

Ruane, Frances

**Working Paper**

## Combining public sector and economic reform

ESRI Working Paper, No. 440

**Provided in Cooperation with:**

The Economic and Social Research Institute (ESRI), Dublin

*Suggested Citation:* Ruane, Frances (2012) : Combining public sector and economic reform, ESRI Working Paper, No. 440, The Economic and Social Research Institute (ESRI), Dublin

This Version is available at:

<https://hdl.handle.net/10419/100230>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

## Working Paper No. 440

August 2012

### Combining Public Sector and Economic Reform

**Frances Ruane**

*Abstract:* This paper argues that it is important for public sector reform to be undertaken in tandem with economic reform because the two reform agendas overlap. Ignoring the overlap could lead to services being delivered efficiently but which do not contribute to economic and social progress or represent value for money.

The paper discusses the benefits of policy making in Ireland becoming more evidence based. However, it points to the dearth of relevant data and the need for government departments to engage in building a data infrastructure to underpin the design and implementation of policy. The alternative to an evidence approach is that economic policy decisions can be evidence blind, and based on ideology, fashion or past practice.

The paper identifies the risk of reform being undertaken too quickly. It suggests that there is a need to prioritise actions and get the correct pace and sequencing of implementation. This challenge is particularly evident in the health sector.

The paper points to the merits of developing a more open dialogue in discussions within the civil service, arguing that this will reduce the risk of "groupthink" in the future. It suggests two interventions that might help: (a) use of external peer review processes for draft background research documents, and (b) use of a Devil's Advocate for internal discussions of major policy issues.

Finally, the paper discusses the challenges for the civil service of building up specialist skills and replacing the generalist model that has been predominant over the past 30 years with a more multi-skilled model. It illustrates the challenge in relation to economists and the plans in preparation to create the Irish Government Economic and Evaluation Service (IGEES).

*Corresponding Author:* frances.ruane@esri.ie

# Reform: What do we need for Economic Recovery?<sup>1</sup>

## 1. Context

Ireland has come through four exceptionally difficult years on foot of the global economic crisis and the domestic bubble which have dramatically reduced our economic prospects and social well being, at least in the short to medium terms. Economic recovery has been much slower than had been hoped in 2008, mainly because the scale of both the housing crash and banking crisis were much greater than was realised at that time. A restructuring of the economy, away from its excessive dependence on construction, is gradually taking place. However, reform and consolidation of the banking sector are frustratingly slow. The adjustments that are now underway have a high cost in terms of current levels of job losses, rising unemployment and the impact on a whole generation of potential labour market entrants, many of whom are forced to emigrate.

We all struggle to remain optimistic that EU leaders will eventually succeed in providing a solution that will reduce the current uncertainties in European economies and create a climate of sustainable growth. Meanwhile slow growth in these markets is impacting negatively on Ireland's economic recovery, as exports are the key driver of growth for a small open economy such as ours. It is worth noting, however, that we have regained some of the competitiveness lost in the early part of the last decade which does augur well for the future when markets pick up.

Successful renegotiation of our international loans will contribute to reducing our long-term debts in relation to banking, but we still have to deal with reducing our budgetary debts on day to day spending to a level that leaves us fiscally sustainable.<sup>2</sup> The budgetary adjustment (taxation increase combined with expenditure reduction) associated with the Austerity Package is set out in Table 1.

Starting with 2008 as the base year, the Package seeks increases in tax revenue of over €10 billion and reductions in public expenditure of almost €20 billion. By any standards, this is a massive adjustment. It is evident from Table 1 that, while the lion's share of the adjustment has already occurred (€20 billion by end 2011), there are still further significant cuts required on the expenditure side for 2012-2014 and the distribution of budget cuts for 2015 has yet to be determined.

---

<sup>1</sup> Helpful comments were received from Joe Durkan, Pete Lunn, Philip O'Connell, Miriam Wiley, James Williams and contributors to the MacGill Summer School in July 2012. All the views expressed in this paper and any errors contained therein are those of the author alone.

<sup>2</sup> Early hopes that global growth would do the 'heavy lifting' have not transpired.

**Table 1: The Austerity Package (€bn)**

	2008	2009	2010	2011	2012	2013	2014	2015	TOTAL
<b>Increase in Revenue</b>	0.0	5.6	0.0	1.4	1.6	1.1	1.1		10.8
<b>Reduction in Expenditure</b>	1.0	3.9	4.3	3.9	2.2	2.3	2.0		19.6
<i>of which capital:</i>	<i>0.0</i>	<i>0.6</i>	<i>1.0</i>	<i>1.9</i>	<i>0.8</i>	<i>0.6</i>	<i>0.1</i>		<i>5.0</i>
<b>Total Budget Change</b>	1.0	9.4	4.3	5.3	3.8	3.4	3.1	2.0	32.3

