

GAP & IIER-A National Resilience Project

**Enhancing public sector
policy capability for
a COVID World**



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**Global Access Partners
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This paper is a contribution to a program of work – involving similar discussions among a wide cross-section of participants from multiple industry sectors – on national resilience in light of COVID-19. It is one of the products of the National Resilience Project being co-led by Global Access Partners (GAP) and the Institute for Integrated Economic Research Australia (IIER-A).

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DISCLAIMER: This paper represents a broad consensus among participants reached over the course of three months of conversation both in person and electronically in late 2020. Conversations and email exchanges were held under the Chatham House rule of non-attribution to inspire a frank and constructive exchange of ideas. Accordingly, there was a diverse range of views expressed by the individuals involved and not every participant agrees with every statement in full. They are personal opinions that do not necessarily reflect those of the organisers and sponsors of the GAP/IIER-A National Resilience Project.

Enhancing public sector policy capability for a COVID world

KEY MESSAGES

1

The public service is a core social institution whose foundations, purpose and performance need to be rescued and restated and, as a result, better protected into an uncertain future to which it will be an inescapably central part of any effective response.

2

The public service needs to develop its capabilities to better manage various dichotomies, such as the relationships between policy and delivery, strategy and execution, specialist expertise and generalist skills, private sector and public sector, stability and innovation, all within a context characterised by speed, complexity and intensity.

3

The policy capability of the public service has reached dangerously low levels and needs to be rapidly and purposefully rebuilt. The odds of the current generation of politicians accepting that as a legitimate and high priority for their time, attention and spending are low, which is a big risk in itself.

4

Part of the reformation of the public service is the revaluing of expertise and knowledge. Public servants need to know things and be able to go deep as well as wide. Convening collective assemblies for better public problem solving is a skill and capability in its own right, but it is intimately connected to a depth and nuance of actual knowledge that has also apparently reached dangerously low levels.

5

The pandemic has brought out the best of the public service which has performed for the most part above expectations and to very high standards, though with high-profile exceptions. That is likely in spite of the conditions that prevailed as the emergency hit, and the period of disinvestment and political neglect from it emerged into 2019/2020. To some extent our success was a combination of good management and good luck. The system held. But the warning lights are flashing. The risk is the political class think all is well because the system performed so well. That would be a big and dangerous mistake.

Enhancing public sector policy capability for a COVID world¹

In sum, decades of a misplaced focus on privatization, outsourcing, and static efficiency have left many governments with reduced options and capacities in the face of the crisis. Governments require choices, and the capacity to manoeuvre flexibly and with competence. Lessons from successful responses to COVID-19 show that building back better, and preparing for future crises, means investing in core public-sector capacities and capabilities, including the ability to interact with other value creators in society—designing contracts to deliver in the public interest. As the saying goes, a crisis should not go to waste: let’s hope it brings on a new understanding of how to develop the dynamic capabilities of the public sector—and why it matters.²

The issue

COVID-19 has caused disruption across every segment of society and the economy, as well as putting pressure on individuals’ sense of their own identity. The illusion of certainty, upon which we rely in the planning and living of our individual and collective lives, has been shattered.

The immediate challenges are ones of response and recovery. But while we are dealing with these urgent issues, longer-term questions about society’s collective capabilities “post-COVID” in terms of risk-management, problem-solving and resilience must not be seen as less important.

The public service is at the centre of the response and recovery mission and has generally appeared to have performed well³ (notwithstanding some interesting jurisdictional differences⁴). This is not surprising, as it’s a fairly common phenomenon that in situations of emergency or crisis, public service agencies often rise to the challenge – often suspending ‘business-as-usual’ rules, protocols, habits and tendencies. In these situations, we see cooperative arrangements across organisational and sectoral silos and “agile” and “innovative” responses to acute and urgent needs. The challenge usually arises after such events, in the return to ‘business-as-usual’ when old habits and boundaries return (not always for ‘bad’ reasons), as well as a stronger focus on compliance/accountability etc that tend to get a bit relaxed in emergencies.⁵

Accordingly, the public service will also be at the centre of future risk-management, problem-solving and resilience. Public service capability across policy, regulation and delivery needs to be a major focus of the thinking of those concerned to “build back better”. The major focus of this paper, however, is on a particular aspect of this rebuilding task, that is the public sector’s policy capability, it’s capacity to harnesses knowledge effectively and efficiently to bring the best possible advice to government on how to face future challenges, both known and as yet unknown.

¹ This paper is the result of a collaboration between past and present senior public servants with experience in both the community and private sectors who believe that public service capability needs to be a core focus for governments. We make no claim to treating the topic comprehensively, rather we call attention to some important aspects of public sector reform agenda that we consider have not been adequately addressed in recent reviews of the issues.

² Mariana Mazzucato and Rainer Kattel, “COVID-19 and public-sector capacity” *Oxford Review of Economic Policy*, Volume 36, Issue Supplement_1, 2020, Pages S256–S269, <https://doi.org/10.1093/oxrep/graa031>

³ See comments from Dr Peter Shergold, <https://theconversation.com/democratic-fundamentals-the-role-of-the-aps-in-a-post-covid-19-world-138933>

⁴ Australia’s federal structure has allowed some natural experiments to be run about the pros and cons of particular bureaucratic structures and the nature of the relationship between ministers and their departments.

⁵ In this context, it will be interesting to see how the role and performance of the National Cabinet evolves.

Where have we come from?

