Interview: Ngaire Woods, Blavatnik School of Government

The head of Oxford University’s Blavatnik School of Government is a fan of the British civil service – but it’s being battered by some heavyweight global forces, she says, and must learn a new fighting style. Matt Ross meets her.

“The British civil service does have this extraordinary history of attracting some of the very, very best, and creating careers that are high-status and highly respected,” says Ngaire Woods. “When I look at how many countries strive to have a civil service of the quality of Britain’s, it’s quite painful to watch the way governments and politicians and the private sector [in the UK] pour scorn on something that at its core has some real seeds of excellence within it.”

This is high praise – and all the higher coming from someone who’s neither a Brit nor a civil servant, but a New Zealander (Woods’ first name, generally pronounced ‘Nye-ree’, has Maori origins) who’s dedicated her 20-year academic career to studying governance and public services around the world. Now a professor of global economic governance and the dean of the Blavatnik School of Government at Oxford University, Woods comments that the UK civil service “is not alone among British institutions in benefiting from an extraordinary tradition and history – some people say the same about Oxford!”

Like all civil services, though, ours has made big mistakes as it struggles to address the fast-evolving challenges of an ever more globalised world. The Blavatnik School exists to help identify those challenges, and to devise better responses to them; asked how the demands on government are changing, Woods first cites the urgent need to improve its “capacity and confidence in regulating the largest and most profitable sector of the economy”.

The credit crunch and its consequences, she argues, reveal that many western nations had forgotten the “simplest rule about banking, which is that the one thing that governments have to do is to stop banks from over-leveraging”. In a period when lending was producing huge returns, there was a big opportunity cost to the banks if they held substantial capital reserves – so they lent out as much as possible, devising sophisticated financial products and structures that ostensibly de-risked these high levels of lending. Disastrously, says Woods, many governments accepted this approach, in the belief that they could check the security of each new financial innovation through inspections and reporting systems.

A comfortable collusion
The result was “a comfortable, ineffectual collusion between government and business, with government being seen to regulate by requiring lots of box-ticking and reporting
from business, and business being seen to comply by ticking those boxes,” she explains. But “the idea that regulators can be as sophisticated and nimble as private banks and financial services companies has been shown to be horribly wrong.” Creating regulators as well skilled and equipped as the banks would demand “absolutely phenomenal resources” – and in their absence, “policymakers in this country and others are having very seriously to grapple with the question of how you regulate a sector where the incentives to over-leverage and over-profit are so high, while the resources that you can put into regulation are quite modest.”

Governments’ failure to prevent the credit crunch exacerbated another set of challenges for them. Even before the global recession, many populations had become deeply disillusioned with their governments – in Europe and the Islamic world, for example, many saw their politicians as corrupt, remote and unaccountable. For years, says Woods, rising incomes kept the lid on this discontent: “Citizens can get quite complacent during decades of growth. But when growth slowed and unemployment rose, people around the world – not just the Arab Spring, but Occupy Wall Street, Occupy the City – started saying: ‘What’s our government doing? Is it accountable enough? Is it honest enough?’”

The result, she argues, is the rise of a new wave of populist parties – with those in Europe often blaming immigrants for people’s troubles. “Rising unemployment has made people extremely sensitive to arguments that say: ‘It’s these people taking your jobs,’ whether or not the evidence backs that up,” Woods says. “Populist parties play to people’s fears, which is the wrong thing for politicians to be doing. For me, politicians shouldn’t play to people’s fears; they should play to their hopes and beliefs.”

Woods mentions one more big challenge for governments: to capitalise on the potential of ‘big data’ and IT to make public services more responsive. “Here, I think the developed world is the laggard,” she comments. “We’re seeing in the developing world a much more rapid take-up of the possibilities created by mobile phones – using instant communication to give real-time feedback to government, and to create much more responsive, adaptable public services.”

Cherish what you have…
That’s three big challenges to governments – which she summarises as: “How to get it right and be competent; how to be accountable and stay honest; and how to be responsive and well-informed.” So does the UK have the right systems and processes to address these challenges?

