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Intelligence MEMOS

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From: Michael Wernick
To: Public Sservice Observers
Re: # The Deadweight of Dogma on Public Service Reform

Too much discussion of the state, or government, or the public sector, treats it as a monolith. It is treated like the equations you see in first year economics, with no further unpacking.

Moreover, much of the commentary is infused with ideological premises – most often that reflexively sees virtue in lower taxes, less regulation and state intervention or sometimes that reflexively wants to throw more resources at doing things the same old way.

We have been having a moment in Canada about productivity and many see a path to productivity gains in shrinking government, but go no deeper than the surface.

There is a different way of thinking about our national productivity challenge that pays much more attention to state capacity and its contribution to productivity. There is also a different way of thinking about public sector reform that harnesses the language of productivity to dig deeper into how the public sector works.

The tired nostrum that government exists to correct for market failures by the private sector is too simple because it implicitly, and incorrectly, treats the private and public sectors as disconnected. We need to examine more closely the capabilities of the state that a successful private sector requires.

Much of the transportation and energy infrastructure, a topic much in the news of late, comes from public sector entities. The state supplies education, healthcare and retirement income for the labour force, direct support for research that fosters innovation, and more. The state facilitates commerce by providing border management, navigation and traffic control in the air and on the water, intellectual property rules, export financing, investment and tourism attraction, rule-making that promotes trust in markets, and courts that resolve disputes.

And then there are the state-provided information services such as the widely used weather forecasts, and the lesser-known Statistics Canada economic data markets rely upon. Beyond that there are the defence, security and intelligence and cybersecurity services that stand on guard.

Any one of these areas opens up a rich discussion of how to do better, and we need to think about which of these capabilities are going to be the most important going forward.

So how best to reform government in 2025?

Looking just at costs is too simple. We need to also think about and measure "output" of the public sector, to dig deeper into the productivity relationships between inputs and outputs and especially to pay more attention to longer term effectiveness. To take one example, what is the right productivity or output measure of information services or risk management services?

So, what would a serious productivity minded economist be looking for in thinking about the public sector as a sector?

You would start with the quality of labour and look for more investment in training and new skills, especially investment in management acumen and emergent technology. You would expect to see a more sophisticated approach to compensation, such as the targeted use of recruitment and retention bonuses.

You would aim for the substitution of capital for labour, automating processes, putting better and more timely information in front of managers, and explore the full potential of AI.

You would look for greater speed and agility in optimizing the internal allocation of resources and look deeper into the oft-neglected internal government to government services – finance, human resources, information management, procurement, oversight and comptrollership.

You would look at shedding assets and changing the geographic footprint – here the obstacles are almost always local politicians and fiscal NIMBYism.

You would be very interested in culture and incentives: Innovation versus risk aversion and look for practical measures that change the incentives.

Unfortunately, Canada underinvests in R&D about the public sector – we spend more researching crop rotation than how government works and we have much less capacity than other countries – it is very thin and drifts to debating policy. We need to pay more attention to state capacity and capability and think of it as R&D and reinvestment.

There is no question it is time for deep pruning of the state, but it also needs to look at what we ask the state to do for us. When we hear simplistic sound bites about cutting the size of the public sector, we need to pause, count to three, and ask: Which parts? Which people? Which programs, functions, professions, and locations?

Ahead of us lie even harder questions around priorities and tradeoffs. These should be driven by identifying what capabilities we need to keep and even strengthen, and how do we drive continuous improvement in the system?

So, we have to get beyond dogma and overly simplistic tropes and think of the state not just in terms of quantity but also quality. Not just size but capability. Better is possible and, in these times, better is essential.

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