Blueprint for a Green Economy* proposed measures for valuing ecological resources and placing environmental issues on a political level along with economic ones. Ecological modernisation defined a framework for restructuring economic and governance systems. Ecological economics applied the tools of an established discipline, while stressing the existence of limits and the need to rethink growth and equity. And the thinking on business greening reframed the economy–ecology relationship at a micro level, which, in turn, has shaped thinking about such issues at a macroeconomic level.

The worry, even for many green economy advocates, is that we depend so much on the economic case that, when benefits cannot be measured, we lose the argument.

Criticisms of the green economy

Like the broader and more widely recognised concept of sustainable development, its intellectual cousin, the green economy possesses a certain 'have your cake and eat it' quality. After all, it asserts that societies may expand their economies, enhance their competitiveness, increase per capita income and provide jobs, all while remaining within ecological limits. Moreover, some advocates of the concept assert that it offers a path to social equity and poverty reduction. Some even link it to visions of a happy planet. These are impressive claims and part of why many people doubt its validity. Is the concept of the green economy too good to be true?

Critics of the green economy raise many issues. One is that it is too anthropocentric, or focused almost entirely on preserving natural assets and respecting ecosystems on the basis of their benefits to people. Green economy thinking justifies clean technology, renewable energy, habitat protection and so on based on their value in satisfying human needs and aspirations. To be sure, that is a more than worthwhile objective, but it would ease the concerns of sceptics if there were more appreciation of nature's intrinsic qualities, not just its instrumental value. The worry, even for many green economy advocates, is that we depend so much on the economic case that, when benefits cannot be measured, we lose the argument. A related concern is that framing the issue in economic terms undermines the moral case for ecological protection.

Another source of criticism, from the left, is that the green economy concept serves to legitimise capitalism as managed by liberal democracies and perpetuates the fundamental causes of our ecological crisis. As mentioned earlier, the theory of ecological modernisation was an intellectual forerunner of the green economy. That idea emerged in response to the argument that only fundamental transformations in capitalist and political institutions could prevent a headlong rush toward environmental degradation. By laying out a supposed middle ground, critics argue, the green economy advocates are simply avoiding the radical changes that need to occur. Even for those who do not call for radical change the concept is suspect: it may justify infinite growth in production and consumption. To these critics, it is less a middle ground than a rationalisation for not rethinking growth and its role in well-being – an excuse for business as usual.

What about the objections from the right side of the political spectrum? Why would economic and social conservatives in some countries not embrace a concept that accepts the inevitability of economic growth, although more broadly conceived? The fact is that, at least in the United States, the green economy concept is disliked and often derided by conservatives. One reason is that, by defining a path that reconciles at least some level of continued growth with ecological quality, green economy proponents are taking away one of the core arguments against devising more progressive environmental policies. The heart of the conservative case is the argument of the zero sum: that prosperity and ecology are inherently at odds. Reconciling growth and the environment, as green economy advocates seek to do, removes a major political weapon from the pro-market, pro-growth arsenal and, to these critics, legitimises environmentalism.

Two other reasons are important in explaining criticisms from the right. One is that a policy framework designed to promote a green economy could mean a more active governmental role in society. Columnist Charles Krauthammer (2009) has written that 'environmentalism is becoming the new socialism, i.e. the totemic ideal in the name of which government seizes the commanding heights of the economy and society'. As discussed below, a green economy does not necessarily require big government or more bureaucracy. Still, it does involve more in the way of collective action than advocates of limited government care to see. The second reason for conservative hostility, at least in the US, is a simple matter of political coalitions. The distribution of political support in the US has conservatives most often relying on fossil fuel and development interests. They are reluctant to promote policies that undermine these interests.

In the US the green economy has been embraced more by the centre and left of centre than by the right. It is most closely linked with the presidential administrations of Bill Clinton and Barack Obama. For both, and Obama in particular, having to face an obstructive Congress and often sceptical public on the critical issues of energy, climate change, water security and habitat protection in the midst of an economic crisis led to a reframing of environmental in relation to economic issues. This reframing is an explicit strategy to minimise the economic argument against strong environmental and energy policies. It is, and is intended to be, a strategy of conceptual co-optation. One example of how this reframing is presented in practical terms is a poster in the president's re-election campaign which read:

> There will always be people in this country who say we've got to choose between clean air and clean water and putting people back to work. That is a false choice. With smart, sustainable policies, we can grow our economy today and protect our environment for ourselves and our children.

Another example comes from the US Environmental Protection Agency, which recently undertook a project on the economic value of water based on the assertion that 'Water is vital to a productive and growing economy in the United States, directly and indirectly affecting the production of goods and services in many sectors'. These statements illustrate the political reframing of environmental issues in terms of the green economy, a concept that is embraced by the Obama administration.

Critics of the green economy often assert that it depends on technology innovation as the means of sustaining some level of growth while remaining within ecological limits. While it is true that technology plays a central role in a green economic transition, especially by increasing the eco-efficiency of most products and services, it is not the only instrument for achieving a green or substantially greener economy. Energy conservation and efficiency, for example, involve changes in behaviour or modifications in insulation, lighting and building design that are low in the technology scale. Reducing deforestation or overfishing, shifting to low-input and low-tillage agriculture, increasing mass transit, cutting fertilizer use, and preserving habitat from development require little in new technologies, but do demand changes in behaviour and policies. Moving towards more sustainable consumption through product redesign, reduced packaging or a focus on providing services rather than simply selling goods are not technology-based solutions.

Reducing deforestation or overfishing, shifting to low-input and low-tillage agriculture, increasing mass transit, cutting fertilizer use, and preserving habitat from development require little in new technologies, but do demand changes in behaviour and policies.

The green economy and growth

The green economy agenda suggests an economically and technologically feasible set of policy options. An example is eco-taxes, of which a carbon tax is a prominent current example. It builds the social costs of fossil fuel-based energy into the price of the resource. It is effective in reducing carbon dioxide and other air pollution and placing renewable sources like solar energy and wind on a more competitive financial footing. A carbon tax may generate revenue to fund research on energy efficiency and technologies, offset income taxes, reduce deficits or support low-income people. As a policy tool, eco-taxes promote positive relationships among ecological and economic goals. Others tools include emissions and effluent trading; energy efficiency standards for appliances, vehicles and buildings; green infrastructure for water quality; products designed with green chemistry; elimination of environmentally-harmful subsidies, like those for irrigation; and stringent but smarter regulation that encourages technology innovation.

If the analysis in the 2011 UNEP report is correct, a moderate rate of global growth is not inherently incompatible with substantial reductions in the pressures that are being placed on planetary ecology. It projects that, if its 2% green investment strategy is implemented, a global increase of 14%

in per capita income is possible, with a 21% increase in forest land, a nearly 22% decrease in water demand and 40% decrease in primary energy demand, and a reduction by nearly half in the footprint-to-bio-capacity ratio. Even allowing for some uncertainty, it seems clear that a far greener global economy is entirely feasible with the right investments and policies.

All of these options need to be included in a transition to a green economy. They are essential if we expect to live a good life on a finite earth. Many green economy advocates aim to reconcile economic and social aspirations with ecosystem limits, but within current growth trajectories. There is a case to be made, however, for the insufficiency of a strategy that assumes that current exponential growth rates may be sustained (Jackson, 2011). Even aggressive policies aimed at decoupling ecological impacts from growth cannot offset the fact of nine billion living more affluent lives by mid-century and beyond. Only so much energy, land, water, habitat and atmospheric capacity are available. As a matter of political reality, not all of the agenda outlined by the UNEP and other groups will be adopted, and much of it will not be. One solution is a goal political leaders around the world avoid talking about: stabilising or reducing economic scale in a planned economic contraction.

The more extreme argument along these lines, for degrowth, is not just for a greener but a smaller economy. One advocate defines degrowth as 'an equitable downscaling of production and consumption that increases human well-being and enhances ecological conditions' (Alexander, 2012, p.351). Recognising that people in many parts of the world are so poor they lack the income needed for minimal material well-being and development, this school of thought calls for higher incomes in poorer countries and lower incomes in wealthier ones. The objective is to achieve a level of global income that provides an appropriate level of well-being and happiness while not exceeding ecological limits. What is the logic in rich countries living with well past the incomes needed for happy, fulfilling lives when the planet is in jeopardy and poor nations lack the basics of a comfortable existence? If people are not happier beyond some level of affluence, why strive to make them still richer when the fate of the planet may hang in the balance?

... some cities in the US ... are moving from a conception of cities as just growth machines to a more nuanced conception of quality of life.

The degrowth case reflects an ambitious social and political agenda. Some of its proposals are reformist, such as adopting post-growth progress measures, promoting work sharing, and using renewable energy. Others, such as a radical redistribution of income through tax reform, total taxation of inheritance and legal limits on working hours, are more dramatic. Overall, a deliberate, systematic economic contraction in most countries is far from feasible.

Still, it is more than a fair criticism to argue that a strategy of delivering the same level of growth as traditionally conceived through technology and behavioural change will be insufficient. Its greatest virtue may be that it buys time. It may be feasible for some ecological issues but not for others. As a result, I would include in my conception of the green economy a notion of a world that aims not just for simple GDP or income growth but for a better quality of life, or a society that looks beyond growth. Research suggests that there is a point at which growth becomes uneconomic (Graham, 2011; Jackson 2011; Victor, 2008; Nijacki, 2012; Kubiszewski et al., 2013). We reach this point when the social costs of further growth begin to exceed the benefits. One set of costs lies in the effects of pollution, habitat loss, chemical exposures and climate change. Other costs occur in the quality of life, such as traffic congestion, higher living costs, family stress and economic inequality. The positional competition that is characteristic of many affluent societies on its own may be a source of significant stress (Wilkinson and Pickett, 2010).

A thoughtful, analytical case for at least rethinking the wisdom of economic growth as the overriding objective of modern societies is a book by the Canadian economist, Peter Victor. In *Managing without Growth* (2008), Victor makes the case that the focus on increasing the size of economies and per capita incomes has failed to deliver on three goals: maintaining full employment, eliminating poverty, and avoiding many forms of ecological degradation. He provides a thoughtful and empirically-grounded analysis of how such a slower-growth scenario might unfold while actually enhancing the quality of life. He also concludes, however, that there are hazards in 'deliberately and dramatically slowing the rate of growth' and that a strategy of no growth 'can be disastrous if implemented carelessly' (pp.178, 183). Victor favours a strategy of planned, well-managed development in pursuit of a more diverse set of policy goals.

Recognising this, some cities in the US have moved towards greener growth, not only by adopting the policies discussed earlier but by re-examining the primacy of growth as a community vision (Portney, 2013). They are moving from a conception of cities as just growth machines to a more nuanced conception of quality of life. Portland, Oregon, one of the most sustainable cities in the US, has adopted urban growth boundaries to limit land use and development. Boulder, Colorado was the first US city to enact a local carbon tax. Milwaukee in Wisconsin undertook a sustainable redevelopment of an old, decayed industrial area with explicit ecological and social goals to balance out the economic aspects of the programme. Indeed, these actions at the city level are some of the best examples of green economic thinking in the US. Even public opinion may be moving in this direction: a recent Harris poll found that 'Americans are increasingly placing greater priority on living a fulfilling life – in which being wealthy is not the most significant factor'. People may be looking beyond growth as a measure of human progress and well-being.

Is the green economy a realistic or useful concept?

As should be clear by now, the view in this article is that the green economy is more meaningful than mythical. It offers a pragmatic, politically arguable, analytically-sound path for policy making, public and private. Moreover, some version of the green economy offers the only realistic path for avoiding the long-term, irreversible ecological devastation that is coming. It is a fact of life that economies will grow; growth is the basis for political legitimacy in nearly all nations. Like it or not, economic growth and rising incomes are a priority in both developed and emerging economies. And one cannot deny aspirations for a better quality of life in poor nations.

Without doubt, a major decoupling of progress from ecological harm is technically and economically achievable. It is most likely to succeed in the energy sector, where a long-term transition to renewable energy sources is feasible. Other economic sectors, such as transport, agriculture, tourism and manufacturing, are more challenging, but smart decisions and a stable policy framework could be effective in offsetting the ecological and health pressures of growth.

At some point, however, the cumulative effects of more people with ever-increasing standards of living will again press the limits of global ecosystems. In climate change, those limits are reasonably well defined. On issues such as water resources, persistent and bio-accumulative pollutants, nutrient loadings, loss of species and habitat, and other indicators it is clear that limits exist and at some point will be stretched. An absolute decoupling, looking beyond growth to more varied and nuanced approaches to progress, should be on the agenda. The continuing and exponential increases in rates of economic growth make a strategy of only relative decoupling through eco-efficiency insufficient in the long run. As argued here, however, the case for reducing economic inequality may be as important as or more important than that of constraining or reversing growth. How growth occurs matters far more than the fact of growth on its own.

