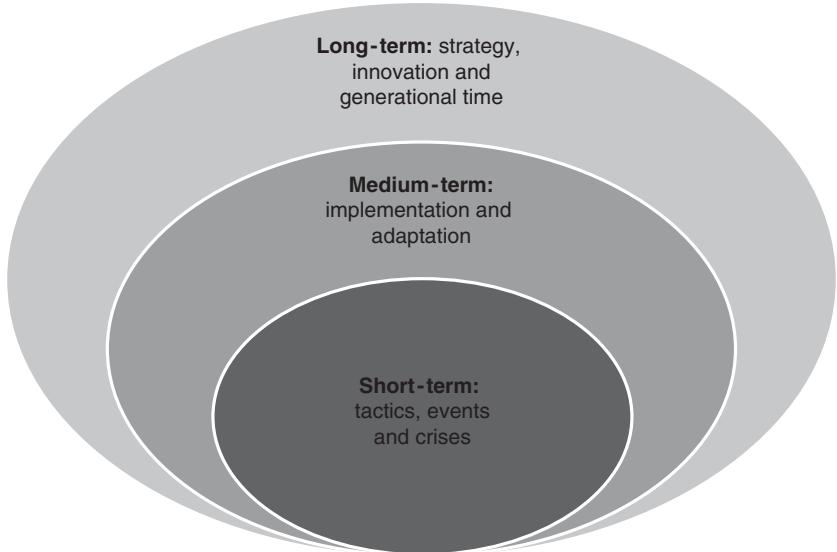


# 2

## What is Public Strategy?

LET's start with definitions. Public strategy is the systematic use of public resources and powers, by public agencies, to achieve public goals. The word 'public' means concerning the people as well as referring to the formal authority of states. Strategy comes from the Greek 'strategos', a general, a word which brought together 'stratos', the idea of something which is spread out (an army or multitude), with 'agos' the idea of leadership. So what we're concerned with here is how the sprawling mass of public agencies, laws, services, embassies, armies, and laboratories that make up a modern state can be led in the same direction and serve a public interest that lies well beyond the state.

Strategy isn't always either possible or relevant. It's easier when the environment is reasonably stable or predictable. Governments with very small majorities or in unstable coalitions; ministers and officials with short job tenures; and organizational cultures focused on tomorrow's news coverage, are unlikely to be very interested in strategy. They may feel more attuned to Groucho Marx's question: 'what's posterity ever done for me?'<sup>1</sup> or to the comment of the ruler who corresponded with Machiavelli, and claimed to conduct his government 'day by day and arrange my affairs hour by hour; because the times are more powerful than our brains'. In other cases there may be the will to act strategically but no way of turning ideas into action: ministers feel that they're putting their foot down on the accelerator but all they can hear is the engine turning over with no forward movement. Meanwhile some public bodies become so consumed with their own processes that they lose sight of what they're for, ending up both goal-less and soul-less.



**Figure 2.1.** Three horizons of decision-making

But competent and responsible organizations that are ready for the future manage to keep their values and principles in sight while focusing simultaneously on three different horizons of decision-making (Fig. 2.1):

- The short-term horizon of day to day crises and issues, from the pressures of media and politics, to problems like strikes or IT crashes. Getting these wrong can be fatal for a political leadership, or an individual executive.
- The medium-term horizon of existing policies and programmes—where performance and successful implementation are paramount, but most spending and programme delivery is already set.
- The longer-term horizon where new policies and strategic innovations become ever more critical to survival and success, including the ‘generational horizon’ of issues like pensions and climate change where governments increasingly have to look fifty years into the future.

During the mid-1990s I often taught at the Civil Service College and asked officials to describe the typical timescales of the plans and decisions they were involved in. The outlying agencies were often working over long time horizons, for example procuring defence systems that would not be delivered for another twenty years, or designing national curriculums for children who wouldn’t leave school for almost as long. Yet the closer you came to the centre of power the shorter the time horizons were. The

Treasury was looking little more than a year ahead, perhaps understandably given Britain's history of economic volatility. The Prime Minister John Major's people were thinking from week to week, the price paid for a small majority and a band of disruptive rebels in his own party.

