Comprehensive Reform of Public Governance: Exploring Canadian Experiences

Prepared for the “Towards a Comprehensive Reform of Public Governance” Conference

Lisbon, Portugal
28-29 January 2013
Why Canada?

- Canada is known for its strong institutions and good governance, but not immune to fiscal challenges.
- Widely noted for its 1994-95 Program Review process and how it responded to the 2009 Global Financial Crisis.
- Most attention focuses on particular initiatives and key decisions, but appreciating both the larger context and process are illuminating for those designing reforms.
- A federal jurisdiction, so the response of the Canadian government is only one part of a larger story.
- The Canadian experience points to the multi-faceted challenges and strategies for launching reform initiatives.
- There are negative lessons and a sense of the yields and limitations of positive strategies and decisions.
This presentation is informed by...


  - Canadian response to Global Financial Crisis
  - Overview frameworks for comparing cases

- Research on comprehensive policy innovation, policy and administrative adhocracies, public sector reform, and delivering significant policy reform (Lindquist, Vincent, Wanna 2011; ‘t Hart 2011; Desveaux, Lindquist & Toner 1994)
The Flow of the Presentation...

1. Canadian Experience I
   - Restructuring the Canadian government and Budget (late 1993-1998)

2. Canadian Experience II
   - Recognizing and responding to the 2009 Global Financial Crisis

3. Comprehensive Public Governance Reform: Perspectives to Consider

4. Designing and Delivering Policy Reform: Some Lessons to Consider
The Canadian Experience I

Restructuring the Canadian government and Budget (1993-1998)
Precursors to Comprehensive Reform

• **The 1980s: Worsening finances; repetitive budgeting; big policy agenda**
  – Conservative government elected in 1984: Nielsen Task Force to review programs (1994-96)
  – Deep public resistance to social program cuts; optics not well handled
  – Ambitious structural reforms: US-Canada free trade, tax reform, Constitutional reform
  – Stagflation effects persist: 22 efficiency/cuts initiatives from 1984-1993, usually across-the-board
  – Many public service reform initiatives (e.g., PS2000, SOAS); groundwork for future change

• **The shifting public mood...**
  – Deficits continued to grow, with initiatives failing to stem the tide ($30B/year; about 25% of outlays)
  – Increasing public and expert worry about the overall government debt, moving to 70% of GDP
  – Canada’s faced similar fiscal challenges, partly due to limits on federal transfers for programs
  – Several provinces announce aggressive deficit reduction strategies in early 1990s (e.g. Alberta, NS)
  – Bond rating agencies, OECD, IMF start to take note, issuing warnings

• **...leads to more concerted thinking by Canadian government**
  – Pressure mounts on the Canadian government to take a more aggressive stance on the budget
  – Executives in Canadian Public Service recommend more decisive action
  – Ministerial task force (de Cotret) plans for significant structural, budget, and program decisions
Figure 3: federal net debt, 1975-76 to 1984-85

Comprehensive Reform: Taking Action

• **June 1993 Restructuring and Canadian Government Transitions**
  – Prime Minister Mulroney hands Conservative baton to Prime Minister Kim Campbell
  – The new PM announces the first part of three envisioned phases: government restructuring
  – A massive reorganization of Cabinet, ministerial portfolios, departments ➔ from 32 to 23 depts.
  – Key goal: streamline decision-making and structures to position for further reviews and decisions
  – An election is called; a Liberal (Chretien) government arrived in November 1993

• **Announcing the Program Review (February 1994)**
  – Increasingly dire economic figures and commentary create urgency for the new government
  – First Budget announces significant commitment to getting budget on track; Program Review = II & III
  – Small central Program Review secretariat est. in the Privy Council Office (cabinet office) in June
  – Departments are engaged; DM and ministerial committees established; decisions in late Fall 2004
  – Minister of Finance (Martin), like many of the provinces, hosts extensive, diverse consultations

• **Program Review Announcements (February 1995)**
  – Wide-ranging decisions, affecting all parts of government, sectors and citizens announced
  – Targets set 1995-98 time horizon to keep everyone focused; 45k↓ FTES; program $xxB ↓
  – Second-round decisions (many horizontal implications) left for next review cycle
What Was Accomplished? Why?

