

New Zealand Public Sector Reform and Its Relevance To Korea

Donald K. Hunn

It is important that we understand from the outset, how I am using the term “reform”. New Zealand has the reputation of having carried out the most radical reform of its public sector of any developed country. Whether that is so or not - and putting aside at this stage any value judgement as to whether it was good or bad - the term “public sector reform” in the New Zealand context means nothing less than a huge paradigm shift in the way the public sector is managed. We are not talking about incremental, ad hoc, improvement to part of the Government machine, but a fundamental change right across the whole of the public sector carried out swiftly, pushing aside all opposition, in accordance with a specific plan to meet specific objectives.

In New Zealand’s case, the reform was implemented virtually without notice or public discussion both in its initiation phase in 1984 when the general economic reforms commenced and again in 1988 when the introduction of the State Sector Act launched the reform of the Public Service. There was no mention of reform in the Labour Party’s election manifesto in 1984 (in fact, unlike any previous elections, there was no manifesto at all) and there was no advance notice of the tabling in Parliament of the State Sector Bill four years later. So much so that I recall in September 1984, a few weeks after the election which brought the Labour Government to power, my staff started referring to the “reform” of the public sector which the new Government was planning to implement. I fondly thought as a State Services Commissioner and

one of the senior officials heading the largest employing authority in the country, that if such a reform had been intended I would have known about it. I pointed out to my staff that the Government had made no public announcement about such a reform and that there had been no reference to it in the pre-election campaign. My staff gave me a pitying look and said I had better be ready for a publication prepared in the Treasury which was about to be launched.

To my great surprise, not to say my shock, my staff were very soon proved to be absolutely right. A week or so later, the Treasury produced a book of some 200 pages entitled "Economic Management". This turned out to be the missing manifesto and is now regarded as the founding document for the reform movement in New Zealand. Given the comprehensive nature of the text and the density of its thinking, this was no last minute effort but a closely reasoned economic philosophy which had been prepared in secret over a period of months, if not years. It was hardly democratic and it was dubious constitutionally, but that quickly became irrelevant as the new Government, and especially its Minister of Finance, endorsed the document enthusiastically and proceeded to give it the highest priority.

At the beginning, the State Services Commission had major misgivings about the proposals, apart from the chagrin of not having been consulted in advance, because it was not confident of the ability of the public sector to meet the demands of the new Government if such wholesale change was pushed through in the way that was proposed. Not since the inception of the welfare state in the mid 1930's, had the Government set out to establish an entirely new political, economic, and social doctrine.

At first, the SSC tried to persuade the Government to allow it to continue the gradual introduction of management concepts and of further delegation of personnel decisions which had been in

train since 1980 and which we were convinced were leading to substantial progress for efficiency and effectiveness. Indeed the SSC had been successful in replacing the old term "public administration" with the new term "public management" and all that that implied. But it was made instantly clear to us by the new government that they did not agree such progress would lead to the goals they desired and they would settle for nothing less than a total overturn of all that had gone before. For good measure, it was also made clear to us that the centralising control and power of the SSC was seen to be a significant part of the problem. Essentially, the SSC was given the stark choice - either join the reform movement or disappear with the rest of the dead wood which was about to be swept aside. At that point, it needed little to convince us that if we did not participate actively in the reform process we would be relegated to the history books as had our counterpart organization in the United Kingdom. The fact that I am here today, recently retired from an SSC which has been granted a new lease of life and my successor continues as head of the New Zealand Public Service, demonstrates that we made a successful, if somewhat brutal, transition from gradualism to revolution.

Looking back now over the New Zealand reform movement of the past 13 years one is more able to discern some of the major factors which enabled the process to be managed successfully. But looking also at the New Zealand reforms alongside those of other countries it is difficult to escape the conclusion that it is neither possible nor desirable to produce readymade packages to be applied when any Government takes a decision to embark on a programme of reform. Every country is unique and successful reform must be relevant to the environment and circumstances prevailing in that place at that time.