The challenge of living a good life on a finite earth is far more difficult than the old one of living a good life without worrying about biophysical limits (Meadowcroft, 2005). Clearly, all nations must redesign policies and institutions to meet human needs in less ecologically stressful ways, although the political hurdles are formidable. Still, rethinking the idea of human well-being should be central to the idea of the green economy. Some people disagree with an emphasis on economic incentives and institutional restructuring. They want the case for ecological well-being to be made on moral grounds and a promotion of virtue. I see no conflicts between the economic and moral cases. Moral issues should be debated and asserted. If we look realistically at current trends, however, it is clear that virtue alone will not win the day. The concept of the green economy defines an approach to reframing the relationships among economic, ecological and even social goals. It may, in sum, be the best way to live a good life on a finite earth, now and well into the future.

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Edward Hearnshaw, Trecia Smith, Jane Carpenter, John Pennington, Jace Mowbray, Rebecca Maplesden and James Palmer

Stewardship and the Natural Resources Framework

New Zealand's natural resources are under increasing pressure from competing uses and are, in some areas, approaching limits. Management of our natural resources has been and will continue to be a complex and contentious intergenerational issue. This complexity arises because of the many interrelationships and interdependencies between environmental and social systems involved in natural resource management, as well as the legacy of past decisions. The contentiousness arises, in part, because natural resources are typically finite and shared, where people hold different values regarding their appropriate use.

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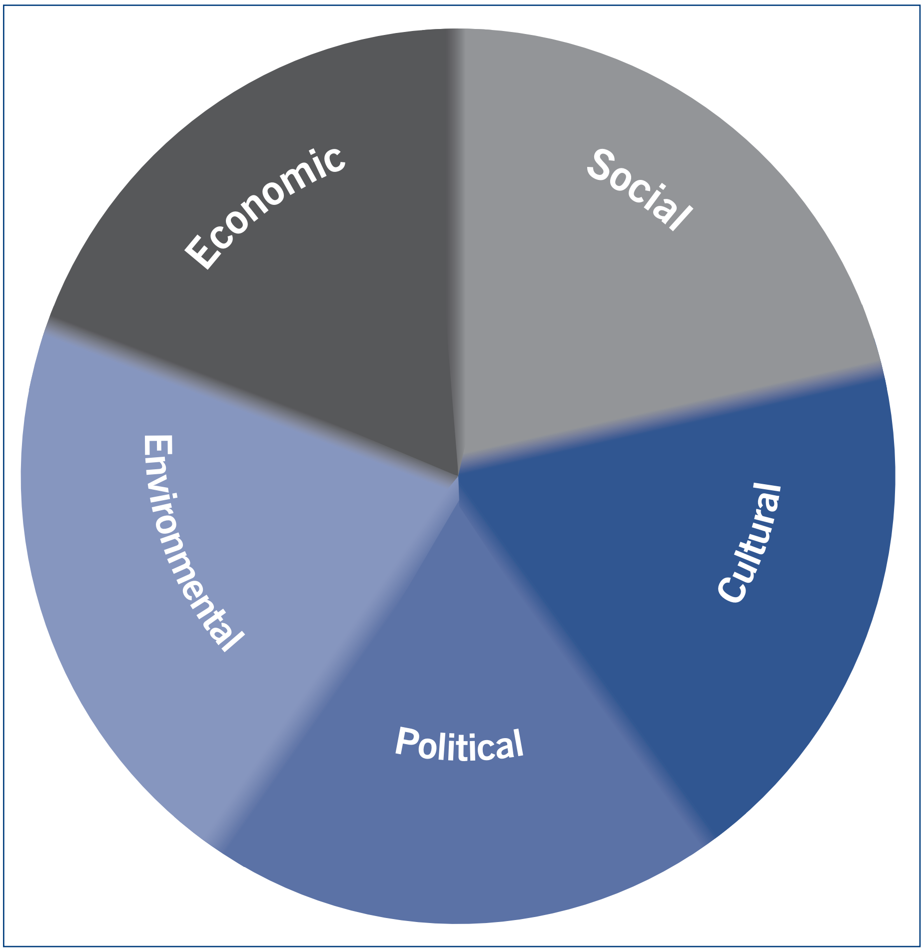
Chief executives of government agencies are responsible for the stewardship of their agencies, including the capability and capacity of agencies to offer free and frank policy advice to successive governments (State Sector Amendment Act 2013). Stewardship in an environmental context involves the wise use and management of natural resources over the long term. For government agencies responsible for natural resource policy, effective stewardship will require that they provide advice around the management of natural resources with a longer-term view in mind, and work collaboratively.

Collaboration is an important factor in achieving stewardship, as it is rare that a government agency on its own can address the complexity of natural resource issues. However, too often reactive policy dominates agency work programmes, crowding out longer-term analysis and limiting the ability of agencies to collaborate effectively. In

Figure 1: The five perspectives applied in the Natural Resources Framework



a recent review of the Ministry for the Environment the need was identified for a multi-disciplinary framework which made assumptions, analysis, priorities and trade-offs explicit. Such a framework would be able to address the complexity of natural resource issues and help underpin policy development across the natural resources sector (NRS)[1] over the longer term. In response, NRS chief executives committed to the development of a framework to provide a common analytical approach across agencies to address natural resource issues. The result is the Natural Resources Framework, which seeks to promote the stewardship and kaitiakitanga[2] of New Zealand's natural resources. It does this by helping NRS agencies to organise their analytical inquiry in an integrative way to produce robust and resilient policy advice to decision-makers.

The development of the framework began with an expansive search of international literature on natural resource policy frameworks and underlying concepts around natural resource issues. Engagement and collaboration with NRS agencies and researchers was also significant to its development.[3]

In the following sections, this article firstly outlines the underlying concepts and the supporting frameworks that have influenced the development of the Natural Resources Framework. Secondly, the structure and process of the framework are specified, and the six components that make up the framework are discussed. Each of the framework's components is then detailed thoroughly. Finally, the article concludes by offering a way forward for stewardship and the Natural Resources Framework.

Background

The Natural Resources Framework is premised on four underlying concepts. These concepts are supported by various natural resource policy frameworks that have collectively influenced the development of the Natural Resources Framework.

People

The first concept is that while environmental and social systems are interrelated and interdependent, natural resource issues typically arise from the way people behave and interact with the natural resource. Natural resource issues do not arise primarily from the natural resource base (Pahl-Wostl, 2009). It is people, through their complex interrelationships with natural resources, who shape the outcomes of natural resources over time. The Natural Resources Framework responds to this by putting people at the centre of analysis.

The Natural Resources Framework was influenced by the well-developed ecosystem services approach (Capistrano et al., 2006), which classifies the various benefits that accrue to people from natural resources and surrounding ecosystems, and the socio-ecological systems approach (Holling, 2001; Folke et al., 2005). The social-ecological systems framework developed by Nobel laureate Elinor Ostrom (2007, 2009) was also influential. Briefly, this framework structures inquiry around the interrelationships between environmental and social systems by providing a common analytical approach to promote dialogue between the natural and social sciences.

Institutions

The second underlying concept is that to understand the behaviour of people, the institutions that influence people's behaviour should be analysed and understood. Institutions are important because they provide powerful incentives for people to behave in certain ways and generally endure over time.

Specifically, institutions are the rules people follow that guide, provide opportunities for and constrain collective behaviour. Institutions help people understand how they should respond in different situations and can reduce uncertainty in making decisions. Some institutions are codifed in sets of formal rules, such as regulations, but many others are based on informal rules, such as social and cultural norms, underpinned by people's values and beliefs. In its focus on institutions and their analysis the Natural

Resources Framework was influenced significantly by the Institutional Analysis and Development Framework. This framework, developed by Ostrom (2005) and adapted by others (e.g. Fischer et al., 2007), is designed to organise and structure inquiry around institutions for improved policy analysis.

Multiple perspectives

The third underlying concept is that analysis requires multiple perspectives to reflect the diversity of people and their values, and the various ways of understanding natural resource and environmental systems. Different perspectives will result in different insights regarding the behaviour of people in relation to natural resources. Multiple perspectives also help avoid oversimplifications and blind spots by offering alternative means of understanding and analysing a natural resource issue.

Different perspectives require policy analysts to use different disciplines, and, as such, the framework supports a multi-disciplinary approach. The Natural Resources Framework does not assume that one discipline, institutional arrangement (i.e. particular set of rules) or policy option type is favoured over another.

The framework adopts five perspectives – social, cultural, political, environmental and economic – to ensure analysis is comprehensive and adequately accounts for the complexity and many important attributes of natural resource issues (see Figure 1).

While social, economic and environmental perspectives are generally well understood and accepted as representing the three 'pillars' typically promoted in sustainability frameworks (e.g. see Adams, 2006), two additional perspectives have been included, cultural and political. The addition of the cultural perspective allows people's behaviour and institutions to be better understood in a way specific to New Zealanders. This perspective should be interpreted as relating not solely to any one culture, but to the range of cultures represented in New Zealand. As partners in the Treaty of Waitangi relationship, however, NRS agencies have a responsibility to support iwi and Māori in performing their kaitiakitanga functions. This responsibility means agencies must consider carefully each perspective from an iwi and Māori point of view.

Table 1: The four stages of integrative thinking

Conventional thinking	Integrative thinking
Limited number of attributes considered	Many salient attributes considered
Simplified analysis of causality	Complexity of causal tendencies in analysis
Anaysis of Independent parts and only through a single perspective	Multiple perspectives analysed simultaneously, so that a 'complete' picture is visualised
Ready acceptance of unattractive trade-offs	Search for creative resolutions to trade-off tensions

Source: adapted from Martin and Austen (1999)

The political perspective provides insight into the political processes, institutions and agreements (e.g. international treaties) that shape New Zealand democracy, including its legitimacy and accountability. This perspective is intended to shed light on political institutions and processes encountered, rather than question the mandate of the government of the day.

Integrative thinking

A key challenge in analysing natural resource issues across multiple perspectives is bringing these perspectives together in order to find robust and resilient policy solutions. Integrative thinking, the fourth underlying concept of the framework, is applied throughout the framework to address this challenge. Integrative thinking differs from conventional thinking in attempting to bring together multiple perspectives and forms of analysis with the aim of finding creative resolutions to trade-off tensions that might not otherwise be seen (see Table 1) (Martin and Austen, 1999). Integrative thinking emphasises the possibility of promoting more 'inclusive' institutional arrangements (economy and the environment, rather than economy or the environment) (Acemoglu and Robinson, 2012), which are crucial for the wise use and management of natural resources over the long term.

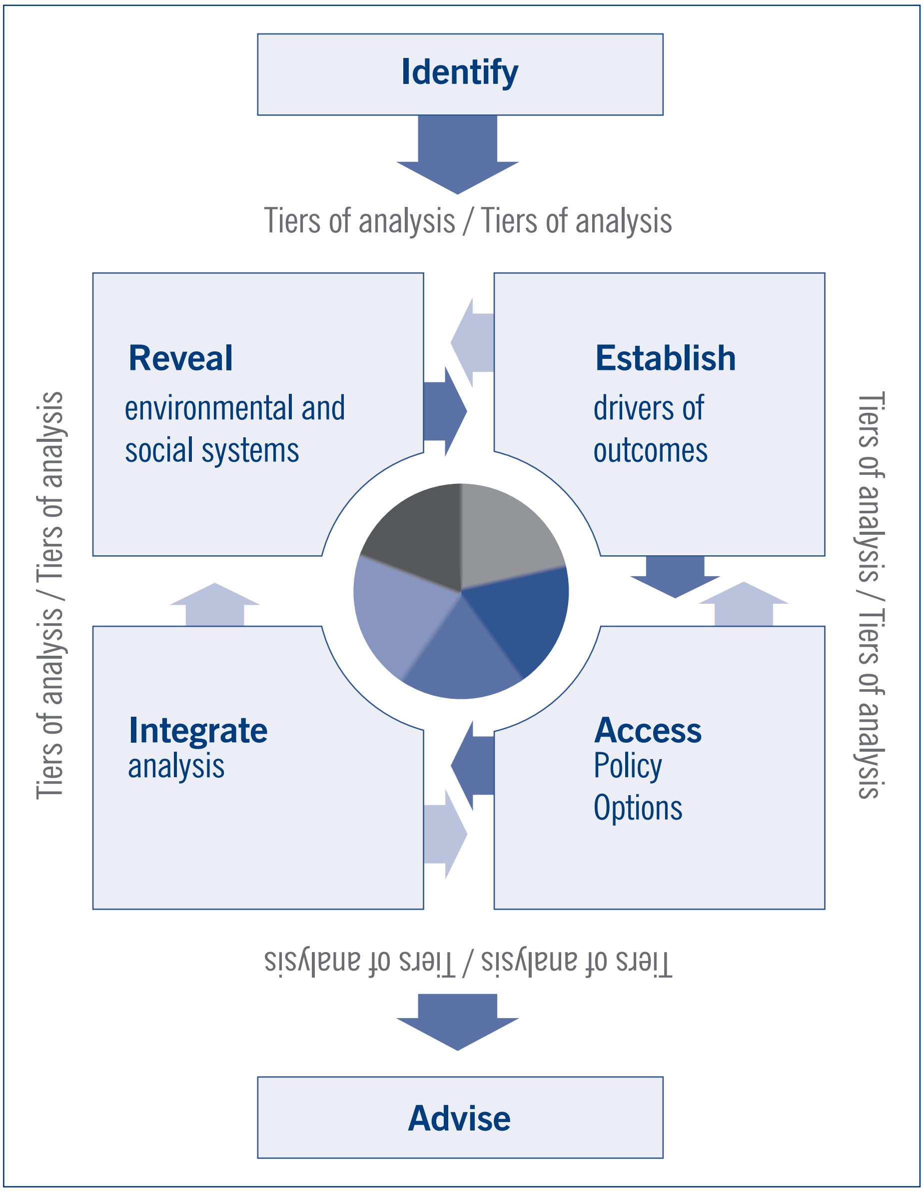
The Sustainability Integration Framework and the Integrative Framework have influenced the development of the Natural Resources Framework here. The Sustainability Integration Framework offers a range of trade-off principles for consideration prior to any trade-offs being readily accepted (Gibson, 2006; Croal et al., 2010). The Integrative Framework provides a structured means to navigate and make space for multiple perspectives in policy analysis (Hirsch et al., 2011; Hirsch et al., 2013); that is, it attempts to bring, but does not force, integration and synthesis across perspectives. Accordingly, it also recognises the potential for dissonance between perspectives.

