

CAPPI (Canada-Australia Public Policy Initiative)
Lecture

"Public Policy in a Changing World"

by

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PUBLIC POLICY IN A CHANGING WORLD

Introduction

Thank you very much for the unique opportunity to deliver the inaugural Canada-Australia Public Policy Initiative, or CAPPI, Lecture to this distinguished gathering. CAPPI was established by the Governments of Canada and Australia in September, 2007 in the context of reciprocal visits by the Prime Minister of Australia to Canada and the Prime Minister of Canada to your country. It has a single and worthy intent, to increase mutual understanding on shared challenges relating to governance, public policy and public service, given all that we have in common as fellow Westminster democracies with nonpartisan public services, and open economies in a very competitive global marketplace.

There are three elements to CAPPI: a Canada-Australia Interchange Program for public service leaders; a Canada-Australia Public Policy Retreat, alternating annually between our two countries and involving senior public servants and leaders from other sectors exchanging perspectives on shared global issues; and the Lecture, which will also alternate annually between Australia and Canada and whose purpose is to enrich the public policy dialogue in our respective countries.

Today, I would like to talk to you about "Public Policy in a Changing World." A world that is being changed by deep-rooted structural factors, a world that is in shock from the first global financial crisis since the 1930s, a world that is in awe of the first synchronized worldwide recession in generations.

How well we adapt to this ever-changing global environment will determine how well we prosper as economies and societies in the future. As Tom Friedman of the New York Times has observed: "If globalization were a sport, it would be the 100 meter dash, over and over and over again." Is our public policy thinking, our public service capacity, our public policy making geared to the scope and scale and pace of the challenges and the opportunities presented by globalization? Faced with the immediacy of a myriad of public policy issues, are we sufficiently focussed on the structural and the longer-term or are we captured by the

cauldron of the here-and-now? Are we attracting into our public services the next generation of leaders who can help governments tackle the global public policy challenges in front of us. The issue for both Canada and Australia going forward is how and when we adapt to the changing world, and whether we are able to maximize opportunity and minimize risk.

The Times, They are A-Changing

What is remarkable about our times is not that they are challenging or changing. That has always been the case. What's remarkable is the speed, the velocity, the acceleration of change; and the scale and scope of the challenges. Why? Globalization and technology and communications.

The extraordinary reach of globalization has been both enabled and fuelled by technology, particularly communications technologies. Globalization today is about far more than the integration of markets, or the collapsing of distance and time, or the emergence of new non-statal multinational enterprises. It's about interconnections among individuals, firms, groups and nations whose complexity and pervasiveness is often underestimated or misunderstood or ignored, until it suddenly has to be deciphered and comprehended.

One by-product is the connected world. Technology, in collapsing time and distance, has radically restructured patterns of communications. With the advent of an internet based, highspeed, broadband universe, we are now truly in a global 24-7 information age. Information originates from anywhere at anytime and is available everywhere, all the time. Traditional news channels---newspapers, radio and television---were at first supplemented by, and now risk being supplanted by, a wide variety of alternative information channels---internet, blogs, Face book, YouTube, Google, Twitter, a list which changes endlessly. The information revolution assaults traditional decision making processes.

Another by-product of this intersection of globalization and technology is complexity. It permeates all aspects of decision-making, whether in the public domain or private sector. It stresses traditional risk management models, sometimes to the breaking point.

As important as globalization, science and technology and the information revolution are as drivers of change, they are not alone. The globalization of insecurity is affecting policy, and thickening borders. The politics of identity is changing how people see themselves. And then there is climate change and the demographics of ageing.

Consider for a moment the pervasive policy implications of ageing. We are all individually ageing, but for the first time in centuries, so are societies, but not everywhere and not equally. While today's focus is rising unemployment, the issue medium term will not be a jobless recovery but a workerless expansion, putting a premium on human capital. The future workforce in many industrial countries will decline, absent increased immigration. Countries like Russia and Japan face absolute reductions in their populations. Even China, with its one child policy, has an ageing population, unlike India, which does not. This means countries will have smaller proportions of their populations working and larger proportions of their populations retired, putting pressure on labour markets and pension systems.

And climate change. We live in a world with profoundly different views on climate change. However, because climate change is a subject that everyone has a view on, the consequence is that no company or government can ignore the issue. How countries respond

to it will increasingly shape environmental, economic, political and societal behaviour in the decades ahead. In this often confusing policy brew, environmentalists want dramatic change, businesses want certainty, individuals want an improved environment but are unclear about the costs they are willing to bear to achieve this, and governments want to find common ground. And that is just the typical domestic debate. In the multilateral context, views differ about comprehensiveness, ambition of targets, and timeframe to targets and whether one target size and target speed fits all. Hence the public policy complexity.