Source: Department of Finance, various.<sup>3</sup>

This paper starts from the premise that reform is always necessary because in a changing world there is never a time when we can say that the reform is complete. In other words, we should expect to see a continuous process of change ongoing in both the private and public sectors. In the private sector, change is typically driven by market place factors and in some instances by government policy and regulation.<sup>4</sup> In the public sector the process is driven by politicians and policy makers. Public sector reform has been on the Irish policy agenda for more than three decades, and while there has been change, there remain many areas where long identified reforms have yet to be implemented.<sup>5</sup>

Faced with the scale of the cuts remaining to be undertaken now, reform is particularly important. There are two particular aspects to this reform: (1) economic reform, which involves economic restructuring and increasing competitiveness, as well as the efficient allocation of resources in the public sector, and (2) public sector reform which is focused on the efficient implementation of policy through the delivery of public services.<sup>6</sup> Since 2011, the public sector reform agenda has been centralised in the Dept of Public Expenditure and Reform, operating with the Cabinet Sub-Committee on Public Sector Reform. The Department has identified over 70 recommendations and a very large number (200) of associated actions under 14 headings:

1. Implementation
2. e-government; ICT; information sharing and customer service;
3. Shared services;
4. Business process improvement;
5. Procurement reform;
6. Property asset management;

<sup>3</sup> For 2008-2010, *Report of the Review Group on State Assets and Liabilities*. [Table 2.1: Budgetary Adjustments since mid-2008 – Planned Budgetary Impact.]. For 2011 and 2012, *Budget 2011, Budget 2012, Medium Term Fiscal Statement*, November 2012 Table 2.1. The figures included show the full year effects, including carryover, and exclude once-off measures. For 2013-2015 figures from *Medium Term Fiscal Statement*, November 2012 Table 2.1.

<sup>4</sup> The change in global financial markets was driven by new technologies combined with the failure of regulation at national and international levels.

<sup>5</sup> These include: reform of local government, a broad-based tax system, coherent planning, etc.

<sup>6</sup> There is also political reform which is intended to support the implementation of both reforms and build trust in our democratic system; discussion of this reform process is outside the scope of this paper.

7. External service delivery;
8. Rationalisation and reorganisation;
9. Public expenditure reform;
10. Government-level performance management;
11. Organisational performance;
12. leadership and individual performance;
13. public service numbers; workforce planning and redeployment; and
14. legislative and political reform.<sup>7</sup>

Large parts of the economic reform agenda are currently being driven by the Troika and the Cabinet Sub-Committee on Economic Recovery and Jobs. However, there seems to be somewhat less focus on the efficient allocation of resources in the public sector with focus of the public sector reform agenda being on the improved management of the delivery of services. However, economic reforms are essential to make sure that we are implementing the right policies in the most effective way – in other words, we need the two reforms to work in tandem.

We face a serious backlog on both reform agendas – issues that have been discussed for many years by many people at many public events – but with no action taken. The reform today takes place in the context of reducing budgets but it is much more than reducing those budgets.<sup>8</sup> Cuts that are made in a reform context have the potential to reduce the real cost of fiscal adjustment to Irish society. They also guard against solutions that reduce public sector costs by simply shifting inefficient supply systems into the private market where society has to pay for them directly.

## 2. What does reform require?

Given that public sector reform has been on the Irish political/policy-maker agenda for 30 years, but with limited progress in many areas, it is necessary to convince society that this time it is ‘for real’. This means that the reform process must be seen as delivering to the people, i.e., becoming more user-centred, efficient and trusted. Let us look briefly at each of these in turn:

**User centred** – Becoming user-centred requires that people’s direct interactions with public sector bodies are improving. Where their requirements are complex, for example, for the patient with a chronic disease, there should be an easy pathway for them to navigate. Many bureaucracies, in both the private and public sectors, have evolved around the providers rather than the users. For both sectors, if we want services that are user-centred, really well designed and flexible systems are required to achieve this.

However, most individuals have no interest in systems *per se* and they see system reform as part of boring bureaucratic speak. But mundane reforms are often the key to improving the delivery of services to individuals. Take, for example, the 200 reform actions referenced by

<sup>7</sup> See Brendan Howlin: Reform of the public service, *Administration*, vol. 60, no. 1 (2012), pp. 15–30

<sup>8</sup> Brendan Howlin has referred to the present crisis as providing a ‘burning platform for reform’ which did not exist in previous times.

the Department of Public Expenditure and Reform referenced above. They are unlikely to interest the average tax payer and yet many of these seemingly unexciting actions are precisely what are required to transform the system from a traditional (producer-centred) mode into a 'client-centred' one. This is equally true of some of the actions being implemented under the Croke Park Agreement. Reforming systems requires care and planning – the big bang change, which might get great media headlines, may well deliver little on the ground to the intended users.