The permanent civil service model is a good start, Woods argues: “The challenge for governments is how to learn from experience; how to stand on the shoulders of giants; how to remember that something’s been tried before, and why it failed last time,” she says. “And one of the ways that Britain has done that is by having a permanent civil service. There’s something very powerful in having this institutional memory. In the US, the top three layers of government change with each new president, and that makes it hard for them to capture this continuity and experience.”

The price for that memory, of course, must be paid in a degree of tension between politicians and officials. The permanent civil service model can, Woods acknowledges, “lead to civil servants, armed with all this information, simply running an incredible blocking game, and rendering politicians powerless”. It’s also true that “some civil servants get to a point in their careers where life is easier if they keep things going without too much change,” she comments. But politicians are in the wrong just as
frequently: “They’re often impatient and unrealistic about what can be achieved in a sustainable way,” she says, “so they have an idea one night, and they want it implemented in a month without considering how that works.”

In recent times, the resultant tensions have led ministers to expand the number of special advisers and appointed officials in secretaries of states’ private offices, and to commission policy research from outside government. But Woods has concerns about both reforms. “The risk is that ministers will choose as special advisers people who always say ‘yes’ to his or her ideas; and that’s a real peril, because it’s a path to digging your own grave in policy terms,” she says. Meanwhile, “if civil servants no longer feel that they have a duty to provide the best advice because it’s going to be sought elsewhere, or that their advice will be ignored, then you’re creating the conditions for the civil service to fail because success is not being demanded of them.”

Woods’ native New Zealand, she points out, pioneered the contracting out of research and advice work – but it hit stumbling blocks: in defence and foreign policy in particular, there were concerns over whether foreign companies could be trusted to put New Zealand’s interests before their home nation’s. Her real worry, though, is that contracting out research reduces the pressure on officials to deliver. “It’s not just about supply; it’s about demand,” she says. “You need a consistent, powerful demand from government for the highest quality of advice from the civil service, because that’s what will keep an outstanding civil service.”

…but improve it
None of this means that Woods doesn’t have complaints about the civil service, however – only that hers are different from those of most politicians. Asked about its federal departmental structure, she’s critical of government’s dependence on the annual budgeting process to coordinate policy agendas and allocate funds. “It’s a rather narrow way to think about coordination across government,” she says. “If Treasury see this as just a budgeting process and their main goal is to minimise the budget, it doesn’t really become a coordinating mechanism – just a series of not very pleasant, department-by-department negotiations.”

As an example of the risks this creates, she points to governments’ approach to international trade negotiations. In the current negotiations to create free-trade treaties in the Pacific area and between the EU and the US, she says, “policymakers are really enthusiastic about permitting arbitration of private sector grievances of government actions that have impeded their profitability in a foreign country.” This sounds innocent enough – but if in future a member country needed to restructure its debt as part of an international bail-out, she explains, the provision could enable overseas debt-holders to pursue the government for the full face value of any bonds they held. In fact, if a treaty “opened a back door and permitted distressed-asset investors to come in, buy the bonds very cheaply, and sue the government for repayment at full price,” then it could well be impossible to arrange a bail-out at all – both because other investors would be unwilling to take a hit whilst the “vulture funds” made a killing, and because the money demanded by these funds would make the whole deal unaffordable.

In the ongoing Trans-Pacific Partnership negotiations, Woods adds, the US is also trying to insist that signatories foreshare the use of “prudential measures” to limit the risks created by rapid and unpredictable flows of investment cash. Much of this cash currently flows “like a tsunami” out of Washington’s own quantitative easing policies, but the US is meanwhile “asking governments to give up policy instruments to manage that
precariousness” – and thus to open themselves up to dollar-led flows of hot money that can “destabilise the whole economy.” The solution isn't rocket science, Woods argues: it’s simply to pay “really careful attention to where these policies can cross over.” National banks and treasuries must keep a close eye on negotiations being conducted by business and foreign departments, ensuring that prudential measures and bail-outs are excluded from trade treaties.