Speaking generally, however, there have been some determining

factors in New Zealand's case which are likely to have a broader application. The first of these is the correct definition of the problem. In fact one must first ask - is there a problem? The old saying "if it ain't broke, don't fix it" is likely to be as true of public sector organisations as it is of private sector companies. But in the public sector, the community impacts of change will be much greater and if the reform decision is directed to solving the wrong problem or not solving the right one, the downside effects are bound to be more serious. It is fascinating to explore options for reform and to move quickly into considering possible new systems and structures, but if the basic work on problem definition has been neglected, the whole subsequent process will be fatally flawed.

It is then essential to articulate clearly the purpose and desired direction of the reform. I have referred already to the Treasury's 1984 book "Economic Management". (This was followed three years later by a second Treasury work, this time in two volumes, entitled "Government Management" - the two publications together are an extraordinary example of how bureaucrats can influence the thinking of the Ministers they serve if they choose the right time.) Treasury officials advanced government management philosophies and ideas which placed great emphasis on deregulation, devolution, decentralisation, allowing market forces to determine economic decisions and excoriating the distortionary effects of interventionism. In the months that followed the original document Ministers and central agency officials, but particularly the Treasury, developed a programme of specific objectives and a set of principles which were to be applied as the relevant decisions were being made.

A third element in the New Zealand experience was that despite the profound influence of the senior Treasury officials and their preoccupation with improving the economy, the reform movement

was essentially a political one. The Cabinet which drove the first 6 years of the reform programme was overall the youngest and the best qualified in terms of university degrees in the history of politics in our country. They were supremely confident in their ability to direct the traffic and they were determined to make up for the nine years they had been in opposition. They were convinced they had a mission and a mandate to bring about change on a scale which had not been experienced in New Zealand for 50 years. The political basis for reform in New Zealand has not been replicated anywhere near to the same extent in other countries, in many of which "reform" is a term used by bureaucrats to describe the changes they themselves have suggested to their Ministers, as a result of which those changes have had widely varying degrees of political interest and support.

The politics of reform is therefore crucial, but equally so is the quality and determination of the leadership. Reform went best in New Zealand when the Cabinet was united and enthusiastic about the measures that had to be taken. The process fell into disarray when Ministers disagreed, when some became concerned at the pace and traumatic effects of the changes and when they appeared to lose direction or to question the very philosophies they had originally espoused. Strong political leadership is thus a sine qua non for successful reform. Equally vital is energetic and committed leadership within the bureaucracy. Those senior officials who are out of sympathy with the reform or can't handle its pace, its pressures, its pervading urgency - they must go, willingly or unwillingly.

It follows from what I have said that an essential condition for reform is the creation of the right environment and the development of a reform culture. The Government, having decided on the direction, the implementation must be carried out by Ministers and officials together with persistence and consistence in

order to overcome the inevitable resistance.

Nor can reform be divisible or partial. The reform charter for fundamental change will not permit half measures or partial implementation. Otherwise the reform could well be dysfunctional, part of the old and part of the new. Normally the old order would have stood the test of time because it was appropriate for its period and had worn into a comfortable groove. It had its own internal consistency and its own entrenched interests. To break out of the groove the reformer has to construct a new way of doing things, new goals, new motivations, new incentives, in short a new world. And that new world must seek its own quite different internal consistency and balance.

While I have emphasized the importance of charters and road maps, reform is to an extent an act of faith - indeed it is because uncertainty will be a predominant feature at the outset, especially if restructuring leads to a massive transfer or loss of jobs, that responsible Governments must ensure there are as many signposts as possible. Managing uncertainty is a difficult art to acquire. It is something that we were not always good at in New Zealand. At the beginning the public very largely accepted the need for change (and that in itself is a desirable precondition for the achievement of reform objectives) but often there was insufficient explanation of particular measures and this eventually led to resentment and opposition.