**Efficient** – Users of services see evidence of inefficiency in the form of waste in everyday life. In terms of the public sector, they see for instance buses that are continuously empty on certain routes, roads being dug up just weeks after they have been repaired and restored, people sitting for hours in the waiting rooms of courts and of hospitals, etc. Users see similar inefficiencies in the private sector – in the hours spent in the waiting rooms of professionals, in misplaced orders in retail outlets, in documents that are lost or misplaced, etc. In the case of private services, if markets do not work properly, we are free to change supplier. However, this will work only as long as there are no restrictive practices in place which give suppliers monopoly power that results in high transactions costs for changing supplier.

But much of the real inefficiency in systems, or to put it more positively, the potential for improving efficiency, is actually hidden from users. This is precisely where the public sector reform and the economic reform agendas come together. Economic reform focuses on governance and particularly on incentives – these guide behaviour in both the public and private sectors. Policy-level examples include the need to realign objectives and policies within the health sector so that health is delivered in a cost effective and safe way. Examples of more efficient service delivery include: increased use of new technologies or adaptation of existing technologies (including the use of texting), improved decision-making processes (reducing delays because of a lack of accountability for subsequent actions), greater cost responsiveness (through better procurement), introduction of more rule-based systems in place of time-consuming treatment of individual cases, etc. Improvements in efficiency mean that the providers have to change what they are doing and this requires understanding, buy-in and support (e.g. with the provision of suitable training).

But as a society, we must be realistic and recognise that no system can be totally efficient. Notwithstanding this, the public sector must address major sources of systemic inefficiency. These inefficiencies are often buried deep in the system – perhaps in people's contracts, perhaps in the IT system, or perhaps in outmoded 'customs and practices'. Looking at these issues with an economic lens is very helpful. We can be heartened with some recent changes in practices which have yielded positive results. For example, until recently, the majority of surgical procedures in acute hospitals involved an over-night stay. Between 2007 and 2011, the numbers of day cases increased by over 35 percent, and their share of total (day case and inpatient) activity rose by 18.3 percent so that they now outnumber inpatient cases. The direct financial saving from this change is likely to be significant as is the reduced risk to patients of hospital-acquired infection. However, it is important to recognise that part of what we are seeing here could be is a transfer of care from the hospital to the family and/or the non-acute sector.

**Table 2 Number and Share of Acute Hospital Day Cases**

Year	2007	2008	2009	2010	2011	%Change (2007-2011)
Number of day cases	583,369	641,974	675,162	734,967	804,274(e)	37.9%
Day cases as a share of total activity	48.8%	51.7%	53.2%	55.5%	57.7%	18.3%

Source: Department of Health

The simplest technique used for checking efficiency on marginal decisions in the public and private sectors is Value for Money (VFM): given the money being spent, does the service delivered justify it? However, VFM, naively applied, can be dangerous if the measurement of the service delivered does not cover both quality as well as quantity, i.e., does not review the full outcome. This is less likely to happen if the approach is bottom-up, reflecting the insights of those involved who can see real sources of improvement.

**Trusted** – In many dimensions of life, people across Ireland have lost trust in institutions that they once saw as social and economic pillars.<sup>9</sup> Recent events have shattered confidence and trust in the Catholic Church, the banks, parts of the business sector and sections of government (particularly in relation to planning, banking regulation and macroeconomic policy). The process of addressing these has started and needs to continue, if we are to learn from our past where erosion of standards happened much more easily than we realised. The issue of restoring trust underpins the strong emphasis on combining public sector reform and political reform.

There are no silver bullets to public sector reform. There is no end-goal system that will be perfect in perpetuity. Rather, reform is about an ongoing process of improvement made incrementally. It is important for government to resist the calls for quick dramatic actions and work for the medium term gains. To recast the familiar motto *festina lente* in management speak would suggest we need a process of *strategic incrementalism*.<sup>10</sup> This issue is explored further below.

<sup>9</sup> There is a wide ranging discussion of this issue in Geert Bouckaert ‘Trust and public administration’, *Administration*, vol. 60, no. 1 (2012), pp. 91–115.

<sup>10</sup> The recent incident where the President of the University of Virginia resigned because the Chair of the Board indicated that the pace of change in the university was too slow has opened a whole discussion in the USA about the issue of pace of change and engagement of stakeholders. See [http://www.huffingtonpost.com/rick-mann-phd/college-presidents-collaboration-governance\\_b\\_1684048.html](http://www.huffingtonpost.com/rick-mann-phd/college-presidents-collaboration-governance_b_1684048.html)

### 3. Public Sector and Economic Reform

The public sector reform agenda is centred on improving administration and management in the public sector<sup>11</sup> and this has been the focus of much training and review in the public system for over three decades. Let me repeat here the importance of combining this public sector reform with that part of economic reform that supports policy. This involves using economic analysis very directly in the reform process.

The remainder of the paper focuses on three items:

- (1) How do public sector and economic reforms combine?
- (2) How do we grow and harness specialist skills within the Civil and Public Service?
- (3) How do we minimise risk in the reform process?

