

THE PUBLIC SECTOR— AN OVERVIEW

New Zealand Planning Council

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**A Report by the
New Zealand Planning Council**

NZPC No. 22

New Zealand Planning Council
P.O. Box 5066
Wellington

September 1982

Foreword

This document is the final statement of the Planning Council under my chairmanship. It was designed to coincide with the completion of an important part of our work on the public sector. The main responsibility for this work was carried by a Steering Committee convened by Council member Kerrin Vautier with Sir Frank Holmes, Professor Henry Lang, Dr Mervyn Probine and Mr Graham Ansell as the other members.

This document starts with a brief resume of the Council's broad approach to the role of Government in our mixed economy. Part II then highlights the main features of four planning papers commissioned and published by the Council as part of its public sector series. These papers include both historical and technical contributions which help elucidate current issues of debate and indicate what further research or investigation would be useful.

In Part III the Council draws its own conclusions from its involvement with public sector issues and strongly commends these to policymakers and administrators for their attention and action.

Frank Holmes,
Chairman.
September 1982.

Members of the New Zealand Planning Council as at September 1982

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The Public Sector—An Overview

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The Public Sector—An Overview

I. INTRODUCTION

Government is of high importance in New Zealand's economy and society. There have always been differences of opinion about its role, but New Zealanders have pragmatically sought a middle way between the ideologies of nationalisation and unrestricted private enterprise. They have used State power when it seemed appropriate to promote development, to protect local residents against overseas pressures, to mediate between conflicting interests, to support the disadvantaged, to increase security for selected groups, and to modify distribution of income and access to social services. As a result, we have a mixed economy in which Government and the private sector play complementary roles.

While New Zealand governments will remain concerned with development and welfare, events since the Planning Council's creation have required reappraisal of Government's role as part of a wider reappraisal of our old ways of doing things. If we are to maintain a stimulating environment in which people can make the best of the opportunities open to them, initiative and responsibility must come from all sections of the community, not just the Government.

Worsening conditions overseas have made it necessary for New Zealanders to reduce their earlier expectations of continuously rising personal living standards and improved public services and benefits. They have also accentuated the need for significant changes in the structure and operation of the economy, to provide a better basis for growth. We must not only recognise the limits to Government's capacity to meet expectations generated in the past, but also ask what changes in the structure and operation of Government will bring greatest benefits to New Zealand in the 1980s.

Government Intervention in the Economy

The Council has always urged Government to promote a suitable environment for continued economic and social development, and in doing so, to intervene in ways which as far as possible act through market forces rather than through administrative regulations and restrictions. Such direct controls are prone to put excessive emphasis on preservation of the status quo, raise costs, and impede flexible adaptation to change. The Council has favoured basing Government policies on general measures, rather than selective ad hoc interventions, or subsidies and concessions to particular groups. It has recommended a critical approach to activities requiring

high protection to survive, and a positive drive to provoke and assist more enterprises to improve their efficiency and become internationally competitive. A closer economic relationship with Australia is an important element in an outward-looking strategy which improves opportunities for efficient industries and exposes to more competition those which now produce at relatively high cost.

The Council has supported not only less detailed intervention by Government in the market, but also more decentralisation of the Government's own operations, and the devolution of some functions now carried out by central government in a more constructive partnership with local and ad hoc authorities.

A Longer View

Another important theme of the Council's work on Government has been the need for a longer view in policy and for more systematic determination of priorities. For example, the Council has advised Government to publish a statement of development strategy.

Again, in the measures advocated by the Council to curb inflation and promote more stable expansion of output and employment, the need for a medium-term view of monetary and fiscal policy has been emphasised, avoiding the large destabilising swings of recent experience.

In 1978 the Government indicated an intention to improve and publish forward estimates of public expenditure and use of manpower, as advocated by the Council. If implemented, this will allow a more systematic, forward-looking assessment of priorities in expenditure and in policy generally, not just in individual departments, but across traditional departmental boundaries.¹

The Financing of Government: Taxation and Expenditure

The work of the Planning Council has reflected increased concern in the community about Government's role. Disappointed expectation of higher personal incomes led to increased pressures for tax reduction and encouraged people to avoid and even to evade tax. There was greater public awareness of anomalies and inequities stemming from high inflation and the

¹See the Council's publication *Who Makes Social Policy?*, pp. 23 and 48 for further discussion of this point.

piecemeal introduction of tax concessions and incentives for particular purposes. While our total taxation has been below the average in OECD countries, it has been rising in relation to national and private income during a period of stagnation. It has also been heavily concentrated on personal income, with high marginal rates applying on quite moderate incomes. The Council, in its *Agenda for Tax Reform* recognised the political and economic difficulties of reform, but advocated speedy action to deal with the obvious disadvantages of the prevailing system—"its complexity, its stimulus to inflation, its adverse effects on work and enterprise, and its provocation of avoidance and evasion".