Do's and Don'ts
On banking regulation, Woods argues that the solution is for the government to focus on its core responsibility – even if that’s uncomfortable or restrictive for the banks. “The test,” she says, “is not how much red tape there is, but: is the regulator achieving its one primary goal, or are we actually just creating a charade where it looks as if we’re regulating?” Pre-credit crunch, “governments across the world failed to grasp that core regulatory responsibility, and got sucked into the idea that they could regulate the financial services sector at much less cost to the sector than the old-fashioned, robust regulation might have implied.” Now, they must give up trying to strength-test every new financial product, and simply insist that the banks hold cash reserves.

Meanwhile, Woods urges governments to explore the potential of big data to make government more responsive – and to keep hold of the information infrastructure, datasets and capabilities generated by public sector work. “Some very good work has been done by the Oxford Internet Institute about why you don’t want to privatise and outsource the data element and the information flows of government, because you need some of them in-house to use, to break down, to disaggregate,” she says. That doesn’t mean creating mega-systems designed to bring together all the data held by government: smaller, more modular systems “are much more usable, and come on-stream much more rapidly,” she adds. “In fact, the computer scientists here at Oxford have some pretty devastating data about the correlation between the size of an IT system and the likelihood of it failing.”

On the subject of improving the civil service’s efficiency and skills, Woods has a number of pointers – some sitting neatly alongside government policy; others at odds with it. She warns, for example, against the kind of organisational changes favoured by politicians who “believe that if they change the structure, they’ll change the outcomes” – a problem much worse under the last, Labour government than it is today – but also questions the value of performance-related pay and privatisation in public services. “The former head of the Singaporean civil service – and Singapore has an extraordinary civil service; probably one of the world’s best – said: ‘The minute you transactionalise something, you kill any possibility of excellence’,” she recalls, warning against “trying to incentivise people in a micro way, or transactionalising what they’re doing – whether it’s through performance-related pay or a much narrower, private sector lens.”

Woods believes that private sector skills and processes are too often lionised by politicians. “There’s so much the public and private sectors can learn from one another,” she says, “but if you keep bringing people from the private sector into government to tell committed civil servants that everything they do is wrong, that’s not going to work; that’s not how positive change occurs.” Nobody’s yet found the perfect way to combine public and private sector skills and abilities, she adds – and that’s the “million dollar question: it’s what every government around the world wants and needs to know.”

Britain, of course, has been at the forefront of privatisation, public-private partnerships and outsourcing, and Woods says it’s clear that some forms of business input “can
inadvertently socialise risks and privatise profits, leaving the government holding the can and the private sector walking off with not just a high yield, but very little responsibility for the long-term outcomes.” It’s just as clear, however, that private sector investment, skills and expertise can be enormously helpful to government – and making this interface work is, says Woods, “one area I’d really like to see the [Blavatnik] School begin to bite into.”

In fact, she adds, it’s about time that academia began offering governments a bit more practical help in addressing the huge challenges they face. “I’d be the first to say that politicians and civil servants haven’t been hugely well-served by academics and research institutions,” she confesses. “We’ve lived in a world where academics come up with sometimes wacky but theoretical solutions – sometimes good, sometimes less practicable – and treat implementation as the second phase. Actually, the two cannot be separated. So that’s one of the ambitions of the School over the next few years: to think about how you bring those two things together to do research which can really help policymakers understand what happens to the political and economic sustainability of a policy once it’s being implemented, and how that knowledge affects the way you frame the issue and the solutions.”

Britain’s civil servants could certainly use the advice; few would suggest that our officials know just how to deal with the many complex problems facing the UK. But don’t blame the civil service for all of government’s failures, Woods concludes, nor imagine that its glory days are a distant memory.

“For more than a decade, the power of the civil service has been consistently underestimated by politicians,” she says. “That doesn’t mean that it doesn’t need to keep on reforming or adapting. But once you really look at other countries, you come back to Britain and say: ‘Wow! This is something we should be nurturing and cherishing – and not simply ripping up the rulebook’.”