The public service as a social institution supporting the good of order

Consider the following scene from “Yes Minister”⁶:

Sir Humphrey Appleby: *Government isn't about morality.*

Minister Jim Hacker: *Oh I see, what is it about then?*

Sir Humphrey Appleby: *Stability. Keeping things going. Preventing anarchy. Stopping society falling to bits. Still being here tomorrow.*

Minister Jim Hacker: *What for? What is the ultimate purpose of government, if it isn't for doing good?*

Sir Humphrey Appleby: *Minister, government isn't about good and evil, it is only about order or chaos.*

Minister Jim Hacker: *And it is order for Italian terrorists to get British bombs, and you don't care?*

Sir Humphrey Appleby: *[disdainfully] It is not my job to care, that's what politicians are for. My job is to carry out government policy.*

Minister Jim Hacker: *Even if you think it is wrong?*

Sir Humphrey Appleby: *Well, almost all government policy is wrong..... frightfully well carried out!*

Minister Jim Hacker: *Humphrey, have you ever known a civil servant to resign on a matter of principle?*

Sir Humphrey Appleby: *[surprised] I should think not! What an appalling suggestion!*

Minister Jim Hacker: *For the first time I fully understand that you are only committed to means, and not to ends.*

Sir Humphrey Appleby: *Well, as far as I am concerned, minister, and all my colleagues, there is no difference between means and ends.*

Minister Jim Hacker: *If you believe that Humphrey, you will go to hell.*

Sir Humphrey Appleby: *[smiling] Minister, I had no idea that you had a theological bent.*

Minister Jim Hacker: *You are a moral vacuum, Humphrey.*

Sir Humphrey Appleby: *If you say so, minister!*

These lines capture the contested essence of the relationship between elected governments and the public service on matters of policy. The essence is contested in a number of ways.

Firstly, is it really the case that the public service has no role in the development and shaping of government policy, that they are simply the administrative braun that complements and executes the ideas that emanate from the government's policy brain? Taking that argument to its logical extreme would see Adolf Eichmann's diligent administration – so viscerally dissected in Hannah Arendt's insight about “the banality of evil” - as the paragon of public service capability.

The difference between Eichmann and Sir Humphrey Appleby is that Sir Humphrey serves a democratically elected government, which makes his job so much harder. As Woodrow Wilson wrote in his classic 1887 essay, “The Study of Administration”, whereas despotism means only one mind's desires need to be implemented, in a democracy, where “public opinion” is the master,

The very fact that we have realised popular rule in its fulness has made the task of organising that rule just the more difficult...An individual sovereign will adopt a simple plan and carry it out directly: he will have but one opinion, and he will embody that one opinion in one command. But this other sovereign, the people, will have a score of differing opinions. They can agree on nothing simple: advance must be made through compromise, a compromise of differences, by a trimming of plans and a suppression of too straightforward principles. There will be a succession of resolves running through a course of years, a dropping fire of commands running through a whole gamut of modifications. In government, as in virtue, the hardest of things is to make progress...⁷

⁶ <https://nikhilkardale.wordpress.com/2011/07/10/government-a-whisky-priest/>

⁷ Wilson, W (1887), “The Study of Administration”, Political Science Quarterly, Vol 2, No 2, pp. 197-222.

The public service is a vitally important institution in democratic societies but is often the target of attack and derision due to the fact that it is taken for granted. In societies whose prosperity is fuelled by market-based economies and free enterprise, the public service is often seen as a drag on national productivity, rather than an enabler. But a market economy and high levels of wealth don't magically appear when you 'get government out of the way'; they rest on a hidden institutional foundation of property rights, rule of law and basic political order. A free market, a vigorous civil society, the spontaneous "wisdom of crowds" are all important components of a working democracy, but none can ultimately exist without, let alone replace, the functions of a strong hierarchical government. And that requires a strong and capable public service.⁸

The public service has a role in supporting governments to make progress not only through implementing policy but in providing advice on what good (and implementable) policy looks like. Political parties seeking election usually espouse high level policy ends, but when they get into government discover that the achievement of those ends is not nearly so straightforward as they imagined, for all the reasons articulated by Wilson. Wise governments will call upon the experience of knowledgeable and skilled administrators to help them convert high principle and vaguely expressed policy directions into practical programs for change. It is in the detail of policy that devils or angels make their presence felt, and it is the detail that determines whether the high-level aspirations are actually achieved. This requires the public service to be involved in the process of developing practical policy, not just implementing it.

But one should be cautious about credulously accepting that the real public service always acts in accordance with this theoretical model. Public servants have on occasion been known to subvert rather support government policy directions. However, the role of the public service in acting as a kind of ballast that balances continuity and change through policy processes is what makes the public service a social institution that is at the service of the good of order as opposed to chaos, or as Sir Humphrey puts it, stability. An important condition for human thriving is a minimal degree of stability and predictability in social and economic arrangements, a recurring pattern of coordinated human operations and cooperation. And an important condition for effective coordination and cooperation lies in institutions, which are mechanisms set up for making decisions. The public service is the institution that provides governments with a mechanism for making decisions about how to implement its intentions effectively, by striking the right balance between continuity and change, paying attention to impacts, and being ready to amend policy in light of experience and reflection. As Mazzucato and Kattel state, "The public sector bears responsibility for the long-term resilience and stability of societies, and for shaping public outcomes through policy-making and public institutions."

This is the policy capability that any effort at public service reform for a post-COVID world must aim to enhance. In an age when "disruption" is all the rage, exacerbated by the radical uncertainty brought about by the pandemic, advocates for reform need to understand that all social institutions have histories and traditions – an inheritance, a heritage – that need to be respected and understood in any effort of reform. This is especially the case with the public service, otherwise the minimal level of stability that people need to thrive is put at risk. Government is society's ultimate

⁸ Francis Fukuyama (2011), "The Origins of Political Order", pp 13-14. New York: Farrar, Strauss and Giroux.

risk manager and problem-solver, and its own capabilities in these respects need to be protected and nurtured. The public service is where these capabilities reside.

The new public management (NPM) reforms

The most recent wave of public sector reform has arguably shown insufficient respect for and understanding of this institutional inheritance. The last three decades have seen major changes in the way the public service has been conceptualised from “old public administration” to “new public management”. This has had both positive and negative impacts in practice. At the core of this reconceptualization are ideas such as responsiveness, innovation, and outcomes. The critique of “traditional” public sector bureaucracy is that it is no longer an appropriate system of governance for the post-industrial information age in which citizens are customers with very high expectations in terms of service delivery.

