

# REPORT SUMMARY



THE  
NEW ZEALAND  
INITIATIVE

## Demystifying the State

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Demystifying the State is the first report in a two-part project to identify promising approaches to reforming the New Zealand state. The report argues that most ideas for reform are too focussed on abstract goals and downplay practical reality. The central state is not a monolithic machine, but rather, is hundreds of workplaces employing tens of thousands of people.

### Short summary

Plans to reform the state typically focus on abstract ambitions for the state and underestimate its human and organisational limits.

This report starts with a description of policy advice agencies, how they are organised and the ecosystem of organisations they create. Their effectiveness is limited by too many layers of hierarchy, diffuse motivation, poor information, and lack of accountability.

The most popular approaches to state reform change operations, such as contracting, or managerial approaches, like those enacted under the 2020 Public Service Act. These typically make little practical difference. Substantive reform requires structural change at a systems level, such as giving more power to local organisations.

### The New Zealand state

The state is a hierarchy. At the top are ministers who work in the Beehive. They have a mandate to act on our behalf. Ministers directly appoint a small number of officials. Ministers and the people they appoint only account for about 2,000 of the approximately 460,000 people who work for the state.

Most work done by the state, even personal letters from ministers, is done by hierarchies of permanent officials who

are not appointed by ministers. These officials include a small number who advise Ministers. A larger number – around two-thirds of permanent officials – implement policy, most obviously in schools, WINZ offices and so on. The remainder are employed in state organisations, either as managers and administrators or as providers of services like Human Resources and IT.

Permanent officials are distributed among approximately 3,000 state organisations (no one is sure exactly how many!) over many more sites. Two-and-half thousand of those organisations are schools and other educational institutions. The best known, like Treasury, provide advice to Ministers. Some, like the Police and the Ministry of Social Development also implement policies. The rest are Crown entities, like the Accident Compensation Corporation (ACC).

The relationship between state entities is analogous to an ecosystem. It is poorly described by the formal, legal relationships between state entities.

### Limits of the state

The people who work for the state are as inherently diverse as any other large group. In understanding the limits of the state, it is more helpful to look at what people do in state organisations and how that, in turn, influences the organisations. The key practical limits on the state are:

- The limits of hierarchy and “working through others” to implement policy.
- The limit of disengaged motivation to implement policy.
- The lack of the right information for those making decisions.
- The weak enforcement of accountability.

These limits are characteristic of the state as an institution. Motivation is the most important limit.

## Reforming the state

The best way to understand why the state may need reform is “institutional mismatch”. This is where some limit of an organisation makes it poor at certain tasks. For example, a university required to deliver pre-school education using academic staff, lecture theatres, and other university facilities is mismatched to its given task. Problems arise because the institution is being asked to do a task that makes no sense for an organisation with its structure and capabilities.

This means two popular approaches to reform usually have limited impact. First, changes to operational tools, like explicit contracting to replace managerial relationships, make little difference to practice. Second, managerial approaches like the Public Service Act 2020, that use principles practically implemented by upper parts of the organisational hierarchy, reinforce institutional limits.

Real reform requires structural changes to the institutional limits. These would include some combination of political devolution, sometimes called “localism”; increased political accountability to improve the information available; and rethinking when “politically neutral” and Ministerially appointed officials are best.

## ABOUT THE AUTHOR

**Dr Tony Burton** is a Research Fellow at the New Zealand Initiative. He acquired a PhD in economics and philosophy from the University of East Anglia researching game theory and choice under uncertainty. His professional experience includes Economic Advisor at the UK Ministry of Health, and Principal Advisor at the New Zealand Ministry of Social Development and Treasury.