The answer to opposition in our case was to overcome it with speed, intensity and change of such magnitude that it was difficult for those opposed to the reforms to organise themselves and to stand in the way. Many countries have found it impossible to introduce comprehensive reform programmes because of the resistance of vested interests or those who genuinely believe that the proposed change is a step backward. In New Zealand it is no coincidence that the Government's reform objectives were achieved

when it was prepared to overcome or ignore the opposition of the Trade Unions, the farmers and the manufacturers; on the reverse side, the Government has encountered serious difficulties in reforming the education sector where the professional associations are extremely powerful and well organised. This is not an argument against trade unions but it is an argument in favour of understanding the forces opposed to reform and having a strategy to deal with them.

Once committed to the path of reform it will not be possible, as I have said, to predict every turn, every twist, in that path. Inevitably situations will arise which were unforeseen. The energy and enthusiasm that is released by change, particularly by releasing organisations from previous tight controls, can lead to over-correction in the opposite direction. At the outset "letting the managers manage" may result in the managers thinking they are the owners. They become preoccupied with the fascination of running their own organisations, free to try new ideas without the dead hand of central control, and they can forget they are part of a single public sector and that they have a responsibility to ensure their agencies contribute to the collective interest. Accordingly, the reform process must be managed from the Centre but in a manner which does not reimpose overbearing central authority. There needs to be a positive relationship and a set of shared values among all those involved, so that any loss of the collective interest is gradually restored through cooperative and collegial discussion, rather than external direction. There also needs to be emphasis on flexibility, a willingness to permit the reform to evolve, to admit mistakes and to correct them.

We have found there are stages the reform must pass through. Some of the things we are now trying, e.g. strategic management of Government business, would not have been possible at the beginning. The building blocks had to be put in place one by one,

tested for their effectiveness, and the wrinkles ironed out (if one can iron out wrinkles in a building block). Skipping an essential step or not getting the sequence right can lead to costly delays or even failure to achieve the objective.

These are some of the general observations on public sector reform in New Zealand which may be of interest to other countries. I would now like to move on to a brief examination of some of the implementation issues as we have experienced them. Looking at the 13 year period of reform as a whole, the principle phenomenon in the implementation phase was the development of a series of conceptual and management frameworks. I am not able today to go into detail, but to give you some flavour of these frameworks, let me list them for you:

- Philosophical/Constitutional Basis
- Social/Cultural Environment
- Economic and Financial Management
- Government Management (including legislation)
- Organisational Design
- Agency or Departmental Management
- Strategic Management
- Systems Management
- Human Resource and Industrial Relations Management

Not all of these frameworks have been articulated equally explicitly, but they are widely understood and accepted by those responsible for managing the change, both ministers and officials. In fact, one of the phenomena of the process in New Zealand is the extent to which there is a common language of reform - those not directly involved would call it jargon. In the past it had not been usual, particularly for politicians, to buy into the terminology of public administration - they saw it as part of the necessary but

boring tools of the trade of their public servants. These days however, Ministers are almost as comfortable as their officials with the whole range of terms which have been coined to describe the new environment. Contestability, inputs, outputs, outcomes, performance agreements, purchase agreements, strategic management, strategic dialogue, strategic business plans, contractual relationships, key result areas, the Government's "ownership" and "purchase" interests - all these and more are part of the everyday Wellington vocabulary for politicians and officials alike.

What the frameworks and the universal language have done is to enable the reforms to proceed with a common set of ground rules. After the initial twelve months, which was a very painful learning experience for all concerned, it has not been necessary to re-invent the wheel each time a major decision has had to be made. There is a large measure of consistency and conceptual harmony within the new system because all the players have understood and applied the same rules and ideas.

It is a predictable feature of management of any kind, public or private sector, that having solved one set of problems a new set arises. That is what is happening to us now and there is a good deal of comment at the moment about the second generation reform issues which need to be tackled. Our experience with the construction of intellectual frameworks in the early reform period is standing us in good stead as we explore approaches to solving these new problems. Frameworks have also been invaluable in enabling us to manage our devolved system of Government. Provided they are not over-detailed and attention is paid to the transaction costs, general frameworks permit managers to operate within agreed parameters but with sufficient flexibility to tailor their management decisions to the particular circumstances confronting them.