Some stability and consistency are essential preconditions for institutions to pay serious attention to the third horizon. Without them, the future is simply too unknown. But competent strategic organizations learn how to act and think in all of these horizons. Although leaders need to devote most of their time and energy to the first and second horizon, they also need to carve out significant slices for the long term and ensure that some of their staff are entirely insulated from immediate pressures (a reasonable ratio for the allocation of time and people is 50 : 30 : 20). Their core staff need to be able to work across these different horizons, connecting the long-term to the immediate. But around them there need to be specialists, working with the media, tracking implementation or planning for the long-term. These latter will include advisers and members of round tables, units, and teams within agencies, as well as more formal structures like the Commissariat de Plan and its successor the Centre d'Analyse Stratégique in France; BEPA in the European Commission; the Scientific Council (WRR) and the Social and Cultural Planning Bureau in the Netherlands; the UK's Strategy Unit; CASS and the NDRC in China; and SITRA in Finland, to name just a few. Their roles vary from defining the high strategy of geopolitics (building up alliances, or military preparedness), to strategy at the level of political economy (for example, establishing institutions which can negotiate income levels and social wages), to strategies at the level of public service systems (setting legal and regulatory frameworks, ensuring the right flow of trained staff, or the right sequence of reforms to build confidence and trust).

The best strategies are clear about what they're trying to achieve and how they'll do it. That's where their power to inspire comes from. They may be at heart very simple—and based on simple insights into the nature of things—like the idea of universal healthcare provided as of right, or the idea that key infrastructures could be opened up to competing companies, or the idea that drivers should pay for their use of roads. These may be imaginative leaps. They may be surprising combinations: some problems that in isolation are intractable in combination turn out to be tractable. The American jurist Oliver Wendell Holmes put it well: 'I don't give a fig for the simplicity this side of complexity but I would give my life for the simplicity the other side of complexity.' Developing strategies is partly a linear process, but also involves circling around issues until this simplicity is achieved, often with the help of intuition or subconscious thought as

much as logical deduction. A common lesson of the practice of strategy is that too much elaboration and complexity actually leads to worse decisions. Indeed the best strategists draw on experience to cultivate a ‘strategic intuition’ which enables them to grasp the essentials of a situation in one go and to judge what will work in ways that can be supported, but never substituted, by analysis.

There is a vast literature on strategy. Throughout history rulers have wanted insights on how to win wars and how to survive against difficult odds. From Sun Tsu to Clausewitz, and Alfred Chandler to Michael Porter, this literature has been primarily about two domains: war (how to defeat the enemy), and business (how to achieve and sustain competitive advantage).<sup>2</sup> This literature offers many insights for the leaders of governments and public organizations. There are some common principles and factors to be borne in mind in every field: the behaviours and mentalities of competitors; the critical resources; the morale and motivation of real and metaphorical foot soldiers; perceptions as well as realities. The very large literature on change within organizations is intended to be universal in its implications, and has provided many insights into the often highly political dynamic whereby early enthusiasts persuade resisters. It also emphasizes the importance of early actions (and early wins) in building confidence and stakeholders in change, something that is very familiar to social movements and civil society. In all fields, too, there are severe limits to the ability of any organization to understand the world it is operating in. Facts may be distorted; analyses may be confused; events intervene; and strategies evolve as they bump against the real world. But, equally, in all fields, as Seneca wrote two millennia ago, ‘There are no fair winds for those who don’t know where they are heading’.<sup>3</sup>

Despite these similarities, the challenges public agencies face are often radically different than in other fields. Strategy for public organizations is not just about achieving competitive advantage (though competition with other jurisdictions for territory and resources can often be crucially important). Public organizations face very different constraints (including public opinion, political factions, or tax-raising capacity) than businesses or armies. They can make use of very different tools (including law, tax, and regulation). They generally have more goals at their disposal and have to deal with more complexity and ambiguity, reflecting the wider range of stakeholders they have to satisfy, not least because electorates rarely speak with a single voice. They are more likely to want to shape environments as well as responding to them, and they generally work with a wider mix of motivations—including more intrinsic motivations (curing people, teaching them, protecting them) as well as self-interest.