But NPM wasn't just about more efficient and effective service delivery. NPM was itself a particular incarnation of public choice theory, which posited that public sector bureaucracies were mainly interested in the extension of their own power, budgets and influence with the public benefit they generated for citizens being only incidental to that primary mission.⁹ So a large part of the motivation for NPM reforms was to shift the focus from the inputs and resources bureaucracies controlled to what outcomes they delivered for citizens in terms of policy, regulation and services.

The dominant narrative has been that to meet citizen demands that are continually ramping up and increasing expectations of quality, choice, and efficiency, governments should change the ways they provide services from a mechanistic, bureaucratic model to a more fluid, entrepreneurial one characterized by flexibility and creativity. This also needs to be accompanied by conscious efforts to improve public sector incentive systems.

This was the key message of the very influential 1992 book by David Osborne and Ted Gaebler, “Reinventing Government: how the entrepreneurial spirit is transforming the public sector”, which had a major impact on Bill Clinton's administration: “Hierarchical, centralized bureaucracies designed in the 1930s or 1940s simply do not function well in the rapidly changing, information-rich, knowledge-intensive society and economy of the 1990s.”¹⁰

And here are some examples from other influential publications that epitomise the change of thinking about how the public sector needs to evolve through the adoption of entrepreneurial private sector approaches:

- *...[M]any of the features that frustrate us most about bureaucracy are the same features that sustain it and give it resilience. This suggests that successful reform will consist of little more than tidying up at the edges, or it will represent a fundamental challenge to the entire system of industrial organisation...The most effective challenges to the bureaucratic organisation – competition, contracting, community and computerisation – all involve a rejection of the bureaucratic paradigm.*¹¹

⁹ See, for example, William Niskanen (1971) “Bureaucracy and Representative Government”, Transaction Publications.

¹⁰ David Osborne and Ted Gaebler, 1992, “Reinventing Government: how the entrepreneurial spirit is transforming the public sector”.

¹¹ Peter Botsman and Mark Latham, 2001, “The Enabling State: people before bureaucracy”.

- *Contracting out services or commissioning them has been a major theme in public policy in the last couple of decades. Often the involvement of the business sector in the provision of government services provokes controversy...This ideological debate should be over by now...[T]he public sector doesn't have – and cannot have – all the skills and capacity to do everything that might be publicly provided...[W]here public provision has been given a monopoly, it has sometimes become (as monopolies tend to), inefficient, sometimes grossly so.¹²*
- *Public project partnerships can give private enterprise a larger role in activities which governments once provided for, while ensuring that the public interest remains paramount. The public sector can in turn provide resources that can help enterprise to flourish and without which many joint projects fail.¹³*

Interestingly, these publications emerged from, or were very influential on, the social democratic or 'progressive' side of politics and represent a kind of *rapprochement* between the former modus-operandi of state-run, centralised bureaucracies and free market enterprise and competition.

Over the same period, there has been an increased focus on the public service as a profession, with the evolution in Australia of a number of important institutions, such as public service commissions at state and national level; professional associations such as the Institute for Public Administration Australia (IPAA); and the Australia New Zealand School of Government (ANZSOG), which has adopted, in its various programs, the very useful "public value" model promoted by the Harvard Kennedy School of Government.

There have also been periodic reviews of the public service, such as the 2010 *Ahead of the Game* report led by Terry Moran when he was the Secretary of the Department of the Prime Minister and Cabinet, and the independent review led by David Thodey, *Our public service, our future* ("the Thodey review").

The predominant focus of the literature, the professional associations, the learning opportunities and these reviews is on how the public service can become better at delivering government objectives; how to turn strategy into outcomes for the public. Capability is increasingly capability to deliver results. Barber's "deliverology" inspired the creation in NSW, under Premier Mike Baird, of the Premier's Implementation Unit whose job it was to monitor and work with agencies to ensure Premier's Priority targets were met. The associated watchwords (buzzwords?) for the new "outcomes-focussed" public service are "agile" (borrowed from the world of Information and Communications Technology), "innovative", "customer-centric", and "responsive".

These directions are all intended to produce a public sector workforce that is "fit-for-purpose". So what is the purpose of the public service in our Westminster system? The Thodey review states its objective as follows:

The Government is establishing an independent review to ensure the APS is fit-for-purpose for the coming decades. The APS needs to be apolitical and professional, agile, innovative

¹² Michael Barber, 2015, "How to run a government: so that citizens benefit and taxpayers don't go crazy".

¹³ Anthony Giddens, 1998, "The Third Way: the renewal of social democracy".

*and efficient — driving both policy and implementation through coherent, collaborative, whole-of-government approaches. It must have the capability to meet core responsibilities and deliver functions, and to understand and deploy technology and data to drive improvement.*¹⁴

The review's recurring themes of agility and innovation and learning from the private sector recur throughout the text. The word "innovative" occurs thirty-seven times in the report, paired with nouns to refer to "innovative investment", "innovative policy advice", "innovative financing mechanisms", "innovative solutions", "innovative responses", "innovative APS culture", "innovative models", "innovative digital tools" and the tautological "innovative new ways to deliver services". Likewise with "agile", which has thirty-one mentions. What is needed is "deploying agile teams", "agile delivery models", "agile ways of working", "agile and high-performing workforce", "agile structures", "agile techniques", and "agile project delivery". It also makes several references to "private sector expertise", "private sector experience", "private sector innovation", "private sector transformation", benchmarking against "private sector performance" and partnerships with the private sector.

Other concepts that originated in the private sector and have been informing public sector transformation efforts are "lean" and "just-in-time" (linguistically opposite to "bloated" and "inefficient", epithets that are regularly paired with "bureaucracy"). A 2009 McKinsey's report, "A leaner public sector" stated that

*Classic lean techniques for eliminating waste, variability, and inflexibility have been used successfully in a variety of agencies, from those with processes that somewhat resemble manufacturing (such as defense-related logistics units) to others where the ideas might seem less obviously relevant (such as intelligence agencies or policy-making bodies).*¹⁵

Where are we now?

However, the COVID-19 has exposed the public sector to the down-side risk of lean or "just-in-time" approaches associated with new public management.