Structure and process

The Natural Resources Framework consists of six components, with four analytical components framed by two procedural components. The framework is intended to be flexible and avoids providing an overly prescriptive process. Figure 2 shows the four analytical components – *Reveal*, *Establish*, *Assess* and *Integrate* – in the centre. These components are 'bookended' by the procedural components *Identify* and *Advise*. The four analytical components broadly map to the four stages of integrative thinking (see Table 1). The five perspectives – social, cultural, political, environmental and economic – are woven consistently throughout all analytical components to capture the diversity of values at stake.

The components of the Natural Resources Framework do not need to be worked through as a series of steps from *Identify* to *Advise*. Even where the framework is applied as a series of steps, the analytical components are designed to be able to work iteratively with each other. There are four ways the framework could be worked through. First, the framework could be used for in-depth policy analysis through the generation of new policy options by progressing sequentially

Figure 2: Components of the Natural Resources Framework



from *Identify* to *Advise*. Alternatively, any single component of the framework could be applied to complement existing policy analysis or development. Third, the framework could be applied in an exploratory way from *Reveal* to *Assess* across a range of natural resource issues to help set future priorities by indicating how well these issues are tracking towards stewardship and kaitiakitanga. Or the framework could be used backwards from *Establish* to *Reveal* to provide insights into the institutions and behaviour that have led to present and defined future outcomes.

The Natural Resources Framework has three common tiers of analysis that can be applied to each component.[4] These tiers are:

- task ('what');
- reasoning ('why');
- engagement and tools ('how').

The task tier and engagement and tools tier are both specifically tailored for each component. The reasoning tier, on the other hand, is the same for all components of the framework. The task tier outlines the component and provides a short background. Key tasks are then explained to help policy analysts understand the work required to complete the component. A list of questions has been formed to prompt policy analysts through each task. The reasoning tier considers why conclusions to tasks were reached. The aim of this tier is to ensure that the analysis undertaken within each component is transparent and robust so it can be trusted as a basis for developing policy. This tier requires the reasons and assumptions behind conclusions to be made explicit and the strength of the arguments made to be considered.

The engagement and tools tier addresses how the analysis could be undertaken through the use of possible analytical tools (e.g. cost-benefit analysis, multi-criteria analysis, scenario planning) and engagement points. Each component identifies useful engagement points and quantitative and qualitative tools to aid the analysis. This is to ensure that the information used and/or collected reflects both numerical values and lived experience.

Components

This article now considers each component of the Natural Resources Framework in more detail. The specific tasks of each component are discussed: brief descriptions of the key tasks in each component are indicated in Table 2. Importantly, the six components that make up the Natural Resources Framework are complementary to existing policy processes and frameworks, including regulatory impact assessments. The components can also be used to focus attention on parts of the policy cycle that are characteristically underdeveloped or under-explored.

Identify

The *Identify* component aims to clearly identify the natural resource issue, get an effective project design in place and ensure the mandate for analysis is secured upfront. An important part of this component is gaining agreement on what the framework will be used for and how NRS agencies will operate together and approach the work, including resourcing, engagement design and acknowledgement of the Treaty of Waitangi. As part of the Crown, NRS agencies must find ways to provide for the Treaty of Waitangi and understand the rights and interests of iwi and Māori. In the *Identify* component, the context needs to be understood well enough to provide an effective plan for how these matters will be recognised throughout the analysis, including engagement. This explicit prompt underscores the significance of appropriately addressing the Treaty and the rights and interests of iwi and Māori at the outset to shape subsequent analysis and engagement.

Reveal

The *Reveal* component ensures that 'everything is put on the table' regarding the natural resource issue. Accordingly, this component is descriptive in its intent. Its emphasis is on describing the 'rules of the game'.

In the *Reveal* component a systems approach is emphasised to ensure the complexity of the natural resource issue is better appreciated. A systems approach allows the interrelationships and interdependencies within and between different systems to be identified and understood. Figure 3 illustrates the environmental and social systems, including the various embedded systems (ecosystem, natural resource system, political system, economic system and cultural system), and the interrelationships between people and the natural resource. Multiple perspectives typically would be used to reveal and understand the behaviour of the wide range of salient system attributes.

The environmental system is the outermost system boundary within which all other systems are embedded. In defining these boundaries, the disturbances that might affect the resilience and limits of the natural resource system and surrounding ecosystem attributes can be considered. These include the biophysical attributes of the natural resource, as well as the species and ecological processes that exist in relation to the natural resource.

In the *Reveal* component, the social system and the various systems (political, economic and cultural) embedded within it should also be explicitly described. In understanding these systems, emphasis is placed on determining the people involved (e.g. local government, central government agencies, resource users, iwi and Māori) and their values. In addition, rules and people's norms that shape behaviour across these systems can be revealed.

With a broad understanding of the environmental and social systems, the

Table 2: Key tasks for each component of the Natural Resources Framework

Component	Key tasks of each component
Identify	• Identify and agree the scope of the natural resource issue • Agree how the Treaty of Waitangi and iwi and Māori rights and interests will be provided for • Agree engagement design and how NRS agencies will operate and approach the analytical work
Reveal	• Describe the environmental system and the embedded natural resource system and ecosystem • Describe the social system and other embedded systems, including the Treaty of Waitangi, norms, rules and values of people involved • Reveal the interrelationships between the natural resource and people
Establish	• Analyse the incentives and behavioural drivers that people face over time • Analyse the effect on collective behaviour • Establish present and possible future outcomes including their associated uncertainties
Assess	• Assess status quo outcomes against agreed criteria • Craft new policy options and compare them with the status quo
Integrate	• Integrate perspectives and resolve the trade-off tensions identified by refining policy options • Categorise and filter policy options in accordance with their risk • Rank remaining policy options and indicate where trade-offs lie
Advise	• Advise decision-makers through the development of an agreed collective narrative • Ensure assumptions, limitations and trade-offs to be confronted are explicit

Figure 3: The Reveal component

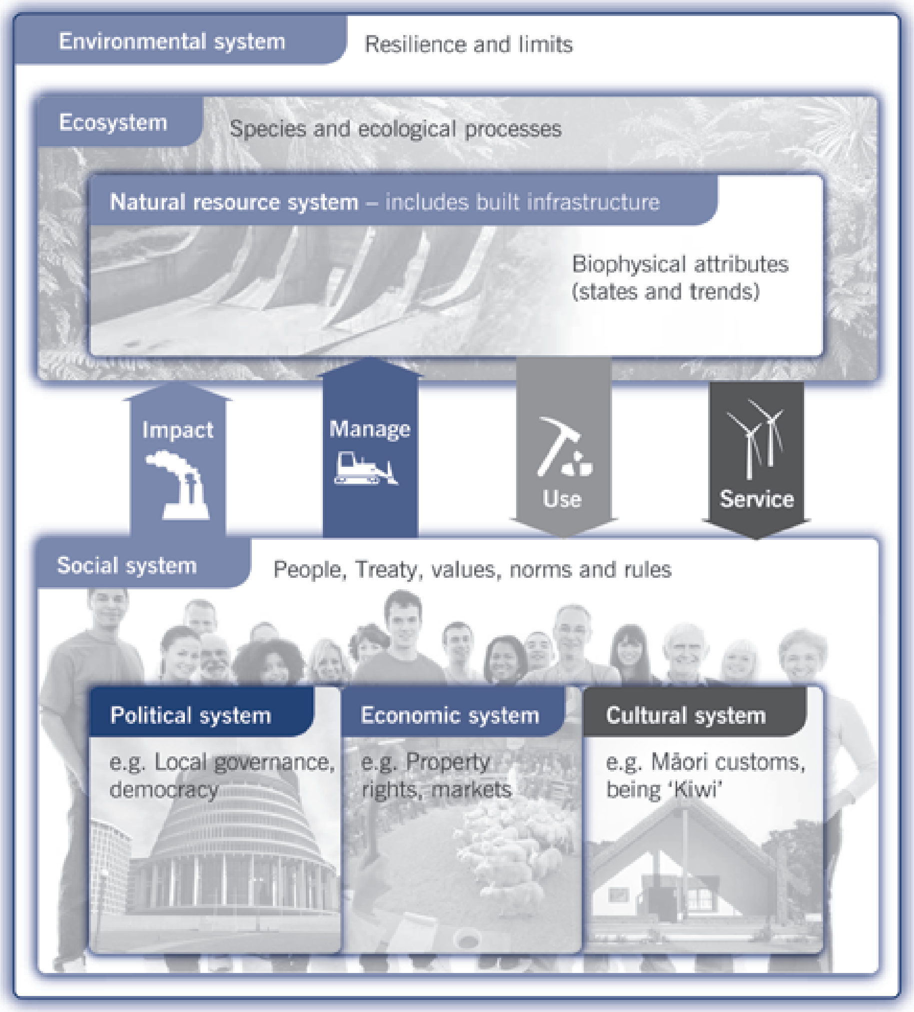
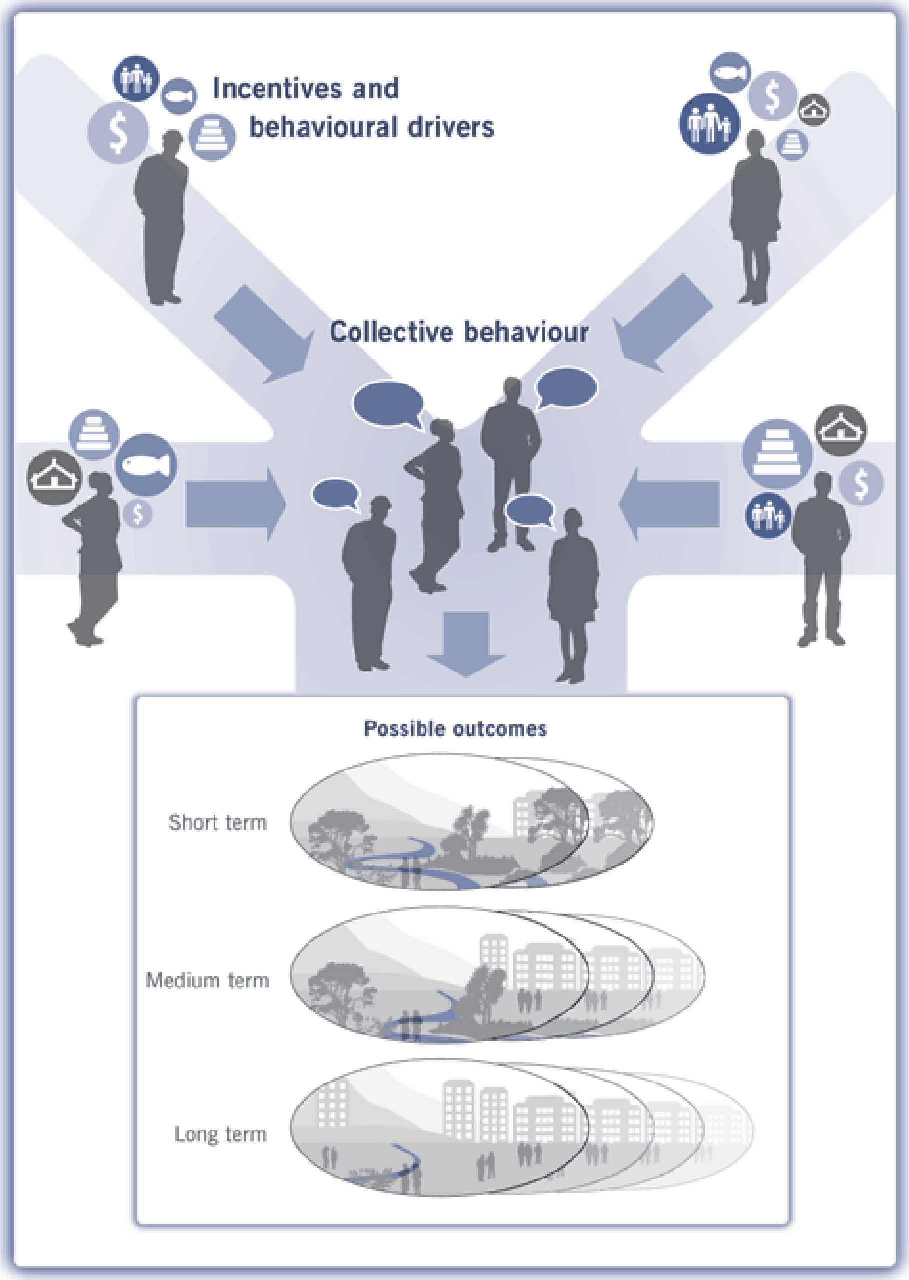


Table 3: The types of interrelationships between people and the natural resource

Interrelationship	Description	Examples
Manage	Interrelationship represents the direct management of the natural resource by people	Freshwater management rules
Use	Interrelationship represents the direct consumptive and non-consumptive use benefits (i.e. provisioning services) of the natural resource to people	Irrigation, hydro-power generation
Service	Interrelationship represents the non-consumptive use (i.e. cultural services, regulating services) benefits and non-use benefits (i.e. existence values) of the surrounding ecosystem to people	Recreational swimming, water purification from ecological processes
Impact	Interrelationship represents the indirect effects of people's behaviour on the surrounding ecosystem	Nutrient run-off

Figure 4: The Establish component



analysis focuses on understanding the interrelationships between the social systems and natural resource, including the surrounding ecosystem. These interrelationships are defined in four ways – *Manage*, *Use*, *Service* and *Impact* (see Table 3).