Most people probably see tax reform as meaning lower taxes for themselves. But tax reduction is limited by the need to finance Government expenditure without excessive borrowing and money creation. Unfortunately, the general trend has been for deficits between Government revenue and expenditure to become larger than desirable, notably in the years in which elections are held. This, among other reasons, has led the Council to propose that a longer parliamentary term should be introduced.²

Unless expenditure can be constrained, the reduction of high marginal rates of personal income tax will need to be offset by the collection of additional revenue from other sources, notably indirect taxes.

It is not only the general slowing of growth and the desire for tax reduction that has led to pressure for smaller growth of Government expenditure. Shortage of overseas exchange has been a major obstacle to development, and it has been necessary to put more resources into expanding exports and making investments which would reduce dependence on imports, especially of liquid fuels. Stimulating these activities has had to be given priority over increasing personal and Government consumption.

In *The Welfare State?* the Council made the value judgement "that there was a consensus in the community against continued growth in the relative size of the public sector". The Council recommended that if, as we believed, GDP could grow on average at about 3 percent in real terms in the decade, Government expenditure should be allowed to rise by only 2 percent a year. This was obviously only a rough guideline. Its attainment would have to be gradual while we had low growth, high unemployment, depressed private

activity, and difficulty in reducing the momentum of some Government programmes.

In any event, to constrain public expenditure is more easily said than done. While there is a desire for less government and lower taxes in general, there are strong pressures for more government from those whose interests will be served by greater public expenditures or other State assistance. Striking a balance is a complicated and continuous process in a society and economy undergoing change.

Reassessment of Policy

The required constraint on public expenditure cannot be obtained merely by tinkering. The Council has advocated a fundamental reassessment of policy, particularly in two main areas. First, the Council called for reassessment of those benefits paid regardless of need, especially national superannuation which had become a high proportion of the social welfare budget. A later age for universal eligibility was recommended. It was also time for a review of old approaches in areas such as health, with greater restraint on expenditure on buildings and expensive technological equipment, and more emphasis in health, education, welfare, and law and order programmes on preventive rather than curative measures.

The Council has advocated a gradual move in social policy from a welfare state to a welfare society. The Tu Tangata programme, based on the principle that self-generated and community-based solutions are likely to be more effective than paternalistic programmes administered from a distance, epitomises the approach. The Council envisaged the Government remaining the main guarantor against social risk, with no diminution, but rather improvement, in assistance to those in need. But the constraints of the 1980s make necessary more selective approaches giving more prominence to need as a criterion. In addition, the Government must encourage and assist others to assume those social responsibilities which they are better fitted to bear. Continued assessment is required of the relative effectiveness of community, local government, and central government activity in this field.

In recent years, an expensive "business welfare state" has also developed, through subsidies, supplementary minimum payments, export incentives, other tax concessions, and the like. The Council has suggested that budgetary costs could be substantially reduced if more reliance were placed on using the exchange rate as the main incentive for earning and saving overseas exchange.

²See the Council's 1979 Annual Report (D. 9) to the House of Representatives.

II. RECENT PLANNING COUNCIL PUBLICATIONS ON ISSUES IN GOVERNMENT

During the past 18 months the Council has had prepared for publication four planning papers designed to achieve greater understanding of the role of the State in New Zealand and identify options for change. Two of these papers provide an historical perspective: Professor G. R. Hawke reviews the history of Government intervention in New Zealand's economic activity and Mervyn Pope examines the past 20 years' transactions by Government in its varied roles. The remaining two papers analyse particular issues in Government: Dr Ian Ball considers the measurement of the cost of Government services and Adrienne von Tunzelmann and Jeanette Johnston discuss the organisation and performance of public enterprise—Government in the marketplace.