*Supply chains for government and enterprises have suffered a real shock as a result of COVID-19. This has demonstrated the fragility of supply chains and the degree to which most nations have become dependent upon global supply for many of their needs. The crisis has also exposed weaknesses in the 'Just in Time' manufacturing concept, which has left limited stock available to respond to the crisis.*¹⁶

The experience has raised questions about whether this aspect of private sector operations is appropriate to the public sector, given government's role as society's ultimate risk manager and problem-solver.¹⁷ This is because a degree of spare capacity or "redundancy", which can all too easily be construed as "waste", is actually a necessary aspect of any resilient system, providing

¹⁴ <https://www.apsreview.gov.au/>

¹⁵ <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/a-leaner-public-sector#>

¹⁶ <https://home.kpmg/au/en/home/insights/2020/08/government-public-sector-supply-chain-resilience.html>

¹⁷ David Moss, 2004, "When all else fails: government as the ultimate risk manager", Harvard University Press: Cambridge, Massachusetts.

surge capacity and the ability to absorb shocks, thus offering the stability that citizens need to live and make choices with some confidence. However, we don't seem to have developed a reliable method for valuing and paying for this spare capacity. We tend to regard it as "fat" rather than muscle that is ready to be deployed when it needs to be. The exception to this seems to be the armed forces.

In addition, and perhaps more significantly, COVID's arrival just at the time when the governments have begun seriously turning their minds to the implications for public policy and administration of a "digital" world has highlighted that the context for public service evolution is characterised by three things which have been features of the public service response to the pandemic: speed, intensity and connectedness.¹⁸ This has major implications for public sector policy capability.

The thinning out of public sector policy capability

The argument of this paper is that the new context for public policy work requires a rethink about how that work is done, and that the public sector reform needs to take a new direction that gives greater weight to subject matter expertise.

Part of the public sector tool-kit for the delivery of "just-in-time" policy has been the contracting in of private sector agencies to produce policy for government, something which was previously and traditionally the responsibility of the bureaucracy's in-house experts. This has contributed to the thinning out of public sector policy expertise and capability.

Of all the things that the Thodey review identified for improvement in the public sector, the review reserves its greatest concern for "the hollowing out of strategic policy skills - the ability to understand the forces at play in the world, what is needed to position the nation to meet challenges and opportunities, and to develop, analyse and provide incisive advice to the Government."

The report cites research undertaken for the review:

Ministers are not alone in expressing concern about the public service's policy-making capacity ... scholars and practitioners alike have raised serious questions (and doubts) about the APS's capacity to support policy decision-making.

The report goes on:

The ability to support government decision-making through the provision of high-quality strategic advice is a core and enduring capability required of the APS. This capability is critical to the APS effectively serving government and the people of Australia.

The gradual erosion of the APS's strategic policy capability and the importance of rebuilding it have been highlighted in numerous reviews over the past decade. In 2010, Ahead of the Game recommended that the APS strengthen its capacity to provide strategic policy and delivery advice. The Productivity Commission observed in Shifting the Dial (2017) that, despite repeated identification of the need to strengthen the APS's policy-advising capacity, it was difficult to discern any significant change. A year later, in June 2018, recognising the need to improve the way policy is done across the APS, Secretaries

¹⁸ See Simon Cooper and Martin Stewart-Weeks (2019), "Are we there yet?: the digital transformation of government and the public sector in Australia", Haberfield: Longueville Media.

Board commissioned a cross-agency initiative to coordinate efforts to enhance policy capability. A cross-agency project team, supported by 15 agencies, has been established to lift APS policy capability.

However, in its response to the review, the Government sent a clear message to the public service about where it saw the locus of responsibility for policy:

The Government respects the experience, professionalism and capability of the public service, both in policy advice and implementation, and we expect the APS to get on and deliver the Government's agenda. In the Westminster system of parliamentary democracy, it is the Ministers who are accountable to the public. It is Ministers who provide policy leadership and direction.¹⁹ (Emphasis added)

But the reality is that when they first come into office, very few ministers or their political staffers have sufficient depth of expertise and knowledge about the matters central to their portfolios, and so they need to rely on policy advice developed by others. Traditionally, the source of this advice has been the public service, and departmental secretaries have been the principal policy advisers to ministers.

However, this primacy of place is under increasing pressure for a range of reasons.

Firstly, new ministers are often prone to distrust the bureaucracy, seeing it as essentially committed to policies promulgated by previous governments. This itself is not new, but more and more, it seems to result in the replacement of department heads when governments change. This practice undermines confidence in the apolitical nature of the public service.

Secondly, departments that are subject to arbitrary caps on staffing levels (intended to give the impression of limiting the size of the public sector²⁰) are under pressure to keep their “front line” staff, and so those who have worked in the esoteric world of policy are often the casualties of so-called “efficiency dividends”. This means those departments have to supplement their thinned-out policy capability by buying in external expertise, often in the form of multi-million-dollar contracts with organisations like McKinseys or Boston Consulting Group, the “big four” (KPMG, PwC, Deloitte and EY), or smaller niche public policy players such as the Nous Group. This leads to questions at Estimates hearings about excessive and expensive contracts being let to such firms. But arbitrary caps on public service numbers – conceived as a political panacea to the imagined sickness of a “bloated” public service - often leave departments no choice. Secretaries are between a rock and hard place.

The problem is, as the Thodey review identified, that the depth of policy capability within the public service is not what it should be. This contracting out of the policy development process is an ironic twist on the vision laid out by Osborne and Gaebler in “Reinventing Government”. The purpose of government, they contended, is not actually to deliver services, but to set policy. They call it “steering rather than rowing”. In order to deliver services (they contended), governments can contract out to private or non-profit providers, utilise government providers in competition with private firms, or utilise different government firms in competition with each other. Only in the case of so-called natural monopolies such as certain utilities should government be the sole provider.

¹⁹ Delivering for Australians. A world-class Australian Public Service: The Government's APS reform agenda (2019)

²⁰ <https://www.abc.net.au/news/2020-09-10/contractors-and-the-public-service-gig-economy/12647956>

But what we are increasingly seeing is governments contracting out *policy development*, while big public sector bureaucracies such as Centrelink and public hospital and school systems continue to *deliver* programs. This phenomenon actually poses a significant risk to government because it has become overly dependent on expensive consulting firms for the policy capability that should exist and be nurtured “in-house” within the public service.