#### 3.1 How do public sector and economic reform combine?

The public sector reform agenda in Ireland should be centred on improving delivery of services to the citizen where the decision about which services are to be supplied and how they should be supplied is informed by economic analysis. The analysis should consider options based on economic reasoning and evidence rather than on ideology, current fashion or past practice. For example, outsourcing of services or large-scale sharing of services may be a good idea for many services but not for all.<sup>12</sup> Privatisation may be beneficial in some instances but not others. Taking this approach means having well structured frameworks and robust analysis of good data at the centre of policy making. Well-structured frameworks provide the high level conceptualisation of how the system operates, e.g., national research supports, higher education, health services, etc. Robust analysis involves stating assumptions clearly, using the appropriate analytical tools and being as value free as possible. Good data are reliable data that measure the key concepts.

Compared to the UK, Ireland has been very poor in building data sets to inform policy design and evaluation.<sup>13</sup> These data come from administrative records and can be used to establish baselines in relation to resources, costs, productivity, etc. These provide the starting point for evaluating the effectiveness of existing interventions or exploring new interventions. Furthermore, best practice is to establish metrics to measure outcomes ahead of the introduction of any new intervention rather than trying to pull together data to assess it after its introduction.

---

<sup>11</sup> See for example, Vol 60, No 1 of *Administration* (which was published earlier this year) which provides an overview of the many of the current issues in Ireland.

<sup>12</sup> The scale of sharing should be open for discussion as economies of scale and scope are not uniformly increasing.

<sup>13</sup> These data sets are not those survey-based data traditionally available from the CSO, which follow international norms and whose coverage and timeliness measure well by EU standards.



Let me illustrate. Some years ago, I chaired a group on resource allocation and financing in the health system.<sup>14</sup> One of the biggest challenges was getting accurate and relevant data from the Department of Health and the HSE on a range of core data to establish what the current situation was in relation to resource allocation in the health sector. In certain cases there was the additional challenge of reconciling differences in the data sets from the two different sources. Furthermore, it emerged that the Department of Health was very dependent on the VHI for very basic information on the voluntary hospitals, notwithstanding the fact that the Department is the key funder of the voluntary hospitals.

In July 2012 I met a group of 25 visiting US researchers, comprising people with a range of skills and experiences from all areas of the higher education system in the US. As part of a PhD programme, they are working on a comparative study of higher education systems, covering Ireland and the corresponding government-funded systems in five US States. The group were very puzzled by how Ireland could make higher education decisions in what they described as 'such a data vacuum',<sup>15</sup> compared with the data that are available elsewhere.<sup>16</sup> For example, the absence of data on institutions and also on the income levels of the families of students. Within such a data vacuum, policy proposals and decisions cannot be either challenged or supported by evidence – and this puts policy makers and politicians at risk of serious errors.

There are some positive signs that we are beginning to recognise and deal with the dearth of data and analysis to inform policy.<sup>17</sup> Apart from hiring specialists who can analyse the data (see Section 3.3), data sets need to be built from administrative records. All departments and agencies are supposed to be developing data strategies at present and this is being extended to cover research strategies.<sup>18</sup> The data sets should be capable of providing evidence to inform policy in the future and to help estimate more accurately the cost of new policy interventions. Starting this process and getting it right will not be easy. Do policy makers in Departments know what data sets they have and their potential? Do they know what information they do not have but should or could have?

Realistically to build this data infrastructure,<sup>19</sup> Departments will need advice from external experts to scope and help define the content of the data sets. For this advice they should draw on the expertise of the CSO, the knowledge of researchers who work in the relevant fields and from Departments and Agencies in other jurisdictions that are further along on that process. For example The UK would seem to be running 10-15 years ahead of Ireland in this area and has, in addition, shared many of its process developments via its websites.

---

<sup>14</sup> See 'Report of the Expert Group on Resource Allocation and Financing in the Health Sector' [http://www.dohc.ie/publications/resource\\_allocation\\_financing\\_health\\_sector.html](http://www.dohc.ie/publications/resource_allocation_financing_health_sector.html)

<sup>15</sup> They were also surprised that we had stopped collecting data crucial for efficient planning of the system.

<sup>16</sup> This does not mean data published on their websites, but analytical data to allow them to develop and reorient the system as needed.

<sup>17</sup> The National Disability Authority is one agency that has already identified the gaps in data and research relevant to policy development in its area.

<sup>18</sup> The Dept of Children and Youth Affairs seems to be the first Department to have a data/research strategy.

<sup>19</sup> This amounts to addressing the world of known and unknown unknowns.

Departments will also need advice on developing strategic research strategies and it would make sense to develop an approach that could be customised for all Departments as they seek to operationalise this long-overdue requirement.<sup>20</sup>

However, we have yet to see legislation passed for the creation of unique personal identifiers and national geo-codes. These are necessary to make administrative records useful as a data source to inform policy decision, design and evaluation. Frankly, it is a real embarrassment for the policy system that the need for these identifiers was recognised almost two decades ago and publicly acknowledged.<sup>21</sup> In other words, this is not something key stakeholders were ignorant of – it has been well known and little has been done.

