

# School of Public Policy & Governance

## UNIVERSITY OF TORONTO

### **Governance Pendulums in Public Sector Reform** **Lessons on Downsizing and Modernization from Ottawa and Queen's Park**

Notes for Remarks at a Meeting with the Secretary General for Government Renewal  
Ministry of the Interior and Kingdom Relations of the Netherlands and his Delegation

at the  
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It is an honour to be asked to speak with this delegation from the government of The Netherlands as part of its visit to Ottawa and Toronto to learn about the experiences of Canada's two largest governments with downsizing and modernizing the public sector.

#### **The challenge**

I understand from reading material on the Netherlands Ministry of Finance and the IMF web sites, the government has committed to the commendable goal of "generation-conscious government finances" that will "future-proof" The Netherlands. I also understand that, although the nation is enjoying an economic boom, it is committed to addressing the implications of an ageing population. To do this, it will have to run larger budget surpluses for many years.

The government has undertaken a number of new investments in areas of research, innovation and social coherence and has simultaneously agreed to expenditure cutbacks which will downsize the public sector by almost 13,000 jobs through more efficient delivery and other "efficiency measures taken within the public sector as regards material expenditure."

The IMF has recommended even stronger measures – indeed about three times as strong – to close the "sustainability gap" of 3.5% of GDP identified by the Netherlands Bureau for Economic Analysis. If correct, it implies that the need for fiscal tightening will be with The Netherlands for many years to come.

#### **Personal experience**

We in Canada have had experience with fiscal tightening of similar magnitude. At the federal government, in 1992 there had been eleven expenditure reduction exercises in the previous decade, which had reduced operating budgets (expenditures for programs other than legislated transfers to persons and other governments) by \$3 billion a year or 16.5%. The public service in 1992-93 was almost identical in size to what it had been five years earlier. Given the population increase and the net addition of new programs, we estimated that the public service was doing about 10% more work than five years earlier,

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<sup>1</sup> The author is grateful to his University of Toronto colleague, Professor Graham White, who participated in the meeting and added helpful comments for this edited version of the notes, finalized on November 20, 2007.

which equated to a 2% productivity increase each year. But we had to go further and I had the dubious pleasure of being the Secretary of the Treasury Board (the public service employer) at the beginning of a 7-year wage freeze, which was associated with Canada's largest labour strike. When I went to the International Monetary Fund in 1994 and discussed the Canadian measures with my Executive Board colleague from the Netherlands, Onno Wijnholds, he found them outside any recent Dutch experience – but he did better understand why I had been instructed to vote against the proposed increases in IMF salaries! In the mid-1990s, Canada and Ontario introduced even more dramatic expenditure reductions and I became president of the Council of Ontario Universities soon after the universities had had their operating grant cut by 20%, one of the specific commitments of the new government in its “Common Sense Revolution” election platform.

## **Two pendulums**

In reflecting on the experience in the federal and Ontario governments with downsizing and modernization, I thought it would be useful to suggest that you keep in mind two “governance pendulums.” I have called the first, *centralization-empowerment* and the second, *propriety-performance*.

The first pendulum refers to the design choice in governing any system – from the economy as a whole to the operations of the public sector – the balance between centralized and decentralized decision-making. Greater centralization<sup>2</sup> supports economies of scale and rational planning; it can reduce wasteful duplication and destructive competition. Decentralization allows greater responsiveness to local conditions and more individual creativity; it can incent higher performance through constructive competition. The choice is partly ideological and values-based. It will depend on the priority attached to such political values as equality of treatment. It is also partly pragmatic and evidence-based. It will depend on the perceived effectiveness of the particular model. This pendulum can be expected to move in response to elections and to accumulated experience.

The second pendulum refers to the balance between the process-related demands of demonstrating compliance with what most voters think to be proper behaviour on the part of servants of the state on the one hand and the results-related demands of increasing system performance. This pendulum also moves in response to changing circumstances, particularly the public response to scandals and perceptions of excess privilege on the part of office holders.

The swings of the two pendulums are interdependent but they do not necessarily move in unison, as we can see by looking at the governments of Canada and Ontario.

## **Canada and Ontario**

Governments in Ontario have usually been more centralist than those in Ottawa. This is perhaps understandable given the difference in size and mandate: Canada has roughly four times as many employees in its core public service as Ontario (~60,000 compared to ~240,000) and a range of portfolios that includes foreign affairs and international security. Ontario's major reforms, such as the creation of superministries in the early 1970s, and the dramatic centralization of back-office functions in the last

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<sup>2</sup> Centralization and decentralization in this context refers to arrangements *within* the federal or provincial governments (which are each sovereign within their jurisdictions) and not to arrangements *between* the two orders of government.

decade, have been in the direction of achieving efficiencies through economies of scale and stronger central coordination.

In Ottawa the major reform movements have, at least rhetorically, been in the direction of decentralization and delegation. The summary slogan from the 1960s Glassco commission was “let the managers manage” and the dominant themes of the 1990s Public Service 2000 initiative were “innovation and empowerment.”

Although the federal and provincial pendulums are positioned in different places on their arcs, they have both swung substantially in the last three decades. There have been periods of administrative centralization and decentralization in both Ottawa and Queen’s Park. For both governments, the pendulums are on the centralist side of historical norms and one might speculate that there will be a tendency to move in a decentralizing direction in the next few years.

Ottawa and Queen’s Park are in quite different places on their propriety-performance pendulums. The federal government is suffering through one of its most debilitatingly process-tightening periods in recent memory. This is partly as a result of the political values of the current government (which is less predisposed than its predecessor was to look to government action to address societal problems), partly because budget surpluses put a lower premium on performance, but mainly as a consequence of a few high-profile scandals. Although the elected government in Ontario has responded to the public demand for greater accountability and transparency, it is more predisposed to public intervention to produce results, is more resource constrained, and, thankfully, has not had to deal with as many high profile examples of misuse of public funds.