These differences are partly reflected in the much smaller emerging literature on strategy in public organizations,<sup>4</sup> and a very large, and overlapping, literature on management and administration in the public sector.<sup>5</sup> There is also a literature proposing various different tools for strategy, including qualitative methods and methods which seek to put numbers on as many variables as possible.<sup>6</sup>

A recurrent question in much of this literature is whether strategic methods are universally applicable across sectors. My view is that although some of the questions are universal the answers are not: smart strategies are very specific to their contexts. As James Q. Wilson pointed out in his classic book *Bureaucracy*, the essential qualities needed to run a good prison are very different from those needed in an excellent school or an excellent hospital. The details of a strategy to create jobs will be very different from those for cutting crime.<sup>7</sup> Some public services, such as postal services or benefits payments, are large-scale retail and distribution industries with many close parallels in the private sector. Others, such as policing or public health, operate at the intersection of public behaviour, strong professions, and profound asymmetries of power and knowledge. In some services the public's primary concern for reliability is best delivered by high levels of integration and coordination (for example, in crisis management or transport), while in others improvement is most likely where there is decentralization and user empowerment.

These differences can easily be obscured. The major consulting organizations advocate using the same methods for strategy in any kind of public or private organization.<sup>8</sup> Some similar methods can indeed work well for second-order issues, such as organizational design, introducing technologies, or the detailed planning of implementation, sequencing, and interdependencies. Consultants and advisers can become adept at applying generic methods for breaking issues down into their component parts, and systematically piecing together implementation plans. These methods have long been the bread and butter of competent administration, but public organizations all too often let their skills atrophy. But such generic methods are less useful in fields where knowledge is all-important (such as medicine) and they provide few insights for the more central tasks of government including legitimization, public value, and, for politicians, how to win re-election. At worst, the indiscriminate use of generic methods from the private sector can do harm, generating paper efficiencies that are experienced by the public as worse service, or doing away with public engagement and democracy in the name of cutting waste.<sup>9</sup> Generic methods are equally unhelpful in guiding the core

business of military organizations: they can help with improving logistics or recruitment, but not with winning wars.

One of the most important areas of difference between business strategy and public strategy is time. In business the future is discounted according to consistent and precise measures that arise in the market. Discount rates measure the opportunity cost of capital, defining how much less \$100 in five years' time is worth compared to today, and this in turn drives investment decisions. This 'exponential discount rate' provides a very rigorous way to make decisions about the future. It also, notoriously, drives long-term values down close to zero: from the perspective of today's market an asset that won't be realized for fifty years is almost worthless (a 5 per cent discount rate values \$100 in fifty years' time at \$7.69). No wonder action on climate change is so hard. In the public realm, by contrast, very different views of future value are used, even though many finance ministries apply standard discount rates to projects like airports and roads. Some theorists describe public decisions as closer to 'hyperbolic' discounting, where the discount rate steadily falls, and then levels off. Seen through another lens, many public decisions are taken more through the lens of stewardship or guardianship, where the priority is to leave behind a more useful set of assets than you inherit (this is also the strict definition of sustainability), rather than automatically favouring consumption now over consumption in the future. As a rule strong social bonds tend to reduce or even eliminate discount rates (which is why parents are quite happy to leave large bequests to their children, and tight-knit communities automatically restrain current consumption in the interests of the future). As I will show, real governments apply a range of different approaches to time and discounting, some very similar to business and some radically different.<sup>10</sup>