1. Government in the New Zealand Economy, by G. R. Hawke, was published as Planning Paper No. 13 in June 1982. Professor Hawke traverses the history of Government involvement in the economy from the 1840s to the post-Second World War period, when a continuous and comprehensive degree of protection and control had been established. He sees little choice but to adapt to the longstanding New Zealand willingness to use the Government apparatus where it can be useful, seeking to confine Government to what it can do better than non-government organisations. In the case of such activities as law enforcement and diplomacy, this implies only that Government's use of resources should be subject to the best available economic, social, and financial appraisal, using modern techniques and procedures.

With intervention designed originally to protect New Zealanders from overseas business control and to balance competing interests, the aims have become more difficult as a less homogeneous society adjusts its position in the trading world. Moreover, governments now have powers and instruments alternative to those adopted earlier. For example, the existence of a central bank makes ownership of a trading bank economically redundant; and there is little economic point in owning coal mines which have become a relatively minor element in the energy market.

Professor Hawke notes that the distinction between the efficient and inefficient use of resources is not only different from, but also economically more important than, that between public and private ownership. If, for example, private enterprise were willing to purchase the Bank of New Zealand on satisfactory terms, there would be a case for denationalisation. But there would be further questions to answer; their focus

would be the efficient use of resources, not the quite different motives that led to a Government shareholding in the 1890s.

Macroeconomic policies have become important touchstones of Government effectiveness since governments cannot avoid responsibility for economic growth, inflation, and unemployment, even though they have to create a general climate where their actions will not be frustrated by the reactions of individuals and groups. It is more difficult to see how the trend towards reliance on direct controls can be reversed, even when they engender wasteful use of resources and a spirit of antagonism in those they affect. Direct controls are now readily to hand, and offer the appearance of a strong response to any problem, but what is apparently direct is not always best. Better understanding is required of all their implications. Community leaders should use controls and regulations only after careful analysis, recognising that New Zealand is no longer a small community entirely attuned to paternalistic decisions about individual welfare.

Professor Hawke's argument is not for a retreat to minimal government which would be going beyond nineteenth century practice even in Britain, let alone New Zealand, but for a change of emphasis. Government should recognise that New Zealand is now a more diverse society. Its prime objective should be not to control behaviour and decisions but to help resolve conflict where separate groups have incompatible objectives.

2. Dimensions of the Public Sector 1960–1981, by Mervyn J. Pope, was published as Planning Paper No. 16 in October 1982. Detailed analysis of central government's transactions since 1960 suggests the following conclusions among others:

- **Government as a Producer:** The Government is a major producer of goods and services, contributing 21 percent of gross domestic product in 1979–80 compared with 14.5 percent in 1959–60. The major increases occurred in its non-market production (goods and services supplied free by Government, such as health, education, law and order) which rose from 6 percent of GDP to 11 percent. On the other hand, market production (goods sold in the market such as electricity and postal services) only increased from 8.5 percent to 10 percent of GDP in the 20 years.
- **Government as a Spender:** Government's current expenditure on goods and services and capital formation rose from an average of 14 percent of gross national expenditure in 1960–61 to 1964–65 to an average of about 20 percent in 1975–76 to 1980–81. This substan-

tial increase reflected in part the fact that costs of Government goods and services have risen much faster than the costs of production in the private sector. Thus, despite the substantial increase shown above, real Government expenditure on goods and services, relative to real gross national expenditure, showed a smaller increase—from about 17 percent to 20 percent. The number of employees paid by central government as a proportion of the labour force has changed little—from about 20 percent in the 1960s to 21 percent in the 1970s.

Current transfers (e.g., national superannuation and social security benefits), relative to gross national expenditure, rose from an average of 11 percent in the period 1960–61 to 1964–65 to 18 percent in 1975–76 to 1980–81.

- **Government as a Tax Collector:** Total taxation raised by central government rose in relation to household income from an average of about 30 percent in the 1960s to 35 percent in the three years to 1980–81. Although this increase was not large by international standards, direct personal taxation increased from 13 percent to 23 percent in the same periods, while other taxes remained constant or fell.
- **The Government Deficit:** The total Government deficit which averaged 7 percent of net Government expenditure between 1968–69 and 1970–71, rose to 17 percent between 1978–79 and 1980–81.
- **Government as a Provider of Household Incomes:** The Government is much more significant as a provider of income than as a producer. On average, 36 percent of total household income (before tax) was provided by Government in 1977–78 to 1979–80 compared with 27 percent in 1959–60 to 1961–62. Thus over one-third of all household income is now received through the central government. In this context central government provision includes not only salaries, etc., paid to State employees, but also transfer payments.
- **The Nature of Government Provision:** Central government is no longer well characterised only as the provider of collective goods (defence, law and order, administration, health, and education) since, on average, these amounted to about 30 percent of what Government provided in the 1970s. The remaining 70 percent consisted of marketable goods and services (20 percent), transfer

payments (including tax expenditures), and money lent to various Government entities from funds borrowed at home and abroad.