The *Use* interrelationship accounts for benefits that typically acquire a market value, given their private goods character. The Service interrelationship reflects other benefits that are more difficult to capture in the marketplace and are therefore often undervalued. Third-party effects can be accounted for through the *Impact* interrelationship, where the consequences of an action, such as pollution, would be revealed through a reduction in the benefits received by others (i.e. via the *Use* or *Service* interrelationship).

Establish

The *Establish* component focuses on an institutional approach to link people's actions to ensuing outcomes. Accordingly, in this component people's behaviour is brought to life analytically speaking by 'playing out' the revealed 'rules of the game' to establish future outcomes.

The future is not seen as simplistic, certain or deterministic; rather, this component seeks to emphasise the complexity of causal tendencies that drive outcomes. Therefore, this component promotes an 'every time this then *usually* that' logic, rather than a strong causal logic of 'every time this then that'. Adopting this logic of causal tendencies is important to capture both probable and possible future outcomes and to maintain integrative thinking that allows creative resolutions to be found in the following *Integrate* component.

People's behaviour is motivated by incentives and behavioural drivers, which are grounded in their values and the rules and norms they follow. Institutions can create powerful incentives and behavioural drivers for people to decide a course of action. People do not, of course, always comply with 'rules', especially when there are strong incentives not too. For example, there is a strong incentive for free-riding behaviour for common-pool resources and public goods, even where rules are in place.

The social space where people engage and form relationships with one another are also identified for close analysis in the *Establish* component. Here the influence of values, rules and norms that motivate people are played out in a collective sense and the transaction costs (e.g. engaging, meeting, bargaining, negotiating) of these interactions analysed. Once the actions and interactions of the people are analysed, policy analysts are in a good position to establish possible future outcomes (see Figure 4).

Future outcomes should be established over multiple timescales (i.e. short, medium and long term). This recognises the framework's emphasis on stewardship as well as immediate policy impacts. Any changes in the environmental system over the long term (e.g. climate change) and the systems embedded within it should also be considered when establishing possible future outcomes.

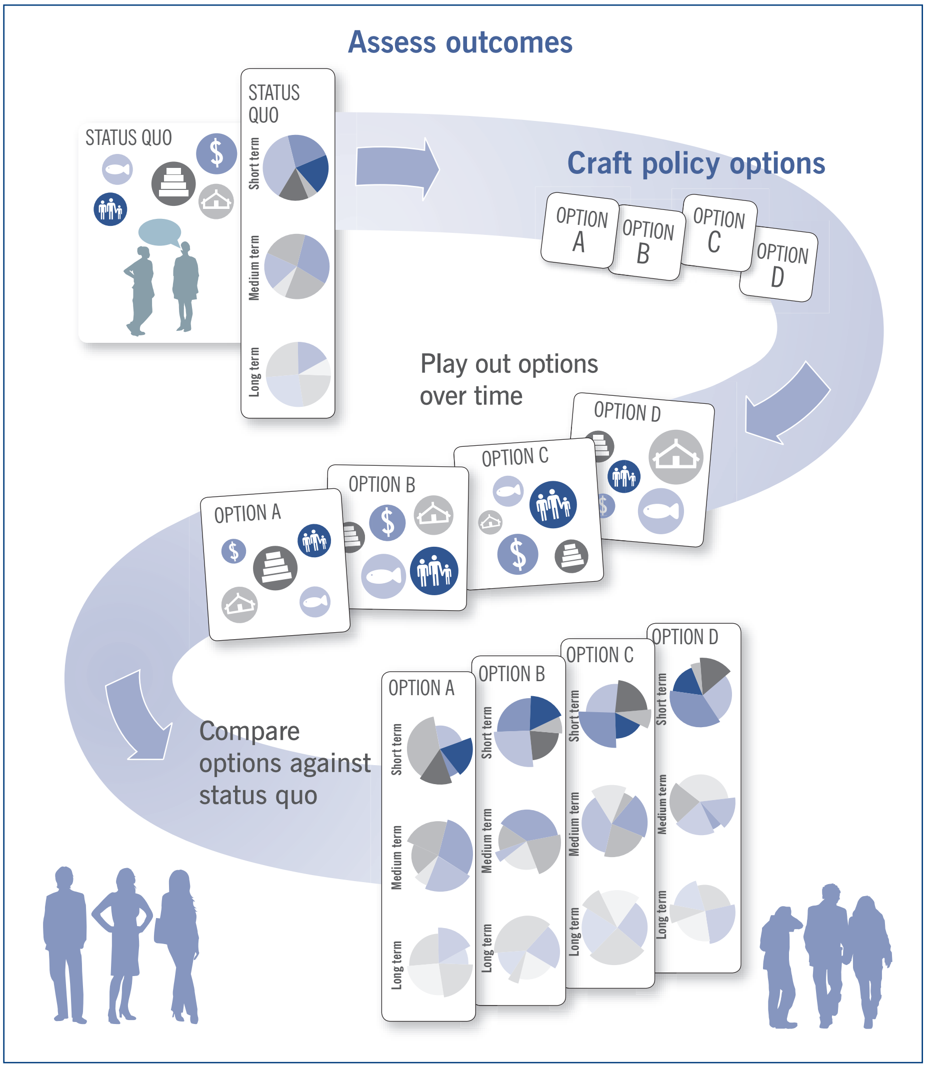
Assess

The *Assess* component helps policy analysts analyse the outcomes generated from the status quo against selected criteria from each of the multiple perspectives. New policy options can then be crafted to address behaviour and improve outcomes. Hence, policy interventions seek to add value to the management of natural resources and not necessarily simply to 'correct' market failures. For example, an assessment of the status quo may indicate that the biophysical limits of the natural resource are not well understood. A policy response which might add value, in this case, could be to improve how the information is made available to those who use and manage the natural resource.

In crafting policy options and projecting outcomes, it becomes possible to compare the outcomes from the options with those from the status quo against selected criteria. This comparison allows the gains and losses from implementing each policy option to be determined across each perspective and over the short, medium and long term. These tasks are reflected in Figure 5.

The *Assess* component is iterative and the *Establish* component should be revisited to better understand how the outcomes from newly-crafted policy options will perform over time. That is, newly-crafted policy options should be 'played out' to understand how incentives, behavioural drivers and institutions are changed and could influence ensuing outcomes.

Figure 5: The Assess component



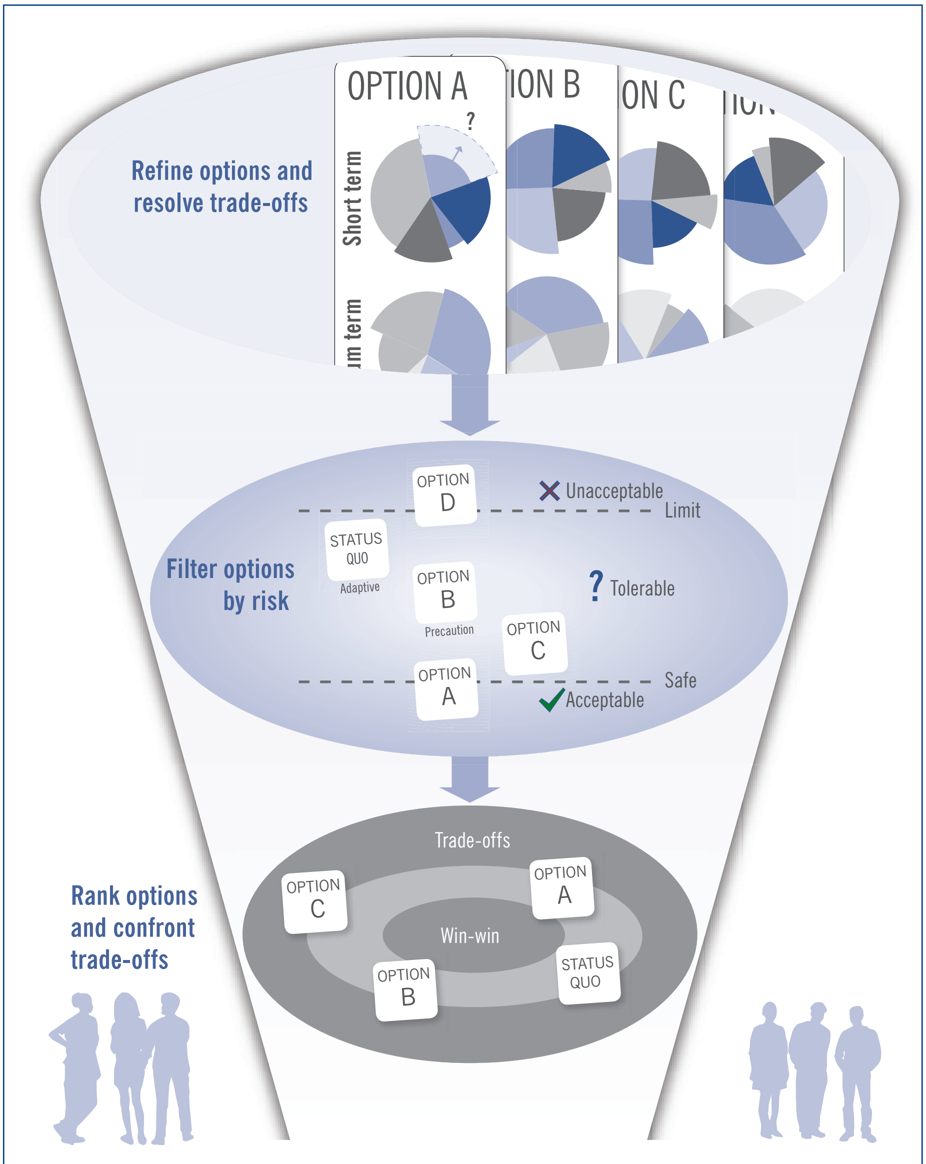
Crafting new policy options is an important part of the *Assess* component. Ideally, each new policy option proposed should contain a broad mix of instruments (e.g. regulatory, information, industry standard and market-based instruments). Known limits could act as triggers for changes in the mix of instruments within each policy option. This adaptive mix will help policy options be more enduring over time given changing conditions or unexpected outcomes.

Criteria that represent a range of relevant perspectives (i.e. social, cultural, political, environmental and economic) are needed. Criteria need not be all of equal weight; their relative weight will

Table 4: Possible criteria for each perspective

Perspective	Criterion
Social	• Distributional equity • Community resilience • Intergenerational equity • Manaakitanga
Cultural	• Cultural diversity • Sense of place • National identity • Tikanga Māori
Political	• Accountability • Legitimacy • Political equity • Rangatiratanga
Environmental	• Ecological integrity • Strong sustainability • Environmental ethics • Mauri
Economic	• Efficiency • Cost effectiveness • Economic growth • Māori economic development

Figure 6: The Integrate component



depend on the type and expediency of the natural resource issue addressed. Table 4 indicates criteria that could be analysed for each perspective, including a Māori-related criterion that captures an aspect of kaitiakitanga. It is important to recognise that interrelationships exist between each of the criteria. For example, no matter how efficient an outcome is, if the outcome also significantly compromises another criterion then the option is unlikely to support stewardship. The framework presents a challenge to pay simultaneous attention to all selected criteria across the multiple perspectives (Adger et al., 2003). This promotes integrative thinking by retaining a more 'complete' picture in the analysis from which to resolve trade-off tensions and find robust and resilient policy solutions.