In short, we have replaced rigid and detailed administrative

regulations with broadly based sets of criteria, principles and procedures. These together with a common management philosophy, monetary ceilings, strong financial management systems and performance specification and monitoring give us a much more flexible set of controls. These are normally sufficient to ensure Ministers the business of government is being conducted properly and certainly are more appropriate to a system which is attempting to push accountability and responsibility as far as down the chain of command as possible.

Another perception of the reform strategy in New Zealand has been described in a recent book by a group of British scholars from Brunel University, who were commissioned by the Government of Finland to write a comparative analysis of reform in five countries. In this publication, the main strategic objectives of the reforms in New Zealand and the institutional means of achieving them have been set out as follows:

“Objectives-

- (a) maximise allocative and productive efficiency
- (b) reduce range of functions under direct ministerial control
- (c) clarify lines of managerial and political accountability
- (d) ensure all organisations have clear missions
- (e) ensure contestable, high-quality, policy advice across all sectors
- (f) minimise risk of bureaucratic, provider or regulatory “capture”
- (g) ensure good horizontal coordination
- (h) improve bureaucratic representation of disadvantaged/under-represented groups
(e.g. Maori, women)”

“Institutional Means-

- (a) prefer private sector over state sector organisations wherever

- possible, especially for commercial functions
- (b) prefer non-departmental organisations over ministerial departments, especially for policy implementation
 - (c) prefer small to large organisations, wherever possible
 - (d) prefer single purpose to multi-purpose organisations
 - (e) prefer pluriform to uniform administrative structures (“horses for courses”)
 - (f) separate, wherever possible, not only policy from operations but also the roles of funder, purchaser and provider; operations from regulation; provisions from review/audit; commercial from non-commercial and the responsibility for monitoring the Crown’s ownership interests from its purchaser interests.
 - (g) prefer multi-source to single-source supply (including policy advice)
 - (h) place like with like (primarily on the basis of the purpose or type of service)
 - (i) short rather than long hierarchies
 - (j) aim for “straight line” accountability/avoid “multiple principles” (in terms of principal/agent theory)
 - (k) decentralise the administration of services wherever practicable.”

In putting together this presentation, your chairman asked if I could give you some idea of the success or failure of our reform approaches. It is probably more convincing if I quote other, perhaps more neutral, observers than myself in dealing with this aspect. Again, it is useful to quote from the Brunei University Study:

“Strengths-

- (a) The state trading sector has achieved major improvements in

productivity and standard of service

- (b) The range of policy advice available to ministers seems to have broadened
- (c) Many managers report that their agencies now have clearer missions and sharper focus
- (d) Senior managers in policy ministries are less distracted by operational issues
- (e) It has become easier to remove poorly-performing staff
- (f) Greater emphasis has been given to the consumer-responsiveness of many public services
- (g) Employment relations have been made much more clear and flexible, with considerable benefits where line managers have been trained and willing to use these flexibilities
- (h) Much more performance information is now available to ministers and more widely within the public domain (though whether parliament and public make sensible use of it is another question)
- (i) The capacity of ministers to prioritise and control public spending has been improved.”

“Weaknesses-

- (a) There is only highly imperfect information on the costs of reform but clearly these have been high
- (b) Still only limited success in establishing links between programme outputs and policy outcomes (impacts)
- (c) The clear distinction between the political and the managerial which is implied by the procedural distinction between outputs and outcomes has been extremely difficult to achieve in practice. The attempt to do so has been somewhat overtaken (or critics might say “camouflaged”) by the SRA/KRA process.
- (d) There has been considerable disruption and loss of

“institutional memory”.