Effective delivery, which is the target of public sector reform, must follow on from evidence-based analysis that shows we need an intervention to be delivered. Without the evidence to decide that we need a particular service, we could be wasting resources improving (from an administrative or managerial perspective) the delivery of a system that is not required.<sup>22</sup> With reference to evidence-informed policy, it is vitally important to distinguish between the robust use of evidence to explore an issue objectively and the ‘selective’ use of evidence to simply support a viewpoint. The former underpins the professionalism of the modern public service; the latter undermines it.

Finally, while better use of data will help to improve decision making, there will be times when new events arise, where there are simply no data available.<sup>23</sup> This is most likely to happen when major events combine, as happened in the recent crisis. So while there was evidence to indicate that the economy in trouble ahead of the crisis, when the crisis struck, there was little evidence to inform urgent policy decisions. In the case where there are no Irish data available, the emphasis must be on understanding the new frameworks with the best source of knowledge to inform decision-making most likely to come from research, international experience and institutional experts.<sup>24</sup>

### 3.2 How do we grow and harness specialist skills within the Civil and Public Service

Ultimately, the key to successful reform processes is people – their skills in determining what should be done and their leadership in pacing and sequencing implementation. Since staff costs are a huge part of public expenditure, all the emphasis at present is, understandably,

---

<sup>20</sup> The Central Statistics Office also has a role to play here, as might the National Statistics Board.

<sup>21</sup> This long overdue requirement has been referred to on a regular basis in the reports of the National Statistics Board since its establishment in 1994. It has been referred to most recently in the *National Strategy for Research and Data on Children’s Lives*, which states (page 8) that ‘Data linkage developments, for example, could be greatly enhanced by the adoption of a unique identifier, and this area has been subject to examination in the Irish context for some time.’ This was published by the Dept of Children and Youth Affairs in November (2011).

<sup>22</sup> This is akin to upgrading a road in a very cost effective way where upgrade is not justified by traffic numbers.

<sup>23</sup> This raises the issue of whether better use of data by relevant government departments could have identified elements of the economic bubble at an earlier stage, when action might have been taken.

<sup>24</sup> In many countries experts were brought in at an early stage of the crisis to provide fresh perspectives to government.

on bringing down these costs through reduced numbers and on increasing the productivity of those providing services. However, the combination of a voluntary exit policy and very tight operation on the control of numbers challenges the system in achieving coherence and management of risk. Consequently, we require a thorough and robust but strategically flexible approach to the implementation of the Employment Control Framework. Patchwork solutions can be more costly in both financial and risk terms. Furthermore, in planning the downsizing of the public sector workforce, managers ignore at their peril the link between productivity and the working environment itself.

The Irish civil service for more than three decades has focused on creating generalists and effectively downgrading the relative position of specialist skills. The effective downgrading is evident in the ceilings on career advancement for specialists in most areas, and was notable in the very much lower rates of awards they received in the 2002 benchmarking exercise compared with generalists. At the same time, a workforce with more specialist skills grew in the wider public service and increased use was made of external consultants to fill skills gaps. The former has led to a fragmentation of skill sets and tensions between agencies and parent departments. The latter has been a costly source of expertise, both in financial terms and in terms of lost long-term benefits, i.e., very limited knowledge or skills transferred into the civil service.

It is somewhat ironic that what amounted to a partial de-skilling of the existing civil service was happening at exactly the time when the government was enthusiastically embracing the knowledge society, where specialist and diverse skills are critical. Taking a consistent approach, the civil service also failed to hire sufficient numbers of people with the types of skill sets that were becoming increasingly important. Obvious examples here were IT specialists, statisticians, urban planners, environmental specialists, project managers, lawyers, and accountants. So let me consider in turn the issues involved in hiring and harnessing specialist skills in the civil service.

### Acquiring Specialist Skills

When hiring specialists, the starting position must be a clear picture of how they will operate within existing or evolving structures. There are obvious risks in not having a clear picture of where and how these new hires will be employed in the system. So if one is building IT capacity, what exactly is the plan? How should the IT capability be structured within and across the system? How should the skill sets be built up and maintained, and where are the sources of expertise from which to draw senior members? And what is the expectation about inward and outward mobility? A public sector model that continues to operate on the basis of a closed system, where almost no one leaves and people enter at the bottom only, seems very outmoded in a world where people move around more and more between jobs to gain different workplace experiences. The remainder of this section focused on the specialisation I know well, namely, economics, in the belief that many of the issues that apply here are also relevant to other skill sets.

There has been limited information provided so far from the Dept of Public Expenditure and Reform on the *Irish Government Economic and Evaluation Service (IGEES)*, which is currently

being formed as the route to rebuilding the economic skill sets that diminished over the past three decades.<sup>25</sup> The planned model seems to be influenced by the approach adopted in the UK, where the *Government Economic Service* (GES) spans Whitehall and the devolved administrations in Belfast, Edinburgh and Cardiff. The UK GES was set up in the late 1990s to create ‘government economists’. These were seen as a professional group (akin to what the UK has in the Office of National Statistics and we have in the CSO as ‘government statisticians’). Their role is to combine high levels of economic skills with institutional knowledge in order to provide informed policy analysis for government. Central to the UK model are clusters of economists in different areas who can share knowledge and engage in peer learning, with economists in line departments and government agencies (including regulators) linked to the GES, which is centred at the Treasury. This allows for staff mobility and the development of a wide range of skills and experiences.