Through Crisis and Beyond

But at present, what overshadows all these global "drivers of change" is the global financial crisis, and the worldwide recession it induced.

What happened? Embracing a "this time is different" mantra, international financial markets began to believe that business cycles had been tamed, rising debt and global imbalances were tolerable, financial innovations justified quantum leaps in risk taking and if you put enough bad mortgages together they actually became a good bundle. The scale and scope of the financial crisis was aided and abetted by globalization. The global financial market place, awash in liquidity because of macroeconomic imbalances, was in a desperate hunt for yield. It became entranced by structured financial products, essentially bundles of sub-prime U.S. mortgages which were securitized and collateralized and rated as low risk, which they were not. Financial institutions in many countries demanded more and more of them, which American financial markets happily provided. The end result became a global and systemic financial crisis.

The response was unprecedented, both in terms of size and international coordination. Central banks provided massive injections of liquidity into financial markets, and government provided massive injections of fiscal stimulus into domestic demand. A number of industrial countries also made direct investments of public money into troubled firms judged to be systemically important.

While Canada has been hit by the worldwide recession, the Canadian financial system has weathered the global financial crisis relatively well. In Canada, no public funds were injected into financial institutions, unlike the U.S., and Canadian banks remained profitable, liquid and lending. The sharp contrast with the U.S. and much of Europe is due to a number of factors including different regulatory regimes---public policy matters, as well as different corporate governance, different business lending practices and different structures. Reflecting this combination of made-in-Canada regulation and conservative and prudent financial institution funding and lending practices, the World Economic Forum rates the Canadian financial system as the soundest in the world.

As recovery takes hold and solidifies, governments will need to develop and execute their exit strategies from the monetary, fiscal and microeconomic actions taken to address the global financial crisis and the recession. While circumstances clearly differ across countries, there are many similarities: large fiscal deficits, reflecting both stimulus measures and automatic stabilizers; large injections of liquidity by central banks; and government ownership stakes in private sector firms. Too slow an exit strategy risks inflation, entrenched structural deficits and rising debt; too rapid risks taking the wind out of the recovery; too uneven across countries risks large currency swings.

Looking further ahead, it is a demographic fact that growing our living standards through the labor force will be constrained by ageing. It is also close to a fact that the "rise of the rest" is beginning to erode the relative innovation advantage of Western countries. China and India, for example, are investing in world class research capacity in very targeted areas, but their scope and ambition and results will rise quickly and, as it does, it will be more difficult to attract the best foreign students and researchers as they will have more choice. For these and other factors, faster productivity growth is the only answer unless we are willing to bet our future standards-of-living on continual growth in our terms-of-trade. To produce the needed improvements in our productivity performance is going to require fundamental changes in a number of basic areas: primarily, innovation; quality of the work force; and access to large and growing markets.

Evolving Role of Government, Public Policy Making and the Public Service

Back to the beginning. Where does this line of reasoning take us on the evolving role of government? The nature of the drivers of change in today's environment does not suggest a lessened role for government. In the aftermath of the financial crisis, public trust in business leadership has been eroded, particularly in the U.S. and in Europe. Public distrust in globalization has risen, particularly in the U.S. and many developing countries. Public confidence in oversight bodies has declined, particularly in the U.S. and the U.K. And public faith in forecasters who, to a person and country missed the timing, nature and incipient severity of the recession, remains as always.

While more government may not mean bigger government, it will mean more active government, particularly responding to public expectations for governments to better prevent and protect. Pervasive globalization and its attendant challenges. The domestic and international financial system in the aftermath of the financial crisis. Transborder security and crime. Product safety and information protection. Ageing impacting our labour markets, pension systems and health care. Dealing with climate change, both at home and abroad. In all this and more, strong institutions, strong public policy making capacity, sound regulatory systems, and efficient and effective public services will be essential for governments to meet changing public expectations.

A further consequence of the global financial crisis and globalization, and the interconnection between the two, is a changing expectation for governments to better cooperate and coordinate beyond their boundaries. Globalization has outgrown the mandates and governance structures of the international institutions. Gaps in financial sector regulation were both domestic and cross-border. Global supply chains do not align easily with a myriad of national regulations.

The G-20 process has proved effective in marshalling a common understanding of the magnitude of the global financial crisis, in helping to coordinate monetary authority responses and in providing a political and policy rationale for a large collective fiscal stimulus. Canada will host both the G-8 and G-20 meetings next year, following the September 2009 Pittsburgh Leaders Statement denoting the G-20 "as the premier forum for our international economic cooperation". The financial crisis has also provided impetus to reform of the International Monetary Fund, its mission and its collective ownership. Similarly, how countries deal with climate change cannot be done solely on a national basis. The potential for arbitrage among national systems makes a do-able, enforceable and comprehensive international system essential.