- **Tax Expenditures:** Pope's work highlights the importance and changing nature of tax expenditures. Tax expenditures represent revenue foregone as a result of tax incentives and concessions to businesses, etc. (such as export incentives and investment allowances which have the same effect as subsidies), and personal tax concessions to individuals (such as family rebates and superannuation exemptions which have the same effect as social security transfer payments.) Incentives and concessions to business through the tax system amounted to \$368 million in 1980–81, a not insignificant amount. Personal tax expenditures (as Pope defines them—and there is much room for argument about the most appropriate definition) have fallen in the 1970s as a percentage of total Government provision. In 1980–81 they amounted to \$482 million. On the other hand, there has been a large increase in transfer payments (national superannuation, etc.) since the mid 1970s. Thus, while on balance the total provided by Government for welfare and social assistance programmes has not increased as much as is generally believed, there has been a major change in the composition in favour of the elderly.

3. Measuring the Cost of Government Services, by Ian Ball, was published as Planning Paper No. 11 in May 1981. This follows through some aspects of improving the cost-effectiveness of Government. Dr Ball argues that accounting information should be designed to meet the needs of different users (e.g., private and public sector management, politicians, electors, special interest groups); and that resource allocation decisions are directly influenced by the quality of information produced. He then critically examines possible cost concepts and measures.

Dr Ball points to changes which take time, and, in some cases, research. Two possible changes are fairly fundamental. The first is to move towards an accrual accounting system in addition to the present system of cash accounting. Much research would be required before such a change could be contemplated. The second concerns current cost accounting. With current and expected rates of inflation, historic cost accounting tends to understate the cost of resources involved in many Government assets, and current cost accounting techniques should be applied. Three proposals are identified for urgent reform:

- **Charging for Goods and Services:** Departments receive at no cost valuable services

such as office space, most of which would be used more carefully if they were subject to the normal departmental budget constraints. Where the administrative cost is not prohibitive, all goods and services should be charged at rates sufficient to cover their full cost, or at market prices where appropriate.

- **Tax Expenditures:** The Government assists enterprises and individuals through the tax system as well as through subsidies and other direct expenditure. Although subsidies (like all direct Government expenditures) are explicitly appropriated by Parliament and thus subject to detailed scrutiny, tax expenditures are not. It is not even possible to ascertain their cost. A tax expenditure budget should therefore be developed and identified in the appropriate votes for Estimates of Expenditure.
- **Capital Assets:** There is no incentive for Government departments to use capital assets efficiently once they have been acquired, because under New Zealand's cash accounting system most departments are charged neither depreciation on assets nor interest on the funds involved in acquiring capital assets. The first step in improving this situation is to require all agencies of Government to have up-to-date registers of major assets. In addition, a pilot project should test the operation of a system (known as Capital Asset Funds) whereby departments would be charged for the use of assets.

4. The State in Business, by Jeanette Johnston and Adrienne von Tunzelmann, was published as Planning Paper No. 15 in September 1982. It examines the role of Government in the production and distribution of goods and services and discusses the characteristics of public enterprise; the justification for State intervention in the market; factors relating to the efficiency and accountability of public enterprise; and the case for transferring functions to the private sector. The authors consider the public debate on two basic issues: should the trend towards Government ownership and control of enterprise be reversed, with more "privatisation"; and how can public enterprises be made more efficient and effective?

Another recent study, "Public Enterprise in New Zealand", by Dr R. C. Mascarenhas, covers similar ground with more detailed attention to history and the political influences on public enterprise.

- **Public v. Private Provision:** The authors find that the potential for private—instead of State—provision of goods and services is not often enough reviewed. Nor, frequently, have

the reasons favouring public enterprise been sufficiently convincingly stated. The professed advantages of private over public enterprise are not necessarily substantiated in practice, and indeed the distinctions between them may be narrowing. For example, some public enterprise agencies are moving towards operation by commercial principles, while within the private enterprise sector there is an increase in co-operative ventures and in support by Government funds.