While Ireland should not simply copy its neighbours, it can learn from their 15 years of experience in building the GES. Furthermore, Ireland can take advantage of the UK’s open access approach to policy documents noted in Section 3.1 – for example, details on their main evaluation processes are readily accessible on their websites.<sup>26</sup>

The IGEES specifically refers to ‘evaluation’ in its title. One can only hope that the reference to evaluation does not reflect any diminution of the wider role that these economists can be expected to play in the future. For example, economists should be able to contribute to market failure analysis, to policy formulation, to policy design and implementation, and to evaluation and re-design in the face of problems identified, e.g., through evaluations. They should also be trained to access externally produced research, whether national or international, and be able to commission research effectively when required.<sup>27</sup>

Reference to evaluation could be an asset if it signals a changing attitude to evaluation in the Irish public sector. Over the first decade of this century, there was a growing tendency for evaluations to become ‘validations’ of decisions made rather than as opportunities for critical review and for learning, redesigning and improving. Correspondingly, in the case of *ex ante* project evaluations, ‘optimism bias’ seems to have been built into projections on both the cost and the benefit sides.<sup>28</sup>

Building the IGEES will be challenging and we await details on what exactly it aims to achieve and how it will function. We must wait to see whether there will be adequate resourcing at a senior level and middle level to build up expertise. Could it be that there is less willingness to draw in senior economist skills into the civil service compared with drawing in management skills to assist in reform? Does this reflect recent events? Drawing expertise

---

<sup>25</sup> See : Independent Review Panel. (2010). *Strengthening the capacity of the Department of Finance: Report of the Independent Review Panel*. Dublin: Department of Finance (the Wright Report) and

<sup>26</sup> See [http://www.hm-reasury.gov.uk/data\\_magentabook\\_index.htm](http://www.hm-reasury.gov.uk/data_magentabook_index.htm)

<sup>27</sup> Often Terms of Reference seem to be pulled together quickly, with the result that the potential benefits are less than they might be. This is reinforced by having timeframes for seeking tenders that are unnecessarily short and for setting an unrealistic duration for the tender work itself.

<sup>28</sup> This problem is not unique to Ireland. See Edgar Morgenroth: ‘How Can We Improve Evaluation Methods for Public Infrastructure?’, ESRI Economic Renewal Series 002, 2011.

from other agencies where there are government economists would help to build skill sets and establish a diversity of approaches. Nationally one could draw from the non-financial regulators, and internationally from the European Commission, the European Central Bank, the IMF, the OECD or even the UK GES.<sup>29</sup> This is an example where flexibility is needed in operating the Employment Control Framework. Finally, it does not seem to make sense to design an IGEEES for the civil service only – it should be designed for the full public sector, with implementation starting in the civil service.

### Harnessing Specialist Skills

It would be wrong to conclude that the need to hire specialist talent implies that there is no talent within the current system. In addition to hiring talent with complementary skills, the existing talent needs to be nurtured – this is in part what is referred to as ‘life-long learning’. There were large training budgets (by historical standards) in place in government departments and agencies during the decade up to 2008. Since policy at that time was to create generalists, it may be the case that there is now a real need for significant investment in continual professional development for specialists. A starting point would be a review of which skill sets were not covered in previous training schemes, what Departmental current training needs are, and what training budgets are required to meet these. Failure to undertake the training needed would fly in the face of the reform agenda.

We know from a whole range of organisations that there are benefits to skills development from creating an open learning environment in the workplace. How does the public sector environment measure up? Are there seminars, visiting speakers and shared events that people can attend? What proportion of staff actually participates in such events? Do senior personnel attend?

In the light of concerns that our recent economic problems were at least partly the product of ‘groupthink’<sup>30</sup>, what is being done to cultivate independent thinking and its open expression?<sup>31</sup> For example, if there are reform proposals being discussed, are those who see problems or possible extensions speaking out and making those suggestions or are they keeping their heads down? The background context to the present reforms is discussion about reform with little happening in many areas.<sup>32</sup> It would not be surprising if some in the public service were cynical about progress on this occasion, notwithstanding the very high profile the reform agenda is now receiving. Reform will be perceived to be ‘real’ when

---

<sup>29</sup> In the absence of jobs for government economists in Ireland over the past two decades, there are many Irish economists employed in the UK GES.

<sup>30</sup> See Commission of Investigation into the Banking Sector (2011), *Misjudging Risk: Causes of the Systemic Banking Crisis In Ireland* (the Nyberg Report).