To make comparisons across perspectives to indicate the extent of gains and losses involved is difficult. It is likely that analysis of each perspective will be given in its own terms and measured either qualitatively or quantitatively. To allow comparison, it may be useful to make measurements and analysis consistent across the perspectives, as far as is practicable. However, putting all perspectives into a single common measure, for instance a uniform index, is contentious. Gains and losses within a criterion may be hidden, and values and perspectives may not be able to be reduced to a common measure. For example, Western science and mātauranga Māori exist with discrete, but legitimate, knowledge sets. The framework requires space to be made for different perspectives to be analysed and compared.

Integrate

The *Integrate* component brings together earlier analysis to refine policy options and resolve trade-offs, where possible, before filtering options towards a final set of ranked policy options. These key tasks are represented in Figure 6. This component, therefore, acts as a filter for identifying both a final set of policy options and where the trade-offs lie. Trade-offs can reflect compromises and the simultaneous existence of gains and losses across perspectives or scales of analysis (e.g. short-term gain versus long-term loss). Importantly, the capacity to creatively resolve trade-off tensions is the culmination of the integrative thinking that conceptually underlies the Natural Resources Framework.

The *Integrate* component emphasises the use of deliberative processes with the aim of achieving practical consensus among NRS agencies. Specifically, practical consensus is where the people involved in developing advice deliberate to attain a common understanding of the issue and collectively agree that they can 'reasonably and comfortably' live with the particular analytical direction taken. An attempt should be made to reach practical consensus throughout the *Integrate* component. Where practical consensus cannot be achieved, then alternative forms of analysis may be undertaken simultaneously. This alternative analysis may lead to different sets of policy options being developed.

The three key tasks of the *Integrate* component are now discussed in greater detail. First, policy analysts are prompted to understand trade-off tensions within and across policy options and to resolve them, where possible. The emphasis here is on not readily accepting trade-offs, but rather attempting to resolve and refine options to find mutually reinforcing gains and win-win solutions across all perspectives and scales. Despite the potential for creative resolutions, however, many supposed win-win solutions are not a win-win in hindsight; someone bears a loss. Typically, win-win solutions are wrongly identified because the analysis was too optimistic and narrow. This highlights the significance of the previous components in keeping analysis sufficiently wide to more effectively resolve trade-off tensions.

When the ability to resolve trade-off tensions diminishes, a risk management approach is developed to categorise and assess policy options to determine whether the outcomes through practical consensus are acceptable, tolerable or unacceptable. This approach allows options to be carefully filtered and further refined by analysing and making explicit any risks, with the associated limits, uncertainties and outcomes. Where the outcome of a policy option is projected to break a limit, it may be treated as an unacceptable risk and be removed from the option set. Where the outcome is projected to be close to a limit or relatively near multiple limits, it may be treated as a tolerable risk that can be managed or further refined. Alternatively, where an outcome is not nearing any limit it may be treated as 'safe' and an acceptable risk.

Finally, policy analysts are prompted to rank the final set of policy options and confront the trade-offs for each option. The ranking could be achieved through various decision rules (e.g. maximum net gains, least risk) to recommend an agreed set of policy options.

Advise

In the *Advise* component, analysis undertaken is collated in order for a collective narrative to be developed. Specifically, the collective narrative is an agreed and shared policy 'story' that encompasses the nature of the natural resource issue addressed, the policy options considered and the likely outcomes over the long term in keeping with stewardship and kaitiakitanga. The trade-offs to be confronted as well as any assumptions and limitations in the analysis are made explicit in the narrative.

The development of an agreed collective narrative is important to address policy issues over the long term across agencies. A collective narrative provides opportunities for NRS agencies to transcend the work programme of a single government agency and explore a more complete set of policy options. Overall, the collective narrative allows the opportunity for NRS agencies to provide collective free and frank advice to the best of their abilities.

The collective narrative does not need to be a single recommended policy option among an agreed final option set. Rather, if practical consensus is not achieved in the *Integrate* component, then the collective narrative may indicate multiple strands of analysis that lead to alternative recommended policy options and/or an alternative final option set. The collective narrative can accommodate several alternative pathways towards stewardship. However, differences between NRS agencies should be articulated clearly.

Conclusion

The Natural Resources Framework is a novel framework which seeks to promote stewardship and kaitiakitanga of New Zealand's natural resources. These objectives will not be achieved without new ways of thinking and of understanding the complexities of natural resource issues.

For stewardship to be successful, the policy analysis of natural resource issues requires a long-term multi-disciplinary approach (Driscoll et al., 2012).

Specifically the framework is seen to encourage stewardship as it provides NRS agencies with a common analytical approach that puts people at the centre of analysis, promotes analysis across multiple perspectives and timescales, and is underpinned by integrative thinking. Undertaking these forms of analysis is foreseen to provide more robust and resilient policy advice and promote the wise use of natural resources over the long term. These are significant developments, as the framework challenges the use of a single perspective to drive policy analysis beyond conventional thinking. Relying on a single perspective masks the full complexity of natural resource issues and may result in poor policy outcomes and unwelcome surprises.

The framework is expected to evolve and change over time. The application of the framework will inevitably be the real test for whether it informs policy development and allows NRS agencies to collectively track on their journey towards stewardship.

1 The NRS is headed by the chief executives of seven agencies – chaired by the Ministry for the Environment's chief executive – who act as a leadership team for natural resources policy work in central government. These agencies are the Ministry for the Environment, the Ministry of Business, Innovation and Employment, the Ministry for Primary Industries, Land Information New Zealand, the Department of Conservation, Te Puni Kōkiri and the Department of Internal Affairs.

2 Kaitiakitanga is the customary practices by which iwi and Māori manage the environment and their relationships with it, based on a Māori world view.

3 Engagement included an initial workshop with NRS chief executives, as well as regular updates and final sign-off, regular monthly collaborative meetings with representatives from all NRS agencies, cross-agency workshops with NRS officials, a workshop and a targeted meeting with researchers from New Zealand universities and Crown research institutes, and discussions with international academics.

4 For more information about the tiers and components of the framework see Natural Resources Framework: guidance for users (Ministry for the Environment, 2013) and supporting documents at www.nrs.mfe.govt.nz

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Other Items of Interest

Governance of a complex System: Water

Elizabeth Eppel

A working paper on the governance of fresh water in New Zealand is available online as a free download on the IGPS website (www.igps.victoria.ac.nz).

New Zealand is evolving a new policy for fresh water and how we might better govern this vital resource. The paper discusses the complex nature of water governance. It also examines some current New Zealand experiments in the practice of water governance which might be informative of what the processes of governance of complex systems like fresh water will look like when they are in action.

These are not familiar governance processes to most New Zealanders; politicians, public servants and general citizens alike should familiarise themselves on this important and life sustaining issue.

Dr Elizabeth Eppel is a Senior Research Associate for the Institute for Governance and Policy Studies. She also does work as a Senior Research Fellow on e-Government research projects such as 'Using Social Media for Effective Public Engagement' and 'Kiwi's Online Identity Management' with the Chair of e-Government at the School of Government, Victoria University of Wellington.

Michael J. Pratt and Murray Horn

Leadership and Capability Development

and Deployment in the New Zealand State Service

This article describes the design during 2013 of a model and implementation principles of a leadership and capability development and deployment (LCDD) model for the state services system. In this process, an initial prototype model was developed to describe a desired future state. It was informed by the best traditions of state services leadership development, together with models used by the world's best companies, such as Procter & Gamble, for leadership development (Filipkowski and Donlon, 2013). The model was then enhanced based on our research in other jurisdictions, including Australia, Singapore and the United Kingdom, and co-creation with stakeholders. This is further discussed in the article.

Dr Mike Pratt is Professor of Leadership and Sustainability at the University of Waikato, and a professional director and business adviser. **Dr Murray Horn** is a former Secretary to the Treasury of New Zealand and bank chief executive, and a professional director and business adviser.

The Better Public Services review conducted in 2011 found that improved and more collaborative leadership is a necessary precondition for high-performing public services (Better Public Services Advisory Group, 2011). This conclusion was reinforced by a key finding from the 21 completed State Services Commission Performance Improvement Framework (PIF) reviews that there are significant opportunities for improvement in leadership across the state services.[1] In April 2013 the authors of this article were invited by the state services commissioner to facilitate the co-creation of a framework with a broad cross section of state services leaders and stakeholders. This work built on an earlier project for the commissioner conducted by the authors in which we sought to model a 'corporate centre' for the state services using a corporate group analogy: that is, to consider what the state services 'centre' would look like and how it would undertake its activities if it was like a corporate group headquarters. This frame of reference was applied to leadership and capability development.

Mid-range theory (Laughlin, 1995) was employed to develop a skeletal theoretical framework derived from relevant literature. The framework was then expanded by studying leadership and capability development in action, and through discussions with counterpart public sector entities in Australia, Singapore and the UK. It was further developed through iterative co-creation workshops with over 80 state services leaders and stakeholders, and tested through the governance processes of the state services and central agencies. The framework was adopted by the State Services Commission and implementation began in September 2013.

One unique feature of the framework is the deliberate integration from an early stage in the project of leadership development and capability development. The reasons and advantages thereof are explained in this article. The most transformational aspect of the framework is the concept of a unified state services approach to leadership and capability development across the state services, as opposed to an agency-specific approach. This is a natural consequence of the corporate centre analogy, and of the need for a unified service response to many of the opportunities and challenges facing New Zealand today.

Government's contribution to improved outcomes will depend far more on innovative solutions, stronger execution of change by its own agencies, smarter use of private partners and of technology, and improved effectiveness and efficiency in delivering core government functions and public services.

The evolutionary framework was improved iteratively through the co-creation process, but the essential elements were readily accepted. Much of the conversation focused on the extent of transformation required and the key factors required for successful implementation. A number of innovative approaches to organisational development were created through the process and are discussed here. For example, the idea of sourcing leadership and development activities from successful experiences throughout the state services received widespread support.

The article concludes with a consideration of opportunities for further research, and summary lessons that may be applicable beyond the New Zealand state services.

Leadership as a contributor to better public services

Government's contribution to improving New Zealanders' relative incomes and delivering on the sorts of social outcomes described by the ten Better Public Services goals is changing. The big policy settings are now broadly aligned with OECD norms, so far more hangs on the public sector's ability to innovate and execute change well, to successfully enlist all those whose support is required to deliver outcomes, to realise the opportunities created by new technology, and to deliver more value for money from the core business of the state services. The Better Public Services report notes that success in these areas requires:

- inspiring leadership that can engage the hearts and minds of talented people across the state services and call forth the discretionary effort required to deliver superior performance;
- technical mastery in critical areas of capability; and
- the ability to deploy critical capability across the service to deliver those outcomes that matter most to New Zealand.

Leadership and capability development and deployment must be capable of meeting these demands. There is widespread agreement that, while ambitious, this LCDD model is one that the State Services Commission should be seeking to implement.

The challenges and opportunities facing New Zealand are very different from those of the last or previous decades. Post-1984, the task was to address a crisis and move to the front of an emerging OECD policy consensus. The changed approach to macro policy, border protection, taxation, public ownership, regulation and subsidy was well understood and, while not easy, could be largely delivered centrally via policy change. The 'burning platform' approach to change was used. The following decade was relatively quiet, with limited appetite for reform as New Zealand rode the wave of a strong global economy.

The wave of prosperity turned into the 'perfect storm' of the global financial crisis of 2007–08. While New Zealand has weathered the storm better than many, the desire to improve relative living standards and deliver on the sorts of social objectives set out in the current government's ten Better Public Services goals now needs to be addressed within a far more constrained fiscal environment.

Government's contribution to improved outcomes will depend far more on innovative solutions, stronger execution of change by its own agencies, smarter use of private partners and of technology, and improved effectiveness and efficiency in delivering core government functions and public services. Success requires more collaboration among agencies and their private partners because no single agency is able to deliver on these new challenges on its own. Public services also need to be more client-centric rather than provider-centric, which also implies a more effective cross-agency approach to delivering outcomes.

These solutions rely far more on discretionary effort from talented people with a broader range of capability distributed across a broader range of agencies and activities, than on reforms that are largely policy driven from the centre. Developing that capability and calling forth that effort is, in turn, heavily reliant on inspirational leadership and strong people-management capability across the system. The 'burning platform' model of discontinuous change is not appropriate in this context. Instead, we need broadly-based transformational leadership capable of engaging hearts and minds and building on the best of what already exists.

Analysis of completed Performance Improvement Framework reviews revealed that while agencies were good at responding to immediate issues and events important to their portfolio ministers, they need to improve core business efficiency and effectiveness. Agencies also need to work more proactively and collectively to deliver whole-of-government outcomes, and be able to do the same thing for future governments as stewards of the longer term. The Getting to Great (G2G) analysis[2] identified the six key characteristics of agencies that can consistently deliver great value from the talent, information, capital and regulatory legitimacy they can command. Agencies should:

a be clear about their purpose, know how they can add most value to New Zealand now and in the future, and be clear about their strategy for delivering that value;
b enjoy strong internal leadership that can attract talented people and inspire them to dedicate themselves to working with integrity to deliver the outcomes that the agency has identified as mattering most to New Zealand;
c invest in talent by providing challenging, interesting and important work to do, while also managing poor performers to either improve or to leave;
d enlist the active support of all those outside of the agency who are necessary to the agency delivering the most it can for New Zealand;
e demonstrate that they value learning, innovation and continuous improvement;
f engage corporate support areas like finance, information technology, organisational development, strategy, risk and human resources units as business partners.