- **Government Withdrawal:** The authors identify factors limiting opportunities for transferring Government enterprise activities to the private sector, including Government's general responsibilities for managing the economy and the social infrastructure, and difficulties of finding private sector buyers for what may be a losing operation. They see, however, two clear cases for Government withdrawal from the market: that of a public enterprise set up to regulate the market by competition, when that market takes on competitive strength; and that of public enterprises set up to meet inadequacies and distortions in the market, when some of the distortions (such as restrictive legal provisions or other barriers) are removed.
- **Effective Management:** Whatever the judgement of the advantages and disadvantages of public enterprise, the authors attach highest importance to effective management, and consider ways in which public enterprise should be made most efficient and accountable for its operations. They see better management as proceeding from greater independence rather than more centralised control, provided that objectives are clearly defined and "social" objectives are separately identified and funded by the Government. Competitive public enterprises should operate under the same market conditions as their private enterprise competitors.
- **Organisational Form:** The authors consider the range of forms a public enterprise may take, and favour corporate organisation which allows opportunity for adopting appropriate business decision and management techniques for the agencies' commercial operations, while providing a structure which can respond to the policy requirements of Government. More autonomy and flexibility would be achieved by a limited liability company structure, but with less public accountability.
- **Formal Management Techniques:** Within a public enterprise, there should be routine use of such formal management techniques as corporate/strategic planning; the development of performance targets and measures;

efficient accounting systems; internal monitoring systems; investment review and project appraisal procedures. A number of the skills necessary to provide effective advice, monitoring and review are already available within Government. These should be co-ordinated to ensure their effectiveness in maintaining efficiency and accountability in the public enterprise sector, and appropriate institutional arrangements made within Government to this end.

Public enterprises should be fully and publicly accountable. Adequate information should be publicised about their performance.

The authors suggest that public accountability would be strengthened by the establishment of a new select committee or subcommittee of the Public Expenditure Committee of Parliament specifically to scrutinise the operations of public enterprise.

III. COUNCIL CONCLUSIONS AND RECOMMENDATIONS

As the early pages of this report recall, the Council has since its establishment recommended a number of policy changes aimed at making New Zealand's mixed economy function more effectively. Several of these recommendations have been adopted as elements of the Government's (and Opposition's) strategies; but it will be evident that others have not yet commended themselves to our elected representatives. It is part of the Council's function to help create a climate for the acceptance of desirable changes, and we trust that some of the suggestions not yet implemented will eventually be adopted.

Control and Regulation

The Council reasserts the view that in managing the economy, the Government should use direct controls as little as possible and rely instead on creating the right general environment for economic growth. It recognises that changes in the control system to which the country has grown accustomed will need to be made gradually to allow producers time to adapt. They must be accompanied by active employment and training policies which help workers to move from declining to expanding activities. But it is important that policy should generally welcome rather than impede competition, and that it discourages private restrictive practices. Some regulation will be necessary, e.g., to protect health and the environment or to conserve resources. But where it is necessary to regulate entry to certain activities, every effort should be made to permit those who could improve their service to displace those whose service is deficient; the onus of proof should be on those already enjoying protection to show why it is in the public interest.

Government action to promote a more competitive economy must, however, be accompanied by efforts to improve communication, co-operation, and social cohesion. This must be developed by constructive interaction between employers and workers in enterprises throughout the country, and by their representatives in negotiations. But the Council considers that it would be helpful if Government more regularly involved leaders in business, unions, and other groups in discussion of development strategy and of the economic and social policies required to achieve improved living standards and full employment.

Social Assistance

One of the most important conclusions about Government activity which emerged from *The Welfare State?*, and which has been reinforced by Pope's work, is the large amount and changing composition of social assistance. Social assistance transfers (national superannuation, social security

benefits, etc.) rose from 17 percent of central government provision¹ in 1971-72 to 23 percent in 1980-81. On the other hand, personal tax expenditures (e.g., spouse and single income family rebates) fell as a proportion of Government provision during this period. These movements produced substantial changes in the distribution of income as between various groups receiving Government support. As a group the elderly are now relatively better off than they were. The Council does not have enough information about the distribution of income to reach firm conclusions about desirable policy changes beyond those advocated in *The Welfare State?* It believes further research is urgently required in this area.