- **Results.** By 1997, the deficit was brought to zero; surpluses and reduced debt levels would continue until 2007; a top OECD performer

- **Smart.** Design of the Program Review levered the regular planning and budget process, but with a new fiscal stance and process enhancements

- **Strategic change.** Did not rely on across-the-board cutting; departments and portfolios affected differently (not all was perfect) – indeed, some departments were ready to use the Program Review as opportunity

- **Political priority.** Strong political commitment; it was the priority

- **Groundwork.** Not everything invented “in the moment”: levered previous management, budget, structural and other reform ideas and sensibilities

- **Innovation.** Programs, budgeting (reserves, margins, reporting, etc.), and even federal transfers to provinces and territories

- **Culture shift.** Galvanized the executive group, despite the trauma of the June 1993 restructuring for entire public service.

- **Political success.** By 1994, the public expected a government to return the budget to balance – the Chretien government was re-elected in 1997.
From Bourgon, *Program Review* (2009), p.15
The Canadian Experience II

Recognizing and Responding to the 2009 Global Financial Crisis
Canada Before the Global Financial Crisis

**Evolving governance context**
- Generally the government’s finances were good in early-and-mid 2000s, with Canada having the lowest ratio of net debt-to-GDP among the G7 countries, and having achieved a dozen consecutive budget surpluses – pressures were predicted for 2009.
- Canada’s financial institutions were well-regulated and securities firms competently managed by the main chartered banks; housing sector was not over-heated.
- After 2004, Canada has a succession of three minority governments, without coalition agreements (Martin Liberal, 2004-06; and Harper Conservative, 2006-08, 2008-11), leading to instability and brinkmanship in House of Commons

**Dealing with the Global Financial Crisis**
- In fall 2008 there was increasing public concern about the international financial climate and implications for Canada, but the Finance Minister used the 27 Nov 2008 economic and fiscal statement offered a “stay the course” message, until the Feb 2009 Budget.
- The Finance Minister indicated that he would not consider increasing the deficit, and offered very positive fiscal projections, based on unspecified administrative savings.
- Introduced controversial announcements on reduced subsidy for party financing, pay equity, suspension of collective bargaining until 2011
- Generated considerable political outrage and reduced the government’s credibility
Brinksmanship Leads to Action

- **Prorogation of Parliament and Re-Introducing the Budget**
  - Opposition parties start talks in early Jan 2009 to form a coalition government
  - Government withdraws party decision and economic statement, moves up Budget date
  - Prime Minister asks Governor-General to suspend Parliament for new SFT & Budget
  - Poor tactical decisions led to resignation of Liberal party leader

- **New Economic Statement and Budget**
  - Revised Economic Statement acknowledged impending deficits and contraction
  - Extensive, time-sensitive consultations were held with stakeholders of every kind (other governments, experts, associations, etc.), along with Economic Advisory Council with focus was on how much to stimulate, as well as the timing of stimulus programs
  - SFT delivered on January 26th, 2009, and the Budget and the Economic Action Plan (EAP) the next day, announcing a comprehensive set of interventions, designed to reach out to a diverse array of interests and to secure the support of one Opposition party

- **Infrastructure Program: Design, Implementation, Marketing**
  - EAP was government’s top priority; positioning for the next election; PMO-PCO WG
  - Focus was on ‘doable’ projects; central agencies found ways to ‘fast-track’ approvals
  - Government insisted on time limitations for completion of infrastructure projects
  - Liberal opposition party insisted on ¼ reporting; converted into heavy communications
Aftermath and Outcomes