### **Lessons on downsizing and modernizing government**

Despite these differences, I believe there are some common lessons from the experience of both governments on downsizing that may be useful for The Netherlands.

Given the longer term nature of the budget challenge it is crucial that the changes be sustainable. This means that it would not help to sell assets or postpone investment in capital that will be needed later. But this does not imply that the reductions can be made without leaving some people worse off – downsizing of the magnitude required will produce losers, not all of whom can be compensated.

Let me suggest nine lessons from the experience of the governments of Canada and Ontario.

1. Plan for multi-year communications

Communicating this will be a hard slog. Again, it has to be maintained and is particularly difficult when some lines of expenditure are increasing while others are decreasing.

2. Strengthen the budget office

Expenditure control is demanding work. It will be even harder given the current robust economic condition of the country and the cash flow position of the government. It will require strong, disciplined and analytical people in the office responsible for reviewing and recommending decisions on expenditures. This is a lesson the federal government learned to its cost in the aftermath of shifting the

Treasury Board Secretariat to more of a management agency than a budget office.<sup>3</sup> Ontario has moved to consolidate this function within the Ministry of Finance.

3. Manage the wage bill

The federal government did this well in the late 1980s to the late 1990s but once the wage freeze was lifted, it has not been paid sufficient attention. According to Public Accounts, personnel costs in 2006-07 were \$33 billion, up 14% from a year earlier and up by more than 60% from 1994-95<sup>4</sup>. The dramatic growth in both employment and effective compensation is set out in the report made public in 2007 entitled *Expenditure Review of Federal Public Sector Compensation Policy and Comparability*.<sup>5</sup> At the provincial level, the dramatic wage increase given to public sector workers when the Bob Rae government came to office in 1990 had to be recouped in the “social contract” arrangements a few years later.

4. Set firm agency spending limits

Managers will start devoting energy to finding creative ways to increase productivity and “do more with less” once they are convinced that the limits are credible and that they can get better results from reengineering than rearguing.

5. Increase administrative flexibility (within budget limits)

This goes with the firm limits. Managers have to be given incentives and means to do the necessary reengineering. For example during the early 1990s in Ottawa we tried to reduce unproductive rules and streamline administrative processes. As part of the Public Service 2000 reform, the Treasury Board ended person-year controls, introduced single operating budgets, allowed year-end carry forwards, and made optional a number of common services. It reviewed a host of administrative policies to reduce paper burden. The Secretariat had a Shared Management Agenda process with each deputy and a Departmental Management Assessment process that affected the deputy’s performance rating from the Clerk and Prime Minister.

6. Recognize the costs of centrally driven reporting and processes

The costs associated with departmental efforts to live up to such requirements are hard to estimate but they are very real and can be very substantial.<sup>6</sup>

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<sup>3</sup> See Report of the Auditor General of Canada, *An Overview of the Federal Government’s Expenditure Management System*, Chapter 1, Expenditure Management System at the Government Centre, November 2006; and “Reshaping Ottawa’s Centre of Government: Martin’s Reforms in Historic Perspective,” with Evert Lindquist and James Mitchell, in G. Bruce Doern, ed, *How Ottawa Spends 2004-2005 Mandate Change in the Paul Martin Era*, McGill-Queen’s University Press, 2004, pp 317-347.

<sup>4</sup> Public Accounts of Canada, 2006-2007 Financial Statements of the Government of Canada page 2.14

<sup>5</sup> Available on the Treasury Board web site at: [http://www.tbs-sct.gc.ca/spsm-rgsp/er-ed/er-ed\\_e.asp](http://www.tbs-sct.gc.ca/spsm-rgsp/er-ed/er-ed_e.asp)

<sup>6</sup> A highly respected (and recently retired) manager reported to the author that “Our management team estimated at one point that we were spending more than 35% of our time coping with understanding and responding to frameworks and other change management initiatives. Adding to that the implementation of new rules and paperwork on ‘accountability,’ and we found we were spending less than 45% of our time on actually delivering the various programs for which we were responsible.”

7. Don't confuse accountability information with management information

One of the more futile admonitions of management reformers is that management information systems should be integrated with the parliamentary reporting system. This will never work because 1) information that managers need to do their jobs is specific and detailed, 2) much of it is subject to privacy provisions and 3) presentations to review bodies will inevitably be made in ways that try to put the organization's activities and plans in the most favourable light.

8. Don't overestimate voter concern about government service

It was always my experience in Ottawa that it was hard to get ministerial interest in service improvements, as opposed to, for example, programs that transfer money or lead to major procurements or major capital construction. Of course every elected politician is in favour of improving the quality and efficiency with which the government delivers its more routine services, but it is hard to sustain their interest, and it is difficult to persuade them to allocate real resources (which would come at the expense of, for example, introducing a new program) and extremely difficult to persuade them to countenance measure which would lead to office closings and job losses in communities. In the realm of routine service delivery, the political pain of administrative error or alleged misuse of public funds is usually higher than the political gain from increased efficiency through empowerment and innovation. Presumably this political reaction reflects voter interest and concern. This means that sustaining momentum for administrative reform will require continued leadership from senior administrators rather than politicians.

9. Don't forget the objective as the pendulums swing

I have described the issues as pendulums for a reason. They will swing. This means that the reform and downsizing must be able to adapt as public and government moods shift respecting the virtues of centralization and empowerment on the one hand and the relative weight given to propriety and performance on the other.

The important thing is to keep the objective – closing the sustainability gap – in mind as you adapt to swings in political and management philosophies.

I wish you the best of luck on your long journey.