This issue of public service policy capability can be viewed through four “bi-focal” lenses or dualities: public/private; bureaucratic/innovative; strategy/execution; and specialist/generalist.

Public v Private

The recent controversy about the use of private security in hotel quarantine is instructive. In all the focus on trying to get to the bottom of “who made the decision”, it seems to have escaped the notice of many commentators that this only became an issue because the private security firm failed to perform its job properly. This was not inevitable, but there seems to have been an implicit assumption that a decision to use private security was of course a stupid decision because it was inevitable that they would have done a poor job, or at least a worse one than the military. The irony is that, had the firm performed well, the Victorian Government may well have been praised for being “agile” and “innovative” for using specialised private sector expertise. The failures that did occur seem to be more likely due to the dynamics of the private security industry itself, in combination with poor contract management by the government. It was not the decision to “go private” that itself was the problem.

What the incident shows is that much commentary on public versus private sector capabilities are vexatious and over-generalised. One is not necessarily better or worse than the other, they are simply different, and whether one can offer better public value than the other will be context specific. Can the public sector learn from the private sector? Of course. Can the private sector learn from the public sector? Of course. Any good organisation could and should be on a path of learning and continuous improvement and look widely to find ideas and models for improvement. Good leaders know how to do this and know how to create an inclusive culture that seeks, and is receptive to hearing, incorporating, and hiring people with diverse opinion and experience and leveraging talent, knowledge and expertise from both the private and public sectors to deliver public value.

The same goes when it comes to “going private” in the search for policy capability. External consultants can and should be brought in when they have particular skills, but this should only be done when it is appropriate to *complement* public sector policy capability, not to *compensate* for its persistent absence.

“Bureaucratic” v “Innovative”

Another problem with over-generalising the differences between public and private sectors is that bureaucracy and innovation are more highly correlated to the size of the organisation than they are to whether the organisation is public or private. All large entities create rules to ensure compliance with desired outcomes; it is usually the case that the bigger you are the tighter the restraint on degrees of freedom, so that senior management can have confidence that strategy is being implemented as intended several layers down the chain of command.

If there is a difference between private sector and public sector bureaucracy, it emanates from their different overall missions. Government bureaucracy is, at its best, a predictable, tried and true mechanism for treating all citizens fairly, or for preventing the abuse of public power, or for ensuring the use of taxpayer funds is in accordance with the decisions of democratically elected governments. The bureaucracy that is built into large private sector organisations has no such overall guiding public purpose, and thus tends to be more likely subject to change on the whim of chief executives, and while such regular change can be interpreted as a form “agility” and “innovation”, it is no guarantee that customer service or share-holder value will be improved.

Public sector bureaucracy is also often unfairly caricatured as lacking innovation. But in the same way that stodgy bureaucratic processes can occur in both private and public sectors, so it is with innovation. Innovation is strongly correlated to empowerment and the creation of a culture that encourages risk-taking. Innovation is rarely top down, more often bottom up, and won't occur unless junior and mid-level management are empowered to try new things and make mistakes. Getting that balance right when you have risk averse stakeholders (ministers or the public sector boards they appoint) is a necessary skill of good leaders these days. Public service leaders must create the space for this to happen and assume the risk for the mistakes that will be made.

But this ability to be innovative itself relies on being familiar with the issues and problems associated with a particular industry. Creativity requires, among other things, paying attention to and immersing oneself in the work of people who have lived with the same questions and concerns that are relevant and of interest within a particular sphere of human action or discipline or industry. In other words, the likelihood that a solution to a public policy problem will be fit for purpose will be better if the people tasked with applying themselves to finding that solution actually know something about the matter at hand. In other words, creativity and expertise go together.

However, it is important to acknowledge that there is also an element of innovation theory that suggests that deep subject matter expertise can be a problem: experts know “too much” and so in thrall to the traditions of their discipline that they don't find it easy to break free of patterns of seeing and “knowing” that are expert and become blind and narrow. This line of argument then advocates that you need someone with distance and a degree of naivety (think of the young boy in “The Emperor Has No Clothes”) to challenge and test and sometimes see answers and ideas that that experts and insiders either can't or won't see. This has implications for the issue of how expertise and specialization should be valued in the development of public policy (more on this topic below).

Another condition for innovation is having permission to fail. In organisations where the leadership is highly risk averse, fear of failure kills creativity. One of the reasons the USA is the most dynamic economy in the world is because its bankruptcy laws punish businesses that fail less harshly than in other nations.²¹ Again, learning from this private sector context can be helpful for the public sector:

²¹ “The United States still offers one of the world's best environments for commercializing products and launching companies, including strong protection of intellectual property rights, temperate bankruptcy laws, well-developed capital markets, and extensive worker mobility.” Rising to the challenge: US innovation policy for the global economy, National Academies for Science, Engineering and Medicine (2012).

See also <https://www.afr.com/politics/federal/small-business-to-benefit-from-us-style-bankruptcy-rules-20200923-p55yce>

how do we create an environment where policy entrepreneurialism can flourish? It is much harder to do this when departmental secretaries feel constrained in their ability to promote alternative and innovative policy ideas because of fear of failure which may lead to the loss of their job.

Strategy vs Execution

As indicated above, one of the other tenets of new public management, as exemplified in “Reinventing Government”, is that the separation of strategy and execution – “steering” from “rowing” – will deliver greater public value.

However, some of the best examples of excellent execution have occurred when the same ‘business’ owned both the strategy and the delivery. It’s human psychology: the power of ownership of the strategy helps to create determination and excellence in execution. In large entities such as the public service or banks, it is important to optimise the ideal business unit size to empower employees so they “own” their strategy. This means you will not only have a departmental strategy, but divisional strategies at the next level down, branch strategies, unit strategies etc. This increases both motivation and capability (“will” and “skill”)²². Good leaders are developed by being allowed to develop their own strategy within, and aligned to, the guidance set by the higher order strategies.