• **Successes and Stresses after the Global Financial Crisis (2010s -)**
  - March 22nd, 2011 Budget leads to Harper majority (May 2nd, 2011 election)
  - Followed by June 6 Budget aiming to eliminate the deficit by 2014-15 FY, a year earlier
  - EAP wound down for March 31; instituted program reviews and Cabinet subcommittee
  - A $20 billion structural deficit? Report from the Parliamentary Budget Officer
  - Overheated housing markets and worries about mortgage financing supports
  - All Canadian governments (f-p-t-l) managing deficits & declining resource revenues
  - Great worry about US recovery and uncertainty about European debt/budget challenges
  - The government is making cuts, but very reluctant to announce them together

• **Differences and Similarities with Program Review (1994-97)**
  - Ottawa was in much better fiscal shape just before the onslaught of the GFC
  - Both: reforms were a top government priority; concerted with public service leaders
  - Both: aggressive timelines for instituting political/bureaucratic capacities and decisions
  - Both: government not interested in consulting widely except to elicit support early on*
  - Much tighter control on communications and public service under Harper government
Comprehensive Public Governance Reform: Perspectives to Consider
### Reallocation Drivers
1. Fiscal Stress
2. Fiscal Abundance
3. Program Spending
4. New Political Priorities
5. Substitution of Inputs

### Budgetary Culture
1. Minister engagement
2. Budget discipline
3. Review transparency
4. Central capacity
5. Locus for reallocation

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**Good & Lindquist 2005**
Conference Board of Canada
Variables Affecting GFC Country Responses

- Charting a Medium-Term Course: Policy and Process
- Political and Governance Consequences
- Readiness for Subsequent Challenges

Before the Crisis: General Readiness for GFC?
During the Crisis: General Handling of GFC?
After the Crisis: Readiness for post-GFC environment?
### Sources of Leadership on Public Sector Reform

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Administrative Leadership

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Political Leadership

- Collective Ministerial Priority
- Individual Ministerial Priority
- Low Priority

Budget Surplus

- I. Worsening Deficit
- II. Turn-Around
- III. Securing Surplus
- IV. Robust Surplus

Good & Lindquist 2005
Conference Board of Canada
Designing and Delivering Comprehensive Reform: Some Lessons to Consider
Delivering Policy Reform: Anchoring Significant Reforms

Paul ‘t Hart’s “Epilogue: Rules for Reformers”

**Rules for Reading Reform Context**
- No pain, no reform
- Do not let a good crisis go to waste
- Have your bottom draw well stocked

**Rules for Making Reforms Happen**
- Use the “R” work judiciously
- Prepare to be unloved
- Reform zeal no substitute for analysis
- Holistic analysis; no expert monopolies
- Reforms need a compelling narrative
- Leading from the front is only one way

**Rules for Making Reforms Stick**
- Need more than “min” winning coalition
- Big achievements ≠ successful reform
- Find ways to make self-sustaining reform

Bourgon (2009) suggests: shrewd process design, scale, speed, prudence, luck

*These suggestions have added complexity when the envisioned reforms are more comprehensive, involve federal structures, longer term, and multi-level in nature.*
Concluding Thoughts

• Comprehensive public governance reform is a long-term and multi-faceted enterprise – it is not just a technical exercise.
• It is about building new narratives and culture, inside and outside government – touted values must be buttressed by actions, momentum, targets (but many distractions abound!).
• Early on speed, pace, and comprehensiveness is all about securing commitment, fairness, and building momentum.
• Looking back, it is easy to get overwhelmed by the inherent complexity of such comprehensive reform – take the long view, but don’t try to plan for everything early on: focus on priorities and assembling the right capacities for each phase.
• Anchoring significant reform requires vigilance and relying on lower-level leadership beyond ministers and executives: focus on changing the routines, mind-set, capacities, sector reform, and recruitment at the middle of the governance system.
Further Reading
References


Thank You!

Time for questions.

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