Measuring the Cost of Government Services

The Council's statement accompanying Dr Ball's paper emphasised the importance of improving techniques of measuring the cost of Government. Failure to use the best available techniques has far-reaching effects on decision-making and resource allocation, and makes comparison between the effectiveness and efficiency of public and private sector activity difficult, if not impossible.

While some improvement has been made in this context, the Council recommends further reform, particularly in:

- (i) Charging for goods and services provided by various Government agencies;
- (ii) Reporting and submitting for parliamentary scrutiny the amount of tax expenditures;
- (iii) Accounting treatment of capital and other non-cash assets.

Performance, Effectiveness, and Efficiency

In order to overcome its economic difficulties, New Zealand must seek maximum efficiency from all sectors of the economy, public and private. As indicated elsewhere, the Council believes that much can be done to improve the efficiency of the public sector by changes to the present systems of operation, e.g., by more forward planning of expenditure, more systematic determination of priorities, more emphasis on management by objectives. In saying this, the Council believes that New Zealand is well served by the people who administer the departments and agencies of Government. The State Services have an international reputation for competence and integrity. The control departments—the State Services Commission and Treasury—and the operating departments and enterprises themselves, have done much in recent years to introduce proce-

¹ "Central government provision" includes all Government expenditure on goods and services and transfer payments as well as tax expenditures.

dures which enhance the efficiency of the public sector. New techniques are being applied to management and personnel development. The Budget process has been improved by emphasising what goods and services Government produces or provides, as well as what resources of people and materials are required for the purpose.

Effectiveness and efficiency have a particular application to public enterprise. The Council shares Professor Hawke's view that the question whether an enterprise is publicly or privately owned may be less important than the way in which the enterprise is managed. It therefore considers that wherever possible the same measures of performance should be used whether an activity is undertaken by the private or the public sector. While achievement of this objective may be complicated—or in some cases impossible—more can and should be done to heighten the efficiency of public enterprise, along the lines proposed by von Tunzelmann and Johnston in their study.

To promote the commercial orientation of public enterprise, the Council recommends that:

- (i) The Government should clearly define the objectives of each public enterprise, distinguishing as far as possible commercial from non-commercial objectives.
- (ii) Where public enterprises are required to deliver goods and services for social reasons the additional cost should, consistent with maintaining efficiency, be reimbursed by Government. In other words, the Government should meet the cost of requiring public enterprises to supply uneconomic services. In considering whether or not services should be continued, the overall national interest should be weighed. It is clearly desirable to encourage people to travel by rail, for example, if the costs of their travelling by alternative means—hidden as well as explicit—are significantly higher.
- (iii) Competitive public enterprises should operate under the same market conditions as private commercial enterprises and be subject to comparable financial and economic requirements.
- (iv) Public sector monopoly enterprises should be subject to any general legislation and regulation (such as price controls or freezes) which apply to private sector monopolies.
- (v) The Council believes there are potential advantages in the corporate form of organisation. It considers that this form will be most successful if directors appointed by Government to all public enterprises command the greatest possible expertise. This

requires different procedures for selecting potential candidates. While the final appointment must be made by the Government, conventions should be developed, as is the case with appointments to the judiciary, for systematic consultation with independent individuals or groups who can assist in ensuring that appointees are well fitted for their responsibilities.

Review Procedures for Public Enterprise

The von Tunzelmann/Johnston study has shown that there is no systematic examination within Government of public enterprises' performance. The Council considers that while public enterprises should, as far as possible, be left to manage their own affairs, there is need for a continuous review to ensure a systematic approach to public sector management. The Council does not favour setting up another quango, but recommends establishment of a section in a control department—the Treasury would seem the most logical, provided there were involvement by the State Services Commission to perform this task. This should not involve greater central control than is exercised at present. The section would provide advisory services and arrange regular reviews of the objectives, functions, and effectiveness of the various enterprises. Such reviews would not necessarily be carried out by the section, but could be done by consultants and special task forces of various kinds.

"Privatisation"

Privatisation has been advocated on two major grounds: that Government is too large and that the private sector is more cost effective and efficient.

Pope has shown that, if all enterprises which could be run by the private sector were transferred to it, this would not reduce Government expenditures significantly (assuming that health and education continued to be provided largely by the State), nor would it lead to less Government influence through controls and regulations.