- (e) Loss of job security and lowered morale for many civil servants (quite apart from those who were made redundant)
- (f) The deal of a “soft”, humanitarian HRM(Human Resource Management) has not been achieved. In practice a hard, instrumental approach to staff has probably been more common.
- (g) The monitoring and governance arrangements for the crown entity sector remain unclear or even unsatisfactory”

There have been other criticisms also. One recent report written by Treasury officers claims “it is not yet clear whether the financial management reform has contributed to a greater ability for Government to reallocate resources in keeping with its priorities.”

In 1995 the SSC and the Treasury commissioned an evaluation of the reforms from Professor Alan Schick of the University of Maryland and The Brookings Institution. Professor Schick’s overall assessment was strongly favourable, but he expressed concern over the emphasis on the use of contractual relationships between ministers and Public Service CE’s as if they were buyers and sellers in commercial transactions. Professor Schick contended that this could lead to a “checklist mentality” and high transaction cost arising from over-detailed specification of outputs: he argued “for a model of accountability which encompasses responsibility, based not solely on greater specification of results, but based as well on reform experience across a range of countries.

Within my own organisation, the State Services Commission, we have produced our own recent summary of reform requirements. I quote from a paper written for a Conference to be held next week in Quebec City:

“It is emphasised frequently that the starting point in

any reform enterprise must be a robust analysis of the condition of the existing organisation - and the framework under which it was initiated and now operates. A clear picture of the desired new order, a strong sense of direction, and an explicit rationale will also be essential. General experience with large-scale reform and transformation programmes appears to indicate that a number of elements are vital to successful reform:

- a. unflinching political determination;
- b. very clear objectives, agreed at the highest levels and, very importantly, based on a sensitive appreciation of what the community can tolerate;
- c. a set of comprehensive and well integrated basis principles, agreed at the highest levels;
- d. sound legal architecture that redefines the rules outright;
- e. a demanding but realistic timetable;
- f. a core of unified, highly motivated, experienced, imaginative and appropriately authorised senior public servants to drive implementation work;
- g. very effective information and public relations systems.”

At a more practical level Dr. Graham Scott, former head of the New Zealand Treasury and a colleague of mine for much of the reform period, has set down what he called 12 lessons for countries seeking to implement reforms similar to those in New Zealand. These are:

- “1. Recognise the problem

2. Solve a sequence of real problems
3. Political commitment is necessary at key points
4. Leadership from heads of departments is essential
5. Do not relax controls too soon
6. Change management requires particular skills
7. Create incentives to change
8. Communicate the objectives of changes
9. Decentralize technical accounting issues
10. Senior management must allocate time for the change
11. Manage traditional risks carefully
12. Managing change at the department level is crucial.”

As you consider these “lessons” it seems to me you will need to bear in mind the specific differences between us. Some of the factors which occur to me are:

- the size and structure of the two economies
- the relative state of the two economies at the point of launching the reform
- external threats (much greater in Korea)
- the stage of public sector development
- the constitution and the law
- national culture and public attitudes
- the relative strengths of the principal players (e.g. the trade unions)
- social impacts

Finally I would like to say that if Korea is determined to push ahead with fundamental reform of its public sector, those who will be managing the process must be fully conscious of their

responsibility to the community. Reform promises high gains but it also entails high risks. Undertaking a programme of reform is not something for the faint hearted!

Discussions

Q I have two questions. Since you have reduced the number of civil servants from 88,000 to 34,000, I would like to know the kind of difficulties you have faced and how you dealt with them. It must have been particularly difficult to deal with people who were downsized from jobs they believed were permanent. Secondly, deregulation always involves bureaucratic resistance. How did you deal with the resistance and how did you motivate bureaucrats to deregulate and downsize departments that were under their auspices?