In this context, it is important to note that a significant aspect of the reforms to public administration over the last thirty years has been the emergence of the term “commissioning”. The Oxford English Dictionary defines the verb “commission” as “to entrust or delegate (power or authority) to a person”. As a noun, it is “the authority committed or entrusted to a person; *esp.* delegated authority to act in a particular capacity...”

Thus, “commissioning” is used when a client engages an artist to create a work for a particular purpose or place: the artist is entrusted with significant discretion in the way they respond to the brief from the client.

In the context of public administration, commissioning has resonances with the “purchaser/provider”, “principal/agent”, “steerer/rower” splits that are synonymous with outsourcing, competitive tendering and contracting of public service delivery and the creation of “markets” for public services under New Public Management.

Commissioning has the potential for detrimental impacts on public service capability through the disconnection of strategy from delivery, of policy design from program implementation, even when this occurs within the public sector itself, such as when a “policy” department effectively commissions a “service delivery” executive agency, or when a public sector provider is put on a level playing field with private or third sector providers in terms of funding and regulation in an effort to replicate competitive market mechanisms.

However, as Gary Sturges has pointed out, “in the past few years, there has been growing recognition that public service markets are not the same as commodity markets and it is wrong to assume that they can operate according to the rules of perfect competition.” If the “hotel quarantine debacle” was not proof enough, the sudden collapse in November 2008 of ABC Learning

²² See Nick Obolensky (2012), *Complex Adaptive Leadership: embracing paradox and uncertainty*.

(at the time the largest provider of childcare in the world, accounting for over 25 percent of the Australian market) and the obvious financial fragility of several other large public service companies, served as a reminder that, when it comes to public services, government cannot shift the ultimate risk of delivery. In many cases, the delivery systems for social services resemble a corporate supply chain rather than a market. Aged care and disability services also come to mind. It's no coincidence that both have been the subject of Royal Commissions recently.

For these reasons, Sturgess argues,

*commissioners must be acutely interested in both the design and stewardship of the markets or systems through which these services are delivered. It is not enough to undertake a needs analysis – a commissioning approach demands that policymakers and planners also understand the supply side and accept some responsibility for its ongoing performance.*²³

This means that the public service must evolve a more mature view of the importance of deeply understanding the dynamics of the sector or industry one is regulating, funding, or designing policy for. That is, the role of subject-matter expertise in policy development needs to be re-appreciated.

An example of failure in the strategy/execution nexus was in the private sector, where bank board discussions from 2008 onwards appeared to be increasingly focused on quality of strategy and development of strategy, and less on quality of execution. The outcome of this was increasing numbers of management consultants being appointed to senior banking roles and numerous of their direct reports among them. It has come to light over the last five years that there were a significant number of mistakes made in execution (as evidenced in the Royal Commission and Austrac cases). Boards are now being dragged back to focus on the oversight of execution, and not surprisingly, banks are now favouring subject matter expertise, ie banking specialists, in their senior appointments.

Specialists versus Generalists

This brings us to perhaps the most contentious but most important aspect of the argument in this paper about public sector policy capability, namely the historic undervaluing of subject matter expertise.

As mentioned above, a “cross-agency policy team” was set up in the Department of the Prime Minister and Cabinet in 2018 to generate ideas for improving the APS’s policy capability. The “Policy Hub” website is its communication channel. While there is some excellent material on the site about the important role of critical and creative thinking – which is crucial in policy development – there is an epistemic blind spot insofar the site does not link this to subject matter expertise in areas of policy to which these thinking tools are to be applied. As the Chief Scientist, Alan Finkel, has said, when you are thinking critically and creatively, you are thinking “about something”. That is, you are thinking about a particular topic.²⁴

In other words, people who know about education are more likely to have good ideas about education policy than people who don't. And people who know about health are more likely to

²³ <https://www.anzsog.edu.au/resource-library/research/public-service-commissioning-origins-influences-and-characteristics>

²⁴ Finkel, A. (2018). Master the foundations and rule a universe. *The Australian*, 18(07), 2018.

have good ideas about health policy than people who don't. That is not to say that there are not any elements of good education policy that will be in common with good health policy. But what it does mean is that the likelihood of good education policy being developed by someone who knows nothing about education is very low, no matter how familiar that person might be with the plethora of policy development processes, "tools" and frameworks that populate public sector professional development courses.

As a result, what tends to happen is that the private sector consultants are hired because they have expertise in generic data analysis and process/systems thinking, and they then draw on the department for the provision of data and information which they use as ingredients in the application of their tried-and-true template, "off-the-shelf" policy development process.²⁵

The problem with this model is that it overlooks a crucial aspect of the process that would improve the chances of the policy that emerges being the best possible policy, namely deep subject matter expertise, which comprises both discipline-specific knowledge and discipline-specific capability.

A simple analogy here is restaurant kitchens. Tetsuya Wakuda and Alain Ducasse are both excellent chefs. They would both have all the skills common to all great chefs; both would have an army of kitchen hands and skilled sou-chefs to prepare ingredients and run processes. But one would not expect French cuisine prepared by Wakuda nor Japanese cuisine prepared by Ducasse to be world-class. Wakuda just doesn't have Ducasse's depth of knowledge and understanding of French cuisine, and Ducasse similarly lacks the necessary expertise in Japanese cuisine. Each could probably do a decent job of cooking the other's cuisine, but the dishes served up would not be as good as when prepared by the subject-matter expert.

Likewise, the policy product prepared by policy generalists are not going to be as good as those prepared by people who, in addition to having generic policy development and presentation and advocacy skills, have deep knowledge and understanding of the matters that are the subject of the advice.

This is because of the way human beings gain knowledge. A rudimentary appreciation of epistemology – the theory of how we come to know - is useful here. Particularly useful is the framework provided by the Canadian philosopher, Bernard Lonergan (1904-84)²⁶. In brief, Lonergan's theory of cognition is that human knowing is a dynamic structure that relates the functions of experiencing, understanding, and judging to one another. These are different levels of intentional consciousness, with each level linked to the next by different types of questions.