G2G concluded that, once agencies get these six things right, 'efficiency and effectiveness will follow'. Each of the six key characteristics identified depends to a greater or lesser degree on superior leadership. Most agencies – and the state service as a whole – are fast approaching the point where simply leaning against growth in operating expenditures and economising on head office and back-office costs will not yield a lot more value. Instead, innovative solutions that can drive significant and sustained improvements in value will have to come from better leadership and management, especially of both people and information.

G2G also concluded that there was significant scope for improvement in this area:

- only 33% of agencies rated strong or well-placed on the 'purpose, vision and strategy' element of organisational performance, which is about an agency clearly articulating a future direction to staff and stakeholders that is consistent with its purpose and adds the most value to New Zealand;
- only 38% of agencies rated strong or well-placed on 'leadership and workforce development', 29% on 'management of people performance' and 38% on 'engagement with staff'; indeed, only one agency was rated strong on management of people performance.

There are many excellent leadership, people and performance development initiatives and capabilities throughout the state services, such as the PIF, career boards and the Leadership Development Centre.

While the PIF reviews are focused on improving agency performance, the G2G report argued that the central agencies had an important role to play:

> The Better Public Services Advisory Group found that the public service was too fragmented to deliver effectively across agencies and portfolios and recommended a much stronger and cohesive corporate head office. Our findings suggest that a more cohesive and effective head office is also critical if we are to build strong and enduring public institutions. (p.37)

The role of the centre will be fundamental to ensuring that agency, sector and system-level initiatives are sufficient to deliver the desired outcomes and that talent and information is developed and – along with money – deployed in a way that improves system-wide performance. The approach to leadership and capability development and deployment needs to become more like that of a large multi-business corporate than of a loose coalition of independent businesses.

The State Services Commission already has leadership and capability development responsibilities and the mandate.[3] There are many excellent leadership, people and performance development initiatives and capabilities throughout the state services, such as the PIF, career boards and the Leadership Development Centre. The intent of the LCDD project is to build on these, integrate them and, where appropriate, take them system-wide. The emphasis will be on synthesis, simplicity and added value rather than compliance and process. The intended outcome is to develop state services leadership and capabilities development and deployment that will deliver on the vision of 'trusted, high performing state services that improve the lives of New Zealanders by delivering outstanding results and value for money'. Leadership will be inspiring, ambitious, bold, agile, innovative, challenging, collaborative, and trustworthy.[4]

State services leadership: principles

The following leadership principles were co-created by members of the state services Corporate Centre with facilitation by the authors. They will inform all aspects of leadership development and deployment.

Shared purpose and spirit of service

Leadership within the state services is based on our shared purpose of improving the lives of New Zealanders and a spirit of service. Integrity and high performance to deliver positive results for New Zealanders are fundamental expected characteristics of state service leaders. Essential to the state services are meeting the aspirations of the government of the day and stewardship for the long term.

Merit-based state services

The state services are founded on the principle that appointment and promotion are based solely on merit. Appointees must be able to command the respect of their professional colleagues. An essential characteristic of state service leaders is that they work collaboratively across and within agencies, and actively share resources. Team-based leadership is expected.

***Leadership* is one of the most written about subjects, and more than a dozen well-researched approaches can be identified over the last 50 years.**

Celebrate diversity

People from diverse backgrounds can provide different perspectives and experiences which facilitate creativity and innovation. They can also offer understanding of different cultural backgrounds and enrich leadership ability to meet the needs of all New Zealanders. Leadership diversity includes people of different ethnicities, gender equity, geographic origin (not just based in Wellington), and experience within the broader state sector and in the private and social enterprise sectors.

Hire the best and build from within

We ensure that we are attractive to those who have the desire and the talent to make the greatest positive difference to the lives of New Zealanders because the state services are the best place to make this difference. We hire people with the greatest potential to make this difference and then help them develop. We build our leaders from within by systematically developing a talent pipeline that ensures at least two strong internal candidates for every leadership job. We develop leaders in every agency and at every level.

A career service across the service

The state services is a career service that enables people to develop careers across the service, not just do jobs. We attract, retain and develop the talent we need largely by giving people challenging, important, varied and satisfying work that engages their whole personality, and requires that they apply all of their skill, enthusiasm and dedication. We invest in people and potential. The Corporate Centre manages senior talent across the service, not just within a single agency. Our senior people need to be inspiring leaders across a range of policy and operational activity as well as be the government's most senior advisors. We identify talent early and develop people through a series of varied and enriching assignments that enable the mastery necessary to prepare them for these future roles. We emphasise self-responsibility for leadership development.

Agency and functional leaders actively recruit, teach and coach

Leaders teach leaders. Line managers and agency leaders are accountable and involved at every step of the process. This starts at the top. Our chief executives and functional leaders recruit on universities campuses and teach in our executive education programmes. These senior executives also act as mentors and coaches for younger managers, helping them develop the skills necessary to lead large businesses. Line managers ensure that individual development plans meet the requirements of both the person and the service and actively coach and mentor their people.

We never stop learning

In addition to on-the-job experience, we intentionally provide a wealth of technical, functional and leadership skills training. Staff can be expected to have achieved known leadership learning and skills at each significant career stage. We practise adaptive leadership to learn and innovate. Some programmes are offered at career milestones, such as when an employee first takes on responsibility for managing others or leading an organisation. We continuously review, evaluate and improve the effectiveness of the leadership and capability development and deployment model and system.

Model development

The LCDD project commenced in early 2013, with a focus on leadership development. A subsequent and parallel project was added in regard to capability development, following a visit to the United Kingdom by state services commissioner Iain Rennie. In April 2013 the UK Cabinet Office published its Capabilities Plan[5] as a new strategy for improving skills and performance across the civil service, and this work informed the capabilities aspect of the LCDD model. Running the leadership and capability reviews in parallel made it clear how they were intertwined. Accordingly, unlike approaches to organisation transformation employed in other jurisdictions, the decision was made to develop and test a prototype model that combined leadership and capability.

Leadership is one of the most written about subjects, and more than a dozen well-researched approaches can be identified over the last 50 years. Early post-World War Two models of organisation leadership were based on military leadership and a command and control orientation. Aspects of this approach can be seen in some agencies within the state services to this day, with hierarchical structures, multiple layers and lower levels of engagement than would be typical in well-run corporate environments. Leadership in bureaucracies (Weber, 1947) is based on adhering to normative rules and lines of authority. In the 20th century the idea of transactional leadership emerged. Later, the contrasting notion of transformational leadership came to the fore, introduced by James MacGregor Burns (1978). Its four main characteristics are:

1. individualised consideration of followers' needs and contributions;
2. intellectual stimulation through involvement of followers' ideas and creativity;
3. inspirational leadership through an appealing purpose or cause and exciting goals;
4. idealised influence through being a role model for high ethical standards and gaining respect and trust.

More recent research-based high-performance leadership models (for example, Collins, 2005; Pratt and Pratt, 2010) have developed on the theme of transformational leadership. These models emphasise the need for effective leadership to engage both hearts and minds. Emotional engagement with a shared sense of purpose or cause is more likely to lead to a high-involvement, innovative performance culture than incentives and censures alone. Generic elements of high-performance leadership models include: inspiration towards a shared sense of purpose; leadership character; resilience; communication with empathy and engagement; and imagination, ideas and innovation. Our workshops with state services senior leaders confirmed that both the state services Centre and senior agency leaders aspire towards high-performance leadership.

Capability management is a high-level integrative function that aligns systems, people, policies, and information and physical resources towards the strategic intent of an organisation. Originally developed in the context of defence,[6] capability management is comparatively recently being applied to business organisations to align to strategy and accelerate results. Capabilities can be distinguished between strategic capabilities that are related to how best to create the future and deliver on results; core capabilities, related to delivering on the products and services that the organisation offers; and enabling capabilities relating to support functions. The State Services Commission explains the role of capability management at the agency level with the question: 'What capability do we need to deliver government outcomes to a high level of performance now and in the future?'[7]

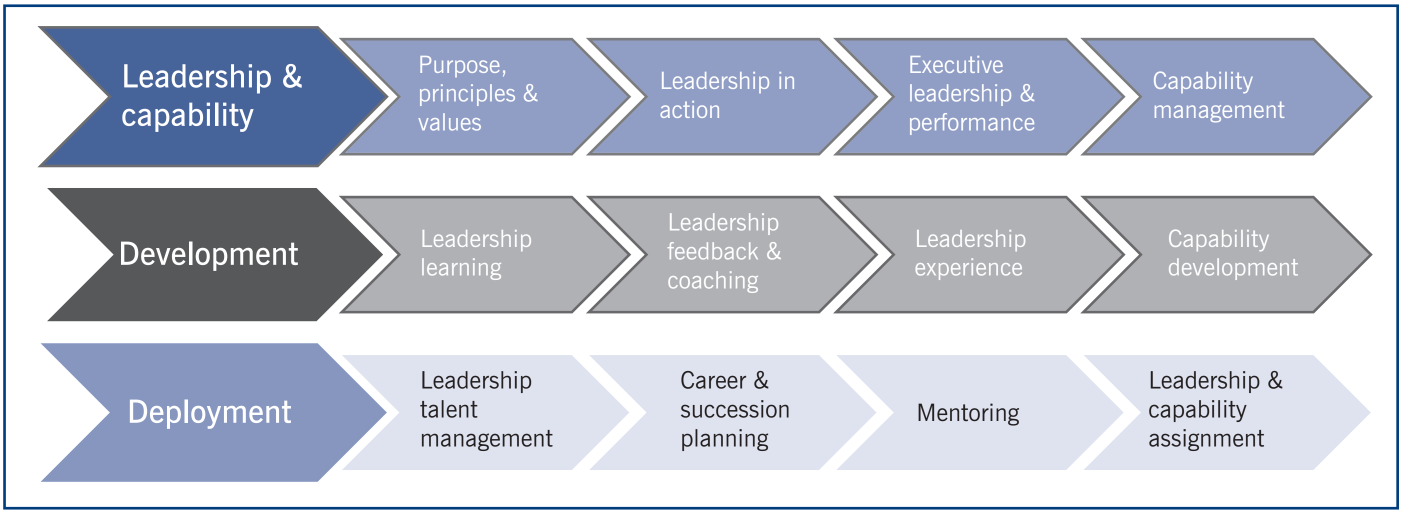
The LCDD model provides that at the system level the Corporate Centre has the responsibility for ensuring that there is dynamic strategic capability, that agencies have in place systems for ensuring agency-specific capabilities and that at the functional or support services level (e.g. finance, organisation development or IT) enabling capabilities are in place to meet current and anticipated future needs.

While the state services have many committed and talented people, there are also some important skill gaps that need to be filled if they are to deliver better public services into the future.

While the state services have many committed and talented people, there are also some important skill gaps that need to be filled if they are to deliver better public services into the future.

- The Better Public Services Advisory Group found that the service was too fragmented and emphasised the need for a more unified service (with greater collaboration among agencies for impact and a stronger corporate centre).
- The PIF reviews have pointed to the need to strengthen capability in areas such as people and information management and in operational model design and delivery.
- The increased focus on outcomes – notably via the government's ten Better Public Services goals – has underscored the need to improve commercial commissioning and contracting skills so that the private sector can be effectively enlisted to help deliver outcomes (rather than just capacity or activity).
- The more demanding fiscal environment has increased the demand for commercial procurement and partnering skills to help enlist private providers in helping government deliver greater value for money.
- Advances in digital technology have created the opportunity for more

Figure 1: Summary of the elements



effective delivery of services and more effective use of information to refine interventions and better tailor them to address specific problems and opportunities.

The state services have responded to these challenges by starting to strengthen central leadership, including by creating functional leaders with the responsibility to strengthen capability and delivery in the areas of information technology, procurement and property.

Reference to the UK Capabilities Plan suggested that consideration also needs to be given to addressing other capability gaps. For example, improving service design (including continuous improvement and digital delivery) is something that would help facilitate the reorientation of the state services to become more client-centred. Leading and managing change is also referred to in the UK plan. We see this as an essential aspect of leadership, and it is in this area that the interface between leadership and capability development and deployment is most evident.

As well as the specific capabilities referred to above, perhaps most importantly it became evident from the LCDD workshops, and from case studies of leading multi-business corporations, that there is a need to develop a more systematic and dynamic approach to the identification, development and deployment of capabilities – in other words, a capability in capability management.

Model concepts and elements

The following model presents the concepts and elements of leadership and capability development and deployment in the state services. For the purpose of the model, we define development as making positive progress towards shared goals using best practice based on evidence and judgement. We define deployment as organising and allocating people and assets to be used for a particular purpose.