A It is important to consider the fact that we had a unique set of circumstances. The overhead I showed you about the circumstances in New Zealand in 1984 partially explains it; we were in a situation where if we didn't undertake a complete overhaul of our economy we would have become hostages of history. We had the spectre of the Argentinians in front of us. Prior to World War II, their economy was among the top economies in the world. And they lost it. They reverted to being a developing country. The thinking in New Zealand was that if we didn't do something about our economy, we might end up like Argentina and become a developing country ourselves. It was probably an exaggeration but it was an idea the politicians worked on and out to the people: "You have just got to accept something major here." That set the climate for the subsequent changes.

The second thing was the sequencing of change. We dealt with

the economy first, so the farmers and manufacturers felt far more pain, in the years between 1984-88, than did the public sector. As a result a large part of the rest of the community, who were always opposed to public servants, had already undergone the experience of restructuring. When it came to the turn of the public sector in 1987, those who had already suffered felt no sympathy and thought the government employees should accept some of the burden as well.

Do you do this quickly or take your time? As a traditionalist, I would have preferred to take things as slowly as possible. However, the government was just the opposite. They deliberately decided to move as fast, as massively, and on all fronts, as possible. The two things, the climate created and the speed with which reform was implemented, meant that the Public Service trade union was swept aside. The point was, the Union realized that if it resisted change, it would face conflicts with the community and in any case, it didn't have any answers to acute problems we faced. So, for 10 years, the Public Services Association was virtually neutralized. Now they are starting to regain influence, getting their breath back.

The speed and intensity of the reform was what enabled the government to overcome resistance at the most critical time.

The third factor was that employees were worried about their jobs. They accepted the Government line that if New Zealand did not undergo fundamental change, the economy would not be rescued, wage rates would decrease, unemployment and inflation would increase, and people would be unable to find jobs anywhere else. People didn't complain as much as might have been expected, decided to stay in their jobs as long as they could and to take advantage of whatever alternatives the government offered at the point when their positions were eliminated.

Bureaucratic resistance is still being encountered in some parts

of the state, where reform hasn't gone as far as elsewhere. That was one aspect of cost. Another, where the cost of reform hit us very hard was in redundancy payments. We paid about a billion and a half dollars to achieve the reduction. Not all the jobs out of the decrease from 88,000 to 34,000 disappeared. Some of them went into the new corporate sector of Government (half the jobs into these new organisations), but half the jobs did indeed disappear. In managing redundancy we had developed a menu of possibilities: We asked those over 50 years of age whether they would like to retire early. "We'll pay for that." "Would you like to get retrained? We'll pay for that." Retraining was the most costly option. The two most successful ones were early retirement and just simply buying out the contract on the basis of about 12 months' pay.

Q I had the chance to attend the International Conference at the Plaza Hotel (in Wellington). I was told of some down-sides as well as up-sides of the reform.

Have you taken any steps to deal with downside of reform? I also heard of problems with the issues of Crown entity and high job stress and tensions. I would like to learn more of the rivalry between SSC and the Treasury during the reform.

A As Ambassador McGhie has said, you cannot do what we did without creating some problems and you do lose something, there's no doubt about it. The justification in my mind was that we just had to do it. We had very little option. Initially, the chief States Commission had resisted the reform because we knew it would create huge problems for the public service. We also worried about whether the Public Service could exist or continue to do its job under such massive blows to its structure. But once we got started, the Government gave us no choice—"either you are a part

of the process or we'll get rid of you." The SSC decided that it was better for us to be part of the reform process than to disappear. At least we understood the principles of management and the principles of people management. We made a strategic decision within our own organization to cease resisting the reform. We decided we would pick it up, help it, and push it as far and as fast as it was necessary.

So the SSC became very much part, as the personnel and management authority, of the support for the reform. At the same time we were also aware that we were losing whole lot of things on the way: the question of values, the question of ethics. Our Public Service has been virtually free from corruption for most of this century, ever since we changed the appointment process in 1912(to exclude political appointees); and we are very jealous of that reputation. It has meant a great deal to the way in which we run our country. Consequently the SSC was worried that if we start cutting corners and making deals in the name of efficiency, the whole behavior pattern of public servants might change.