The Council sees no easy distinction between the public and the private sectors. Much depends on the context. In New Zealand, there is a continuum of activity organised in institutions which include administrative and trading Government departments, wholly Government-owned corporations, partly owned Government companies, Government-backed agencies, and private enterprise, much of it in receipt of Government subsidies and incentives and virtually all of it regulated by Government in some way. This complicates the choices of private and public provision. Moreover, von Tunzelmann/Johnston show that the evidence about effectiveness and efficiency of the private and public

sectors respectively, is inconclusive. The Council is unable to reach broad conclusions as to whether there should be more or less "privatisation" of public enterprise: the case for each Government enterprise or activity should be considered on its merits, in the light of the recommended regular reviews.

The Council agrees with Hawke's view that Government should confine itself to those things it can do better than non-government organisations. It would go further. The central task of Government in the economy being to create the right climate for growth, rather than to maintain its own enterprises, Government should continually and actively examine whether and the extent to which Government should continue its direct involvement in particular enterprises or industries.

Accountability

The related issues of accountability and freedom of information arose repeatedly in the Council's work on the public sector generally, and on public enterprise in particular. Greater accountability at all levels of Government activity is an important prerequisite of improved effectiveness and efficiency throughout the State Services. (Conversely, without improved measures of effectiveness and efficiency, greater accountability cannot have much meaning.) Accountability has been strengthened by more effective scrutiny of Government activity through the Parliamentary Public Expenditure Committee, by the Cabinet Committee on Expenditure, and by the control agencies. The projected freedom of information legislation will also promote the accountability of Government agencies.

With public enterprise the position is uneven, and in some instances accountability is inadequate or non-existent, e.g., some wholly Government-owned companies are not required to report to Parliament. Since this is patently unsatisfactory, the Council recommends that all public enterprises including those operating under the Companies Act be accountable to the Public Expenditure Committee of Parliament or a subcommittee of it. Where shares are held by the Crown in an enterprise which is predominantly owned by the private sector, accountability should be required through the agency holding the shares. Suitable arrangements would have to be made to preserve confidentiality, where commercially essential.

Requirements for further Research and Investigation

The Council's work on the public sector has covered many issues, some of major importance.

Others remain to be considered; and since in any case no public sector issue is likely to be capable of once-and-for-all solution, continuing research and investigation will be required.

Concerning the performance of Government agencies, the Council recommends to its successor that it give priority to the formulation of a joint study programme with appropriate agencies, on the following lines:

- (a) Investigation of how techniques may be introduced to measure more accurately the cost of various Government activities in both the non-trading and trading fields;
- (b) A continuing review of public enterprise as suggested by von Tunzelmann/Johnston, to produce studies of:
 - (i) General principles in public enterprise management where guidelines should be developed and applied, e.g., on financing policies (including capital structure, requirements to be self-financing), pricing policies and practices, profitability criteria, the taxing of public enterprise profits, and application of financial and economic appraisal techniques;
 - (ii) Individual enterprises which present significant opportunities for review in such areas as privatisation, competition, pricing and investment, and management approaches.

Expenditure Priorities

The Council wishes to make one final point. It has already recommended (p. 13) that research is urgently needed into the effects of the massive change in the field of welfare expenditure. However, it sees a wider problem—of formulating a better system for the allocation of public funds than now exists. It fully supports the Government's aim of reducing the growth of public expenditure, in order to reduce the deficit. But it is not persuaded that a coherent expenditure pattern, corresponding to overall national priorities, can emerge from a process in which each department or agency is required to cut its resources by roughly the same amount. It is unlikely that the lowest-priority expenditures of one department will carry the same national significance as the lowest-priority expenditures of another. The Council is concerned therefore that current expenditure control procedures may lead to unplanned shifts in priorities as seem to have occurred in the welfare area. While there may be good reasons for such shifts, it is undesirable that they should occur without the opportunity for informed public debate and more adequate consultation with the groups directly affected.

The Council hopes that improved procedures for expenditure allocations will be introduced in the light of experience with the 1982-83 Estimates. In its view it is essential—and the Council has made this point before—that improved procedures are adopted within a

framework determined by the publication of public expenditure forecasts for at least three years ahead. The publication of these forecasts and the public discussion that would be generated must enhance the potential for achieving better resource allocation in the public sector.

Planning Council Publications

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