On the first level, we pay attention to the data of experience, and we ask factual questions about what, when, who, etc. Then at the second level, the level of understanding, we bring our intelligence to the task of noticing patterns and asking questions for insight about what explains the data, what could cause these patterns? Answers to these questions take the form of concepts and ideas and hypotheses and possibilities that could explain the data of experience, possible answers to the problem to be solved. Then one has to exercise reason when judging between these potential understandings, asking which of them is true, or at least, most likely to be true. At this

²⁵ A recent example of this was the work Deloitte did for the Australian Government in relation to the setting of university course fees.

²⁶ See Lonergan, B. (1957) *Insight: a study in human understanding*. Longmans, Green and Co., London.

third level, when we have honestly asked and answered all the relevant reflective questions, we can make a judgement as to the truth or falsity of a proposition. This is how we come to know, while acknowledging that all knowledge is to some extent contingent and subject to revision in light of further experience and further relevant questions.

Finally, one asks deliberative questions, about how you are going to act in response to what you have come to know. Deciding how to act responsibly is the fourth level of intentional consciousness.

The capacity to ask questions of experience comes naturally, as any parent of a three-year-old will testify, but discerning which questions are important and appropriate in a given situation is a learned skill. Knowing which questions to ask of the data, which questions are relevant to solving the policy problem at hand, is something that comes with time, study, experience and knowledge.

The point of this slight epistemological detour, or “aside”, is that a generalist policy adviser will understand that she needs to ask questions of the data, but she won’t necessarily know how to distinguish the relevant questions from the irrelevant, so as to sort the important and useful data from the “noise”. This is because of our traditional model of policy development, so well described by McGuinness and Slaughter has been a very linear process:

Policy researchers and analysts survey the landscape of theory and practice, analyze the data that they gather, and formulate a prescribed course of action. They publish their prescriptions, generate a public conversation through the media, and/or advocate directly with (state, city, federal) government officials who can pass a law, adopt or abolish a regulation, or change practices of enforcement or nonenforcement of existing laws and regulations. The action taken must then be implemented, either by the public sector or often by contracted private-sector vendors who offer services to the public. The “unveiling” of the product to the people it is intended to serve often comes years after a law’s passage, with a limited feedback loop to check that it reaches those for whom it was designed...[Emphasis added].

This mode of public problem solving is simply too slow and too distant from the people it is meant to help, and provides little opportunity for course correction or improvement. The institutions and mechanisms for policy making were built in a different time and for a different time—an era with fewer citizens, a slower pace of information dissemination, and a data capacity that is a fraction of what we have today.²⁷

Our generalist policy people are “too distant from the people [they are] meant to help”, and consequently, they are not getting access to the relevant data about the problem or timely feedback on how the implemented solution is working on the ground and affecting the people it is intended to help. They are not familiar enough with the details of the industry or the sector of society for whom they are developing policy. They are dismissing data they should be paying attention to, and paying attention to irrelevant information, because they don’t have the subject matter expertise.

A key question which is often not asked, because subject matter expertise not respected appropriately, is “what does history tell us about this approach to the problem?” It’s the kind of

²⁷ Tara Dawson McGuinness and Anne-Marie Slaughter (2019), “The new practice of public problem-solving” in Standard Social Innovation Review, Spring 2019, pp.27-33.

question to which an expert is likely to know the answer. But often their experience is not included in the “data of experience” which is the subject of analysis.

As Laura Tingle wrote in *Political Amnesia*,

*Without memory, there is no context or continuity for the making of new decisions. We have little choice but to take these decisions at face value, as the inevitable outcome of current circumstance. The perils of this are manifest. Decisions are taken that are not informed by knowledge of what has worked, or not worked, in the past, or even by a conscious analysis of what might have changed since the issue was last considered.*²⁸

However, again, there is an argument that being a slave to one’s own historical knowledge risks being blind to opportunity because “we’ve tried that before and it didn’t work”. This is often the best way to kill off new thinking or willingness to test an idea in current circumstances despite the fact that it might not have worked, for all sorts of reasons, in different, earlier circumstances. (The second-best way to kill of a proposal to fund an untested idea is to say “there is no evidence that this works”, which is precisely the point of trying it, namely to gather the evidence).

Nevertheless, with that caveat, the current “accepted wisdom” is that what the public service should be doing to enhance its policy capacity is to somehow replicate private sector consultants’ generalist “synthesising” skills instead of filling the really important gap in our capability – subject matter expertise.

This corporate memory of what works or doesn’t is most likely to come from those who are responsible for implementation of policy (see “Strategy v Execution” section, above). Policy and implementation are two sides of the same coin and need to work together to deliver public value. It is therefore imperative that the separation between policy and implementation be addressed sensibly. The experience that comes with implementation is an input into ongoing learning. It provides a feedback loop, a form of what Matthew B. Crawford refers to as “embodied perception”²⁹. Practical experience of implementing a policy that has been developed based on theoretical models and frameworks is invaluable. The brain responds to pain felt in the hand and adjusts its thinking and action in light of experience. Repeated experience of what works and what doesn’t leads to expertise which, as argued above, is the handmaiden of creativity and innovation.

However, there is another important caveat to this advocacy for the greater valuing of subject matter expertise. If the mechanism for incorporating greater subject matter expertise into the policy process is not set up carefully, ‘expertise’ can have a blinkering and silo-ing effect as well as a tendency to a ‘know-it-all’ and elitist mentality. Whatever is done, leaders need to make sure they don’t reproduce this. There are myriad examples of specialist “policy units” being set up in departments that had the noble intention of developing deep subject matter expertise. In addition to succeeding in this effort, many of them also succeeded in setting up a destructive and blinkered elitism that cut itself off from not only the rest of the department, but also service and program experts, communications experts etc.

²⁸ <https://www.quarterlyessay.com.au/essay/2015/11/political-amnesia/extract>

²⁹ Matthew B. Crawford (2015), “The world beyond your head: on becoming an individual in an age of distraction”, New York: Farrar, Strauss and Giroux.