Public Policy Making and the Public Service

Public policy making in this changing world is going to be more complex, more global in its linkages, more structural in its nature, more uncertain as to its design. To do this well, to meet public expectations, will require strong public services. This is why we have put such a priority on public service renewal in the federal public service, and reached out to other levels of government to share experiences as they also face renewal challenges.

Public sector capacity matters. It has to be world class in new areas such as globalization, security, climate change, ageing and productivity. The public service needs to have the inherent capacity and flexibility to rapidly deploy resources to the most important issues, and the scope to balance the longer term and the now. It needs to have new approaches to risk management to match the greater complexity and greater uncertainty.

Public policy capacity in governments and countries matters. While historians can debate whether history repeats itself, it certainly does inform about the future. Starting from scratch is never a good way to make public policy. Hence, the value of a professional public service that can invest in policy capacity building, in developing rigorous analytic standards and in engaging in preparatory work over a wide range of future possibilities, both macroeconomic and microeconomic. And aligned with this, depth and breadth of policy capacity in non-governmental institutes. The more the world is changing, the greater is the uncertainty, the more valuable are such investments. In the Public Service of Canada, we have instituted a series of Committees of Deputy Ministers to examine key longer-term issues now, not when they become urgent.

Networks matter. Very few policy challenges or crises today are respectful of jurisdiction, or departmental mandates or even sovereign boundaries. To understand what is going on, to mobilize partners to respond, typically requires extensive networks that have to be built up over time, invested in and nurtured. This requires sustained interaction and outreach between the public and private sectors within countries, and strong linkages across countries. There has been an increased focus on "outreach" by senior public servants to private sector leaders, to university leaders and to civil society leaders across Canada to increase mutual understanding of the challenges and opportunities facing sectors and the country, and in the process build networks. We are now extending this outreach concept beyond our borders.

Public service renewal matters. In Canada, the dynamic imperative for renewal of the Public Service is an ageing workforce, reflecting the demographic trend many societies are facing, and the increasing complexity of issues confronting governments, reflecting the global drivers of change. In the words of the Prime Minister of Canada's Advisory Committee on the Public Service in their 2008 Report: "the world in which the federal Public Service operates has become more complex and unpredictable. This new environment is characterized by an ageing population, a globalized economic landscape, ever-changing information and communications technologies, the emergence of new horizontal issues and changing public attitudes to government" ...

In tackling public service renewal, we recognized early on that it had to be a sustained effort, it had to be a team effort, and it had to have a validation element --- that being a public servant matters to the country. The 2008 Report to Parliament on the Public Service of

Canada by the Clerk of the Privy Council summed this up as ... "renewal is not about fixing something for all time but updating what we do and how we do it in order to remain relevant and effective now and into the future. It is about keeping the institution of the public service dynamic, fresh and respected. And renewal is not something others do; the impetus for renewal has to come from within, and it has to involve all of us ... "

The framework for public service renewal in Canada focussed on four areas: recruitment of the next generation of public servants; development, particularly of future public service leaders; planning, starting with the obvious integration of business and human resource planning; and, enabling systems, or the "back office" of the public service. We introduced annual targets, measured results annually, and had annual accountability, using a rigorous performance management and performance pay system for senior executives. We shifted clear responsibility and accountability for human resource management to departments and their deputy heads. But in all this, we stressed the fundamental importance to the country of a nonpartisan and professional public service, one that reflects the diversity of our country, one that is geared to the goal of excellence.

Conclusion

To conclude, I would like to return to the intent of the CAPPI Lecture – mutual understanding. Canada and Australia have so much in common, we should both benefit greatly from a deeper dialogue on common public policy issues, sharing our respective perspectives, and learning from each other's experiences. Our economies, our societies, our systems are too similar to do anything less.

The last word on the communion of the changing nature of today's policy challenges and the public service goes to Tom Friedman (The Lexus and the Olive Tree; The World is Flat), who observed that: .." in the globalization system, one of the most important and enduring competitive advantages that a country can have today is a lean, honest civil service." Friedman was articulating that there is a strong correlation between a country's sustained competitiveness and prosperity and the quality of the public sector. This correlation holds whether the country is developing or developed, whether it is rich or poor. I believe this correlation will be even stronger in the future, as we grapple with the emerging public policy challenges in this rapidly changing, and more complex world.

Thank you.