Each of the concepts in the system – leadership and capability, development, deployment – has four elements, each including definition, policy, role of the corporate centre, role of chief executives of state service agencies, role of leaders and centre implementation.

Leadership and capability

Purpose, vision, principles and values

The G2G analysis of PIF reviews revealed that the majority of state services agencies lacked a shared understanding of purpose, a vision for the future, underlying business principles or beliefs and a set of values to guide behaviour. These are included in the model as the primary departure point for leadership and capability development and deployment.

Leadership in action

Leadership in action describes the skills, behaviours and actions that contribute to high performance in the state services. Leadership in action will inform all aspects of leadership development and defines essential attributes for high-performance leadership in all state services agencies.

Executive leadership and performance

The role of executive leadership in the state services is to drive outstanding results and value for money for New Zealand. Executive leaders include chief executive officers and senior leaders tasked with executive functions. Although it is expected that leadership will come from everywhere throughout the state services, a key role is held by executive leaders.

Capability management

As discussed above, capability management is a high-level integrative function that aligns systems, people, policies, and information and physical resources towards the strategic intent of the state services. Technical mastery relates to the mastery of technical skills deemed to be strategic capabilities. Functional leadership relates to the organisation design features that will provide leadership on strategic technical capabilities (for example, information technology) for the state services as a whole. Technical mastery applies both to functional leadership and to agency leadership roles. As such, leadership and capability development are inextricably interlinked.

Development

Leadership learning

Leadership learning involves a variety of learning opportunities for existing and potential leaders in the art and skills of leadership. These will include formal classroom learning, action learning, books and articles, new media, on-the-job training and self-reflection. Case studies and stories of leadership experiences, especially those from the state services, are valuable learning tools. The focus is on the learners both as individuals and as teams.

Leadership feedback and coaching

Emphasis is placed on the development of leadership skills through enhanced self-awareness. The leadership feedback element addresses the process a leader uses to reflect on and enhance self-awareness of their skills, attributes or outcomes of leadership. Traditionally leadership feedback was provided through assessment undertaken subjectively by an assessor, often the person's manager or the human resources department. While subjective leadership assessment based on observation and results remains useful, metrics, usually web-based, are now available that can provide consistent and comparable feedback based on proven leadership principles. These metrics may be used for individual self-reflection and development, or for independent assessment. Coaching is a required part of the work of all managers. It is designed to improve the performance of employees within their existing roles and involves providing real-time feedback on how to enhance job performance.

Leadership experience

The term 'leadership experience' can refer to the amount of time in service, with the implication being that the more time, the greater experience. However, more time doing the same thing does not necessarily add to the value of that experience. The diversity, richness and relevance of leadership experiences will contribute to the value of the knowledge, skills and behaviours derived from those experiences. Effective leadership development requires the opportunity for leaders to obtain a variety of experiences in preparation for more senior leadership roles. Experiences provide the basis for leadership stories which can be one of the most powerful modes of leadership learning.

Capability development

Capability development is the identification and development of the areas of technical mastery needed to deliver outstanding results and value for money for New Zealanders. Capability development applies throughout the state services. Technical mastery at the system-wide level relates to generic capabilities such as information technology, financial management, procurement, outcome-based contracting, change management and service design. Technical mastery at the agency level applies to the specific capabilities necessary for the effective delivery of the purpose and vision of the agency.

Deployment

Leadership talent management

Talent management relates to anticipating the needs for people resources and planning to meet those needs. It involves a systematic and strategic approach to attracting, selecting, developing, retaining and promoting people. Practice varies in organisations as to whether talent management is associated only with high-potential talent, or whether it is based on the assumption that all people have talent and the organisation's role is to help everyone to develop their suite of talents to their full potential. In this latter mode talent management becomes a more personalised and potential-orientated approach to human resources management. All state services agencies will be expected to develop talent management systems, and the Corporate Centre will implement a system-wide approach that will integrate with the systems at the agency level.

Career and succession planning

Career planning is the process and practice of identifying career goals and selecting relevant learning experiences, assignments and development programmes to develop the skills and experience necessary to achieve those goals. Organisations assist their people with career planning to maximise their potential and contribution to the organisation. Succession planning is a system and process for identifying and developing people from within an organisation to fill key roles within the organisation. Succession planning goes hand in hand with talent management and career planning, and helps to ensure that the right people are available for key roles. It can contribute to employee engagement and retention, as well as reduce costs of recruitment. It is at its best when there is engagement by the chief executive and top leadership team, and is a characteristic of high-performing organisations.

Mentoring

A mentor provides longer-term career support and advice. Mentoring operates with mutual consent outside the manager/staff member relationship and can be provided by an experienced leader from outside a staff member's team, or indeed from outside the organisation. Mentoring can operate on a planned, organisation-wide basis or may be more informal. Successful mentoring enhances career planning, performance and staff well-being. Successful mentoring depends on personal 'chemistry' as well as the mentor's competence and the mentee's willingness to engage.

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Leadership and capability assignment

Leadership and capability assignment is the process of moving people to positions of authority or critical capability need within the state services to enrich personal development and/or to allocate skills and experience where the most value can be created for the state services while at the same time enabling positive experience, learning and growth for individuals.

Leadership and capability development and deployment: implementation principles

Workshops with senior leaders highlighted the paramount importance of effective implementation. The following principles were developed through a co-creation process in successive workshops, with the outputs of a prior session being inputs to the following one. This iterative process of improvement led to greater clarity and shared understanding.

The implementation process will be undertaken with a whole-of-model perspective

This means that we will use a dynamic system approach to implementation, ensuring that critical dependencies across the whole model are identified and scheduled accordingly. No one element of the model will be implemented in isolation. We will work to an integrated model.

Achieving a given result will drive all implementation decisions

There will be a clear understanding of what the Corporate Centre is aiming to give effect to with this implementation, and this will be translated into a result with performance metrics that can be reported on over time. The result will articulate how this approach to leadership will benefit the state services.

Intervention logic

The value created through the implementation of the state services-wide leadership and capability development and deployment system will be significantly additional to the cost of taxpayer funds. The additionality will be demonstrated in terms of each model element.

We will bring people along on the journey

All stages of implementation will be supported by thorough stakeholder analysis, co-creation and communications planning and implementation. The significance of what we are aiming to achieve will be explained to all stakeholders in its entirety and in a common language. Key stakeholders will be involved in the design and implementation process and will be a 'touchstone' for feedback along the way.

We will be ambitious

We will aim to create an atmosphere of excitement and potential throughout the implementation process. Having an authentic ambition for what we are aiming to achieve will lead us to create the best outcome possible.

Centralised information is critical to success

Collating information about the talent and opportunities in the system is central to the success of the state services leadership approach. There will be a professional and systematic approach to the collation and storage of that information in a central hub. Information about individuals will be seen as precious and will be managed by the centre.

Transparency is of primary importance

The leadership approach will be dependent on understanding where there is talent in the system and where there are opportunities to nurture that talent. The Corporate Centre and stakeholders will be encouraged to act in a transparent and system-focused way at all times.

Organisation structure

There will be organisational structure implications of the leadership and capability development and deployment strategies developed through this process. The likely structural implications will be noted wherever relevant. There are two specific implications. A function of leadership and capability development and deployment will be established within the State Services Commission to lead the implementation of the strategy. The nature and extent of the role of the Leadership Development Centre is likely to change.

Alignment to individual needs and career stages is likely to be a significant area for further consideration.

Conclusion: making it happen

Our interviews with more than 80 senior leaders during 2013 revealed widespread agreement that system-wide leadership and capability development and deployment are required to deliver better public services. There was also general agreement that this LCDD model is appropriate and represents normal good practice.

There was a belief that the extent of change required is extremely ambitious, and therefore the model will need to be implemented progressively in a way that builds confidence over several years. Moreover, there is concern that the project will fail if it becomes too compliance/control/process-focused. There is a vital need to take people along on the journey and to recognise the good things that are already happening. How the project is implemented will be as important as what is implemented.

The model has been adopted and is in the process of being implemented. The State Services Commission has set the following priorities for the next two years:

- Introduce a graduate recruitment and development programme for the state services that provides experience through assignments in a number of different agencies. We want to attract high achievers leaving university and encourage them to build an exciting career here.
- Develop an emerging leaders' programme for people with high leadership potential who are in their first management role or ready to step into one. We will identify our brightest young professionals and invest in their development as a tight unit, putting them on an accelerated leadership track.
- Continue to drive a talent management system for senior leaders, focusing on those in tier 2 and larger tier 3 roles. We will work in collaboration with chief executives through the career boards process to actively develop our best people.

- Create a succession planning system for all senior leadership and system-critical roles, supported by a management information system that captures the experience, skills and competencies of high-potential leaders consistently across agencies.
- Grow the capability of the state services, focusing on increasing functional skills and areas of expertise that are fundamental to delivering results.

How do we make this significant transformation happen within the existing capacity and capability at the Corporate Centre and with limited additional resources? Our interviews revealed pockets of excellent work on almost every aspect of the model, throughout the state services. We concluded that the best approach to leadership and capability development and deployment will be to: seek out the great work that is already happening; select, synthesise and improve as necessary; translate to be applicable system-wide; and introduce progressively throughout the system. This approach will build system capability and foster engagement and support, as well as helping to ensure relevance to the state services.

The LCDD project provides opportunities for continuous learning at both the agency and system-wide levels about which combination of leadership and capability interventions are most effective, and what sequence is the most appropriate. Alignment to individual needs and career stages is likely to be a significant area for further consideration. The implementation of LCDD will provide valuable opportunities for research into the effectiveness and value for money of system-wide leadership and capability development. This should provide the momentum for continuous innovation and performance improvement both within the state services and organisations more generally both within New Zealand and beyond.

1 http://www.ssc.govt.nz/pif.
2 http://www.ssc.govt.nz/pif-core-guide-3.
3 The mandate for the State Services Commission in leadership and capability development and deployment derives from the State Sector Act 1988, which describes the principal functions of the commissioner. These include 'develop senior leadership and management capability'.
4 State services Corporate Centre vision statement. The state sector Corporate Centre consists of the State Services Commission, Treasury and the Department of the Prime Minister and Cabinet.
5 http://engage.cabinetoffice.gov.uk/capabilities-plan/.
6 See, for example, the British Ministry of Defence Architecture Framework (MODAF).
7 http://www.ssc.govt.nz/node/5809.

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Gaye Searancke, Peter Mumford, Karl Simpson and Mark Steel

Governing the Regulators – applying experience

It is tempting to characterise changes in the regulatory landscape in response to regulatory failure, such as leaky buildings, failed finance companies, and the Pike River disaster, as a reversion to state control and the triumph of prescription over principles and performance requirements. If judged by the quantum of law as measured by the increase in the number of clauses in relevant statutes, or the size of regulators' budgets, one might be excused for drawing this conclusion. For example, the Building Act 1991 had 93 clauses, but its successor, the Building Act 2004, has some 451. The building regulator's budget was $3.5 million in 2002, increasing to $16 million in 2011, with the security regulator's budget increasing from a similar base and by a similar amount over the same period.

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In reality the emphasis has been on more effective law rather than more law, and in this context much more attention has been paid to the role of regulators. This reflects the fact that we know more now about the critical role of the regulator in delivering regulatory outcomes, although not through the traditional approach of administering command and control regulatory regimes based on prescriptive rules and heavy-handed enforcement, but rather something quite different.

We also have a better appreciation of the attributes of effective regulation, such as the importance of regulatory certainty, and the reality that there is not one regulatory approach which fits all businesses. For example, larger and more sophisticated businesses may be able to work with principles-based regulation in a way that small businesses cannot.[1]

Finally, we have a better appreciation of what is required to ensure that regulation is effective in a New Zealand context. For example, New Zealand has relatively limited competition in many markets and lack of depth or capability among expert professions and advisers. This increases the risks for us that regulatory systems which rely for their effectiveness on vigorous competitive disciplines, well-developed markets for information and readily available specialised expertise may not be effective, or as effective, in New Zealand.

Using building controls, financial markets regulation and occupational health and safety as examples, we will present here our analysis of the changes to the regulatory landscape, and in particular the role of regulators as a particular facet of regulatory design. The change process is ongoing. In the workplace health and safety area we will draw on the 2013 report of the Independent Taskforce on Workplace Health and Safety,[2] and in the financial markets area we will draw on both the Financial Markets Authority Act 2011 and the Financial Markets Conduct Act 2013.

Drivers of change

The impetus for recent changes to the regulatory landscape has been significant adverse events that have been seen as failures of existing law. In this respect law reform is following historical patterns. For example, the building control regime introduced in 1991 was in response to perceptions of regulatory failure, although in this case the overriding concern was with law that was excessively burdensome rather than ineffective (Mumford, 2011). Successive financial markets law reform in New Zealand over the past 30 years has typically been a reaction to financial failures and concerns that these have resulted from weak law (see, for example, Fitzsimons (1994) on the impetus for securities law reform in the 1970s and 1980s).