<sup>31</sup> Psychologists refer to this phenomenon as the Asch Effect, i.e., ‘the distortion of correct individual judgment by the incorrect but unanimous opposition’. It has been suggested that the recent crisis reflects an inverse Asch Effect, i.e. ‘the irrationality of decisions, analysis and action of authoritative decision / policy makers, when they possess a competing and a contrasting view of the correct and collective opinion of the subordinates & peers’.

<sup>32</sup> In some areas where there were reforms (e.g., the creation of the HSE), these were seen not to have worked and are currently being reversed.

people see staff assigned to where their skill sets can be used effectively, where skills are being augmented where needed and where there are real changes in roles which allow them to be more effective

The world of academia benefits from the peer review process. In addition to researchers, reviewers can include people with experience in the area who might see the potential and the weaknesses in the work and provide (anonymous) feedback, to which the researcher has to respond satisfactorily if the paper is to get published. It is not a perfect system but it plays an important role in maintaining the quality of research across all domains. How could such an idea be mirrored in the public service of a country where culture tends to support consensus? Would it make sense to send background research papers prepared by government economists for external review, obviously on a confidential basis? Where it is not feasible to send the paper out, one possible idea would be that, as a matter of routine, a Devil's Advocate (DA) would be appointed to review the paper which would then be discussed among colleagues. His/her job would be to question the analysis, the basis for the conclusions and identify problems with the interventions. This practice would develop a more open culture, increase the quality of work, contribute to better inter-departmental committee engagements on cross cutting issues, and reduce silo behaviour. It could also help civil servants in dealing with lobbyists, an issue which is being currently discussed as part of the political reform process.<sup>33</sup>

For such a DA process to work properly there would have to be legal frameworks in place to support it. Furthermore, the DA role would have to be systematically rotated so that everyone has the opportunity and responsibility to play this role. If evidence of someone's performance as a DA featured in the criteria in promotions processes/PMDS, it would very quickly be mainstreamed. Over time, this would reduce the risk of groupthink, and perhaps even the need for good faith reporting.<sup>34</sup>

This section has concentrated on economists but, as noted at the outset, there are similar issues for other professionals throughout the system. While the public at large may be critical of some professionals (including economists) in light of recent events, this does not mean that Ireland can or should do without them in the future. While we have workforce groups in place today to deal with current shortages, are we paying sufficient attention to more medium term skill needs? Real reform in today's world requires changes in skill sets and roles – these are key to implementing the actions in both the economic and public sector reform agenda.

In the future, we need specialists to bring their professional skills to the decision-making table in an appropriate and effective way. For example, could we have planners who would be proactive in setting standards, rather than simply be reactive to individual proposals? What number of accountants do we need in the public sector to support the long-awaited

---

<sup>33</sup> If the civil servants dealing with lobbyists or in negotiations with interest groups do not have good evidence available to them, the engagement will be dangerously one-sided.

<sup>34</sup> This term is now used widely in place of 'whistle-blowing' because of the latter's pejorative tone.

move from cash to accrual accounting? And if we move out into the wider public sector, how far are we from the optimal composition of skills sets in education, health, and social services? How should we acquire the right type of legal expertise to reduce the current delays to the drafting of legislation? The list of decisions that cannot be implemented because of legislative delays seems to be growing rapidly – if this is caused by a shortage of legal expertise, then what action needs to be taken immediately to address it?

### *3.3 How do we minimise risk in the reform process?*

The scope of economic and public sector reform being promoted at present is unprecedented, as is the implied speed and scale of implementation. The present political and economic climate is placing great pressure on government to be seen to be active across all domains. In effect, progress is being sought on all 200 items on the Department of Public Expenditure and Reform list. This creates a real dilemma for the political and public sector system: while it has been necessary to identify a large number of action items, to avoid criticism that something important had been ignored, it is clearly not possible or sensible to implement them all simultaneously with the same intensity. Strategic implementation of reform requires prioritisation and this often provokes criticism in Ireland where some think that everything should be prioritised. Progress is also being sought on the economic reform challenges that have been identified for many decades and not attended to. This acute pressure is understandable but unfortunate, as too rapid a change can create major risks. Consequently, risk analysis should pervade the system of reform, while avoiding becoming a barrier to reform.

In relation to both types of reform, Ministers need to withstand two types of pressures: (i) pressure for non-action from interest groups (in both the public and private sectors) who are benefiting from the *status quo*, and (ii) pressure to be seen to act quickly even when there is insufficient evidence to inform decision making. The former has proved difficult for Irish politicians in the past – and the country waits to see whether the present government will be able to deliver on controversial areas where its predecessors have failed. However, as long as public opinion penalises minor failings of any kind but attaches no corresponding penalty to avoidable delays of desirable reforms, there will be a tendency for the *status quo* to prevail.

In relation to the latter pressure, Ministers should be able to depend on civil and public servants to provide the evidence to underpin their decisions and for their forthrightness in saying when they do not have sufficient evidence to justify an intervention and what they are doing to obtain it. Sometimes where there is no evidence for Ireland, robust evidence can be safely drawn from other countries – but this must be done with care. We must try to avoid policy mistakes, both because we cannot afford them and because they damage both trust and confidence.