This is why the earlier point about ensuring connection, not separation, between strategy and delivery is so important. Of course, good leaders can be either generalists or specialists, strategists or implementers, but a good leadership team will have balance and diversity across this and other spectrums. More importantly you need subject matter experts and generalists who are open to listening and learning from others. Quality leadership is intellectually humble and creates the culture in which this can happen at all levels.

Where should we go from here?

The previous section looked at the question of how public policy capability is best developed through a number of “bi-focal lenses”: private/public, bureaucracy/innovation, strategy/execution and specialist/generalist skills.

Hopefully what was clear from that discussion is that these dichotomies are largely overdrawn and unhelpful, and what is needed is that ability to strike the right balance, to manage these polarities.³⁰

However, the ability to strike this balance should not left to chance, to the skills and insights of individual leaders. It needs to be consciously and intentionally fostered as a key plank of public sector reform for the post-COVID world and leadership development.

And this task has a new context that lends it an added dimension. As Mazzucato and Kattel argue in the paper which was quoted at the start of these reflections,

the pandemic has shown the areas in which capacities are critical for governments in the aftermath of the crisis and in rebuilding economies and societies: namely, capacity to adapt and learn; capacity to align public services and citizen needs; capacity to govern resilient production systems; and capacity to govern data and digital platforms.

To some extent the first three items on this list of “must haves” have been indirectly or incidentally touched upon in the foregoing sections, but less so the fourth: the capacity to govern data and digital platforms. As Cooper and Stewart-Weeks argue, “the theory of the business” for governing and public sector work is changing:

*At the heart of the new theory of the business for digitally transformed work is a mission that is less concerned with the accumulation and management of public power and authority and more concerned with **the assembly of collective intelligence** to collaboratively solve problems.³¹*

This ability of a “digitally transformed” public sector to use technology to assemble collective intelligence for collaborative problem-solving and to “harness the capability of academia, private sector, third sector to deliver well-designed policy advice”³² is going to be the core public service policy capability required for the future. Familiarity with digital platforms and with the mechanisms they afford for collaboration, citizen engagement, and for the collection and analysis of data from services and markets, will be a core policy capability, not a “nice to have”, for public sector leaders.

³⁰ <https://www.polaritypartnerships.com/#home>

³¹ Cooper and Stewart-Weeks, op. cit.

³² Peter Shergold, quoted in <https://theconversation.com/democratic-fundamentals-the-role-of-the-aps-in-a-post-covid-19-world-138933>

In addition, while expert knowledge of relevant domains will play a key role in building policy capability, the increasing complexity of many of the problems that the public sector is being called upon to solve means that the range of expertise that needs to be harnessed is expanding. The size of the collective whose intelligence needs to be assembled is growing.³³ When it comes to innovation, Matt Ridley makes the point that it's a collaborative phenomenon – 'knowledge is stored between heads, not inside them'. For example, while the pandemic has resulted in the little-known disciplines of epidemiology and contact tracing being brought into the light and glare of public attention, the public sector's policy response to the pandemic has also required the marshalling of expertise across a vast number of disciplines and occupations.

How are we enhancing the capability of the public sector to assemble this collective intelligence from across society for the purposes of developing high quality strategic policy advice to government? These kinds of capabilities aren't developed without deliberate planning and action. Recognising the importance of professional learning/education for public servants and developing promotion pathways for subject matter experts and specialists, will be part of this effort.

However, in a time when resourcing for the formation and development of public service capabilities is likely to be the victim of fiscal restraint as well as the habit of taking these capabilities for granted (or worse, disparaging them), it will take political decision-makers with wisdom, foresight to see the benefits of prioritising such investment. Everyone is quick to join in the chant of "too much bureaucracy", but few stop to ask how much bureaucracy is too little. When we've cut all the fat and have begun eating into muscle, don't be surprised if the public service that we've relied on to develop and deliver good, implementable policy, that meets the needs of the people, is just not up to the task.

The ability of the public sector to enable society to cope with external shocks such as a pandemic, and to stabilise the dis-equilibriums endemic to the way of life of a small, democratic and market-based society, is at the heart of our national peace and prosperity. We neglect it at our peril.

Recommendations

1. The Secretaries Boards at the Commonwealth and State/Territory levels, the Australian Public Service Commission and similar state/territory bodies, as well the Institutes of Public Administration and the Australia New Zealand School of Government, should support the development of promotion pathways for subject matter specialists within the public service.
2. The bodies referred to in R.1 above should undertake reviews of the extent of, and reasons for, the use of advisory consultants for the development of strategic policy advice.
3. The bodies referred to in R.1 and R.2 above should prioritise professional learning and development in how the public sector adopts "digital transformation" to enhance efficiency and effectiveness.

³³ *How Innovation Works*, (2020). See also Matthew Hutson (2020), "You really don't know what you know", MIT Technology Review, <https://www.technologyreview.com/2020/10/21/1009445/the-unbearable-vicariousness-of-knowledge/>

Disclaimer

This paper represents a broad consensus among participants reached over the course of three months of conversation both in person and electronically in late 2020. The paper is a contribution to a program of work - involving similar discussions among a wide cross-section of participants from multiple industry sectors - on national resilience in light of COVID-19. This project is being jointly sponsored by Global Access Partners (GAP) and the Institute for Integrated Economic Research Australia (IIER-A). The conversations followed the principles of the GAP 'Second Track' process – an innovative process of group collaboration which encourages positive thinking, deep long-term engagement, and a personal interest in achieving practical results. Conversations and email exchanges were held under the Chatham House rule of non-attribution to inspire a frank and constructive exchange of ideas. Accordingly, there was a diverse range of views expressed by the individuals involved and not every participant agrees with every statement in full. The workshops were an initiative of GAP and IIER-A, and their existence, process and results do not claim or imply any form of endorsement from any of the individual participants or their organisation of employment or affiliation. The participants included (in alphabetical order): Simone Constant, David de Carvalho, Pamela Kinnear, Mary-Ann O'Loughlin, Martin Stewart-Weeks, and Paul Verschuer.