The impetus for change is not, however, the same as the drivers of the changes we have seen in these statutes or recommended by the workplace health and safety taskforce. Regulatory failure can explain why there was change, but not what changed. The latter can generally be explained by reference to four drivers: (1) best practice legislative design and implementation; (2) modernisation; (3) shifts in the fundamental regulatory approach; and (4) either shifts in societal expectations or a better appreciation of those expectations. For example, the workplace health and safety taskforce is proposing to broaden the definition of primary duty holders in relation to duties to deliver health and safety outcomes. This is an example of modernisation of the law, as it reflects modern workplace practices, rather than a fundamental shift in regulatory approach. An example of a fundamental shift is the change of approach from prescriptive to performance-based regulation in a number of regimes, including building and occupational health and safety, in the 1990s.

Modern statutes convey much more information to regulators than in the past about their role and how they should perform it. In effect, regulators have always been able to exercise discretion.

Conceptualising the regulator

Arguably, the one fundamental shift in regulatory approach common to building and securities markets and envisaged by the workplace health and safety taskforce is in the role of the regulator. Experience, common sense and theory have combined to build a picture of a new sort of regulator, better equipped to deliver regulatory outcomes envisaged by Parliament in a complex and dynamic environment.

The theoretical foundations can be found in the writings of academics such as Ayres and Braithwaite's Responsive Regulation (1992) and Baldwin and Black's 'Really responsive regulation' (2008), both cited in the workplace health and safety taskforce report. The Capital Market Development Taskforce drew on Bhattacharya and Daouk (2009), who argued that regulation that is not enforced can be worse than having no regulation at all to support the case for a proactive regulator that educated and informed, but also provided a 'visible deterrent' which enhanced its overall credibility and hence effectiveness.

Current thinking locates the regulator at the pivot of a complex system that requires many actors in many different roles to all play their part. The regulator needs to be clear about the objectives of the law and its specific role, relative to others, in achieving them. The regulator must also develop a deep understanding of the system and the opportunities and challenges it offers with respect to legal compliance; have available to it and effectively deploy a range of tools for achieving compliance in a range of situations; and be willing and able to evolve its approach in response to new information on how the law is working in practice and what future demands will be placed on it. It must also carry out its role transparently and with regard to the costs as well as benefits of regulatory action.

Modern statutes convey much more information to regulators than in the past about their role and how they should perform it. In effect, regulators have always been able to exercise discretion. Modern statutes still provide for discretion, but are more informative in terms of how that discretion should be exercised. Discretion continues to be important, as the modern regulator needs to choose the most appropriate type of intervention (e.g. informing versus sanctioning) given the particular circumstances and based on evidence. This is not necessarily clear at the time a new regulatory regime is put in place or a new regulator is established. This is not just an issue of flexibility for the regulator. If implemented well, it should lead to the most effective and lowest (social) cost solution for the regulated.

We illustrate this conceptualisation of the modern regulator and how it is being reflected in law with reference to the Building Act 2004, Financial

Markets Authority Act 2011, Financial Markets Conduct Act 2013, and the recommendations of the workplace health and safety taskforce, under headings that mirror what is found in statute: purpose and principles, functions and duties, and powers.

Purpose and principles

The purpose statements in statutes are an expression of the outcomes expected by Parliament, and principles are typically matters that must be taken into account by those who have a statutory obligation in relation to producing those outcomes.[3] Both the Building Act 2004 and Financial Markets Conduct Act 2013 illustrate how societal expectations, resulting from or clarified through a crisis, have been transmitted through new purpose statements, and the workplace health and safety taskforce has recommended a new purpose for a new workplace health and safety act that is similarly illustrative.

The purpose of the Building Act 2004 extended the scope of the building control regime from a primary focus on safe and healthy buildings to include, among other things, a broader focus on the well-being of the people who use them. This reflected an appreciation, born out of the dramatic effects on people's lives of leaking and rotting buildings, that dwellings, in particular, contributed to the social fabric of society and the concept of well-being captured important building attributes that safety and health missed.

In proposing that the current purpose of the Health and Safety in Employment Act 1992 of promoting the prevention of harm be replaced with the Australian model law – national model workplace health and safety law – formulation which is to secure the health and safety of workers and workplaces, the workplace health and safety taskforce has signalled a more proactive regulatory approach. Coupled with the principle in the model law that 'workers and other persons should be given the highest level of protection against harm … as is reasonably practicable', also recommended by the workplace health and safety taskforce, this signals a high bar in terms of the levels of health and safety sought.

The Securities Act 1978 did not have a purpose statement and the Securities Commission developed its own, which, in 2007, was to 'strengthen investor confidence and foster capital investment in New Zealand by promoting the efficiency, integrity and cost-effective regulation of our securities markets'.[4] The Financial Markets Conduct Act does contain a purpose statement, which is 'to promote and facilitate the development of fair, efficient, transparent financial markets and to promote the confident and informed participation of businesses, investors, and consumers in the financial markets'.

In addition to what is signalled through the statutory purpose, these recent statutes (and recommendations in relation to workplace health and safety) also aim to provide more comprehensive and explicit guidance on what needs to be taken into account by the regulator in carrying out its role. This is done though the inclusion or extension of statutory principles. The building case illustrates this most graphically. The Building Act 1991 had six principles. Its successor, the Building Act 2004, has 17 principles, ranging from facilitating the preservation of buildings of significant cultural, historical or heritage value to allowing for innovation. This construct is shared with the Financial Markets Conduct Act 2013 (there were no principles in the Securities Act 1978 and there are four 'additional purposes' in the act of 2013), and recommendations of the workplace health and safety taskforce (an increase from eight in the Health and Safety in Employment Act 1992 to 11 recommended by the taskforce).

Two key objectives underpin this preference for more principles:

- to clarify what the regulator is expected to take into account in undertaking what might be described as its core regulatory functions: i.e. those associated with achieving the primary purposes of the statute;
- to codify other policy objectives that the regulator should contribute to when carrying out its functions: e.g. the innovation principle in the Building Act 2004 and the additional purpose of 'promote innovation and flexibility in the financial markets' in the Financial Markets Conduct Act 2013.

Functions and duties

The shift in the direction of greater specification in statute of matters that have a bearing on the role of the regulator is also evident in relation to functions and duties. The workplace health and safety and financial markets areas are exceptional in so far as the primary legislation did not specify any general functions or duties for the regulator. This reflects the age of the statutes, and best practice today is that functions would be specified. What is notable is that the workplace health and safety taskforce recommended 17 general functions of the regulator and three general duties,[5] and the Financial Markets Authority Act 2011 specifies a main objective for the Financial Markets Authority (FMA) and six functions (with an additional four sub-clauses that spell out in more detail what is expected of the regulator).

The Building Act 2004 demonstrates a similar emphasis, specifying 19 roles of the chief executive and around four general duties, compared with nine functions given to the Building Industry Authority in the Building Act 1991 and no general duties.

This again is evidence of an intention to be much more specific in statute in

The shift in the direction of greater specification in statute of matters that have a bearing on the role of the regulator is also evident in relation to functions and duties.

terms of what is expected of the law and the role of the regulator in delivering these outcomes. This not only clarifies and strengthens the mandate of the regulator, and incidentally make it easier to monitor its performance, but also improves the understanding of all those involved in the regulatory system of what they can reasonably expect from the regulator.

The breadth of these functions and duties also illustrate the concept of a responsive regulator described earlier. For example:

- The modern regulator *should develop a deep understanding of the system and the opportunities and challenges it offers with respect to legal compliance*. This is illustrated by the difficulties New Zealand has experienced in building, and that the entire world has experienced in financial markets, where regulators did not have a sufficiently strong understanding of the risks being taken; although, to be fair to them, neither did most of the participants, commentators and researchers. This new emphasis on understanding the system can be seen in the duty of the chief executive responsible for administering the Building Act to monitor current and emerging trends in building design, building technologies, and other factors that may affect the building code and compliance documents, and report annually to the minister. It can also be seen in the recommendation of the workplace health and safety taskforce[6] that the new workplace health and safety regulator has a function of monitoring and reporting on how the health and safety system is working in practice, and making recommendations for improvement.
- The modern regulator *should have available to it and effectively deploy a range of tools for achieving compliance in a range of situations*. This is reflected in the functions provided for (in the building area) or recommended (in the workplace health and safety area), which range from developing technical regulations and guidance and providing authoritative advice, to promoting and supporting education and training and access to competent advice, to traditional enforcement action. We can also see it in the additional powers given to regulators, which will be discussed below.
- The modern regulator *must also carry out its role transparently and with regard to the costs as well as benefits of regulatory action*. This is reflected in the procedural requirements in the Building Act 2004 in relation to compliance documents, warnings and bans, whereby the chief executive must seek to identify all reasonably practicable options for achieving the objective of the document, warning or ban, and assess the benefits and costs of each option and the extent to which the objective would be promoted or achieved by each option, and must consult on this analysis. It is also reflected in recommendations of the workplace health and safety taskforce that the regulator should publish its compliance strategy to make clear how it will strike the balance between information/guidance and enforcement, and how it will achieve certainty without being over-prescriptive or overly complicated. The FMA has a function of issuing guidance and publishes its enforcement policy. These documents are guided by the purposes of the statute, including the additional purposes of promoting innovation and avoiding unnecessary compliance costs.

Work undertaken by Treasury suggests that the combined effect of regulatory failure and the desire by both regulated entities and regulators for greater regulatory certainty is a shift in the direction of more prescriptive or measurable regulatory standards.

Powers

We have noted that the modern regulator should have available to it and effectively deploy a range of tools for achieving compliance in a range of situations. This principle is reflected in the increase in the number and type of powers given to the regulator.

The building control regime, involving multi-level governance, has some distinctive features as the nature of the new powers given to the regulator reflects what we now know about the challenges of multi-level governance. The Building Industry Authority had a limited set of powers, reflecting a view at the time that the substantive building regulators were the territorial authorities. The Building Act 2004 represented a significant shift in approach, with the establishment of the Department of Building and Housing (now the Ministry of Business, Innovation and Employment) as the central coordinating and control authority (Mumford, 2011). There was a commensurate increase in the range of powers given to the regulator, including an ability to initiate the process of determining whether an alternative solution meets the requirements of the Building Code,[7] and an ability to issue warnings and bans and mandate compliance documents.

In addition, the regulator is able to take enforcement action (including taking proceedings for offences under this act) if the chief executive considers that it is desirable to do so to establish or clarify any matter of principle relating to building or the interpretation of the act, or in cases where one or more territorial authorities are unwilling or unable to take enforcement action.

Workplace health and safety and financial markets for the most part involve a single central regulator, and the increase and configuration of powers either in place or proposed have the effect of increasing the range of tools in the regulator's tool box, drawing on New Zealand and overseas experience of what seems to work best in certain situations. For example, the workplace health and safety taskforce recommended that the new regulator have, among other things, the ability to accept enforceable undertakings, and the FMA already has such powers. This is consistent with recent Australian research on the merits of this approach to compliance (Johnstone and King, 2009).

Conclusion

Work undertaken by Treasury suggests that the combined effect of regulatory failure and the desire by both regulated entities and regulators for greater regulatory certainty is a shift in the direction of more prescriptive or measurable regulatory standards. For the most part this can be seen as a desirable part of the learning process. In effect we know more about how performance- and principles-based regulation works in practice, and this is being reflected back into the design and implementation of regulatory regimes.

In relation to regulatory design, some of the biggest shifts are in relation to how statute law mandates, guides, directs and empowers the regulator. We observe much more specific and comprehensive statutory provisions in the areas of purpose and principles, functions and duties, and powers. Underlying this approach is the philosophy that visible and proactive regulators can be critical to the effective operation of some regulatory regimes, and certainly those that have been the focus of this article. This does not, however, signal a heavy regulatory hand. Rather, what we see in statute, and in the recommendations of the workplace health and safety taskforce, is the concept of a responsive, or 'really responsive', regulator that understands the regulatory environment and applies a range of fit-for-purpose strategies for achieving desirable regulatory outcomes efficiently and effectively.

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1 This of course requires a sufficiently sophisticated understanding of the industries and markets regulators regulate given the information disadvantages they face as institutions. There is a high premium on developing effective working relationships with the sectors being regulated.
2 The government has largely accepted this taskforce's recommendations. Worksafe New Zealand has been established through the Workplace New Zealand Act 2013 and a new Health and Safety Reform Bill is now in progress. See www.mbie.nz/what-we-do/workplace-health-and-safety-reform.
3 While the term 'principles' has been used, this is the construct in the Building Act 2004. The Financial Markets Conduct Bill uses 'Main Purposes' and 'Additional Purposes', and the Health and Safety in Employment Act 1992 has a single 'Object of Act' clause, with a statement of 'Object' and a list of ways in which the Object will be achieved.
4 Securities Commission of New Zealand annual report, 2007.
5 Worksafe has a main objective and 13 general functions under the Worksafe Act 2013.
6 This recommendation is reflected in the functions of Worksafe.
7 See section 181 of the Building Act 2004.

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