Another factor was that we concentrate heavily on management at the expense of policy development and, to some extent, service delivery. We had to, because if we had not made progress and pushed the management system in the way I have described to you, we couldn't have achieved the reforms. So, we deliberately put the accelerator on and in the process we ran over a whole lot of bodies. As a result we lost a significant portion of our policy skills. Not only did we divide our departments too small (a policy organization must have a certain size to be viable and credible), but we lost some degree of good-policy making process in our departments, both because of structure and concentration on management. We are now trying to bring the balance back, but we would not have gotten to where we are if we hadn't push the management idea as hard as we did.

Q I have two questions. Who should play the major role in setting up a reform proposal? In your case, it seems to be the supplier of public service. I, myself, think that the consumer of the public service should have the major role, or jointly with the supplier. The second question deals with leadership at the level of Prime Minister or President. I think the leadership in the case of British reform was quite successful. But many people say that the leadership in this country has failed in the last few years, as far as Korean reform is concerned. How much importance would you place on leadership for the success of a reform?

A I think the answer to both your questions depend on the nature of the reform. In some countries people have applied the term "reform" to changes bureaucrats themselves have proposed to the Ministers. I would call that management review or incremental improvement. When I talk about reform, I'm talking about something totally different. It is a paradigm shift in your thinking about way you want the government to work. So it is something very fundamental. If you want the reform to embrace the whole of your community, you want the support of the community, and if you have the time to do that, by all means, it would be better to have the community involved in the reform process and defining the objectives. In our case, we left the thing so long, the restructuring that should have started in the early '70s didn't get started until the mid 80's, and the time had run out on us. In that intervening period, the Treasury had been preparing the reform dogma, "Economic Management", a detailed document that set out the blueprint for reform and philosophy behind it. The successful launching of the philosophy depended on a very strong group of ministers, who embraced the reform wholeheartedly and were determined to implement it. They knew what they wanted in political terms and what they wanted in

economic policy terms, and the Treasury gave them the means to do it, through the dogma. The most influential ministers and the most influential agencies came together. In an ideal world, the leaders of the communities would have been also brought into the reform process, but in our case there wasn't enough time. Learn from our mistake. We went best when the Prime Minister was leading the reform. We had Mr. Lange's intellectual endorsement from 1984-87. In 1987, the Prime Minister's support dwindled when he saw how the reform was affecting the people. In 1990, a new Prime Minister, Mr. Jim Bolger came into office, embraced the reform and once again, we moved forward. You must have both political and bureaucratic leadership. It is absolutely critical.

Q How would the coalition of new government affect the future pass of New Zealand economic reform?

A It will slow the process down, both because of philosophical differences among the coalition partners and timing. It will take things twice as long to reach a decision.

Q Should Chief Executive compensate for loss accrued due to his mis-management or mal-administration of government activities?

A It's a nice idea, but I don't think it would stick in any court. Personally, I don't know whether private sector chief executives pay for their mistakes, as might be implied by the question. Indeed when one reads about the pay-offs in some instances where Boards want to get rid of managers, one has the impression it is sometimes more lucrative to fail than succeed. But in any case the environment and the attitudes in the public sector are quite different from the private sector.

Public servants often feel that it is more than just a job. When good people take a position in the public service that pays less than equivalent positions elsewhere in the labor market there must be a reason: and usually it is to serve the public. To these people, who take pride in their accomplishments, the loss of reputation is much more painful than money. I don't believe it is necessary to make them compensate for their mismanagement (and given the size of Government operations, how could they?)

Q I would like to know the priority of public sector reform. In other words, where should we start the reform process?

A Our priority was to get the economy right first. If you feel that your economy is in good shape, then clearly your motivation will be different. You have to know what you want to do, what the desired final result is. The first priority is to get the philosophy, charter, idea, and concept of reform and then decide the best entry point. (In New Zealand's case it was the generation and distribution of electricity.)