No large-scale reform is risk-free – the challenge is how we identify and mitigate these risks. There is much to be said for this process being open and transparent, with careful planning of the pace and sequencing of implementation.

#### 4. Concluding Comments

The scope of public sector reform being promoted in Ireland at present is unprecedented, as is the implied speed and scale of implementation. Progress is also needed on overdue economic reforms, many of which are needed to underpin the public sector reform agenda.

This paper has explored some of the issues involved in this process. It suggests that economic and public sector reform complement each other with the former focused on what should be delivered, while the latter focuses on how it should be delivered – more efficient policy implementation and better service to individuals. For successful reform, the analysis underpinning policy should consider options based on economic reasoning and evidence rather than on ideology, current fashion or past practice.

Much discussion of reform fails to recognise that the process of change must be continuous. International experience suggests that it is not possible or sensible to implement them all simultaneously and with the same intensity. Prioritisation is needed. Furthermore, reforming large-scale systems requires care and planning – the ‘big bang’ change, which might earn great media headlines, may not deliver on the ground. By contrast, it can often be mundane actions, such as opening hours, better information and easier payment systems that deliver most. These actions focus on changed behaviours rather than changed structures.

The paper suggests that a more open dialogue in internal discussions within the civil service would help the reform process. Two suggestions are presented in this paper. First, a Devil’s Advocate role could be assigned to one participant in policy discussions. This civil servant would be given the job of critic, tasked to question analysis, conclusions and proposed interventions. In addition to developing a more open culture, this practice would increase quality, reduce silo behaviour and, most importantly, mitigate the risk of “groupthink”. The second suggestion is the use of external reviews of internal research papers and evaluations.

While much emphasis has been placed on managerial and leadership skills within the public service, the paper suggests that the skills base itself could be broadened to include increased numbers of specialists, such as statisticians, urban planners, IT specialists, environmental specialists, project managers, lawyers, accountants, economists and other social sciences. This would see Ireland moving from the current ‘generalist’ model to one where the civil service has a multi-skilled work force, which offers career paths to specialists. The challenge of building up these skills is discussed.

In the current context, changing the skill mix requires a robust but strategically flexible approach to the implementation of the Employment Control Framework. Furthermore, the paper notes that in planning the downsizing/re-sizing of the public sector workforce, those leading the reform process need to be mindful of the link between productivity and the working environment.

On the ground, reform implementation means assigning staff to where their skill sets are needed, augmenting those skills where necessary, and making real changes in their roles to allow them to be more effective.



The reform process is now underway and there is good potential for progress, particularly if economic and public sector reforms are combined. Bringing the arguments presented together, this paper suggests that government Ministers involved in the reform agenda should see reform as an ongoing process of incremental improvements, resist calls for quick dramatic actions and work for medium and longer term gains.

Year	Number	Title/Author(s) ESRI Authors/Co-authors <i>Italicised</i>
2012		
	439	The Effect of Real Exchange Rate Changes on Labour Productivity Growth <i>Gavin Murphy and Iulia Siedschlag</i>
	438	Consumption in Ireland: Evidence from the Household Budget Survey <i>Petra Gerlach-Kristen</i>
	437	Simulating Demand for Electrical Vehicles using Revealed Preference Data <i>Áine Driscoll, Seán Lyons, Franco Mariuzzo, and Richard S.J. Tol</i>
	436	The Costs of Working in Ireland <i>Niamh Crilly, Anne Pentecost and Richard S.J. Tol</i>
	435	Choice, Price and Service Characteristics in the Irish Broadband Market <i>Seán Lyons and Michael Savage</i>
	434	International Migration in Ireland, 2011 <i>Philip J. O'Connell, Corona Joyce and Mairéad Finn</i>
	433	The Potential for Segmentation of the Retail Market for Electricity in Ireland <i>Marie Hyland, Eimear Leahy and Richard S.J. Tol</i>
	432	Timing and Determinants of Local Residential Broadband Adoption: Evidence from Ireland <i>Seán Lyons</i>
	431	Obesity and Employment in Ireland: Moving Beyond BMI <i>Irene Mosca</i>
	430	Offshoring, Inward Investment and Export Performance in Ireland <i>Frank Barry and Adele Bergin</i>
	429	The Long Term Health Effects of Education <i>Vincent O Sullivan</i>
	428	Should Coal Replace Coal? Options for the Irish Electricity Market <i>Seán Diffney, Laura Malaguzzi Valeria and Darragh Walsh</i>
	427	Competition Policy in Ireland: A Good Recession? <i>Paul K. Gorecki</i>

For earlier *Working Papers* see

[http://www.esri.ie/publications/search\\_for\\_a\\_working\\_pape/search\\_results/index.xml](http://www.esri.ie/publications/search_for_a_working_pape/search_results/index.xml)