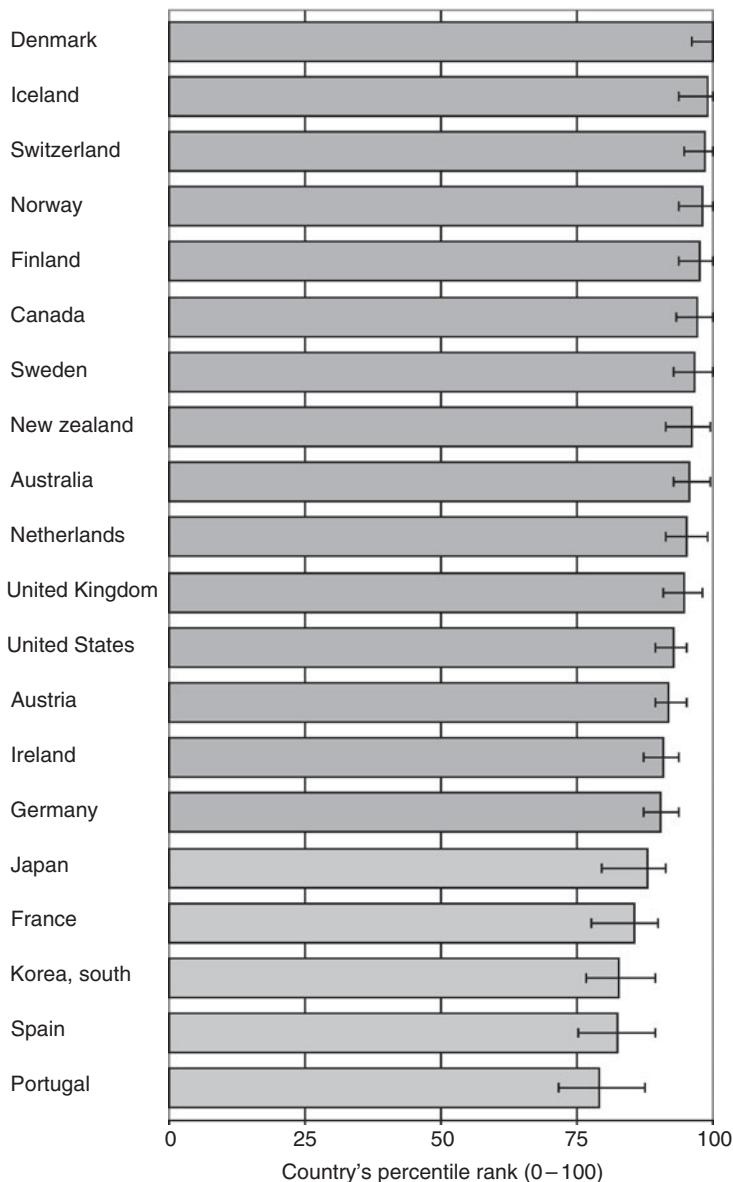
Another subtler difference is that governments have no choice but to be more engaged in design than businesses or NGOs. It is simply not possible for governments to treat every event and every situation as unique. Instead generalizations are embodied in laws, programmes, principles, and protocols: indeed the power to apply general rules serves almost as a definition of the state (and as Alfred North Whitehead put it, civilizations advance by 'extending the number of operations we can perform without thinking of them'). These rules still leave space for discretion and judgement, and generally more discretion is allowed in times of crisis or when events move fast. But it is impossible to be strategic without some element of standardization, generalization, and routinization, and without some sense of the design principles that are needed, for example, to reshape

industries to become zero waste or low carbon, or to make public services more personalized, richer in information and feedback, or better at tackling underlying causes rather than symptoms. Herbert Simon once wrote that ‘the intellectual activity that produces material artifacts is no different fundamentally from the one that prescribes remedies for a sick patient or the one that devises a new sales plan for a company or a social welfare policy for a state... in large part, the proper study of mankind is the science of design, not only as the professional component of a technical education but as a core discipline for every educated person.’<sup>11</sup> In a democracy that skill in design needs to reside not just in the bureaucrats and politicians but also in the commentators and citizens who judge, reward, and punish.<sup>12</sup>

There is, however, one less obvious respect in which business thinking can provide insights into public strategy. In business, strategic thinking often begins with organizational capabilities and then looks for how they be used in different ways to create as much value as possible. It is entirely legitimate for, say, a company focused on cables and wires to remake itself as a mobile phone company (as Nokia did). Public strategy has traditionally begun the other way around, with goals: it then designs organizations and programmes to meet them and treats any additional capacity as a threat to focus. It’s often seen as illegitimate for bureaucrats to seek new roles. But both politicians and officials often act as entrepreneurs, looking for new demands in a dialogue with the public in which goals are not fixed.

## Performance and Strategy

Figure 2.2 is a recent ranking produced by the World Bank covering government effectiveness. It’s striking that most of the front-runners are not only good at current performance but have also taken strategy seriously. Denmark, which comes top, is a particularly interesting example. The Danish public expect a lot of their government, and pay a lot for it (as measured by the public sector’s share of GDP). But they also get much for their money: Denmark generally comes near the top of international rankings for GDP and employment rates as well as social and environmental outcomes. Denmark also stands out for having pursued a sustained and effective strategy in response to the economic shocks of the 1980s that helped to preserve its very high levels of social provision.



**Figure 2.2.** Government effectiveness by country. The bars represent the overall position and the lines at the end represent margins of error. *Source:* World Bank.

In the words of a recent Danish ‘Handbook for Prime Ministers’: ‘the overriding goal has been to make Denmark one of the most competitive economies in the world. This has been achieved by tough economic

control and by coordinating policies all the way down to the most insignificant detail in the fields of employment, the labour market and education'. Cross-party consensus has been critical to this, and has meant that a broadly similar strategy has been adhered to over more than two decades, alongside a broad consensus in other areas from care for children to environmental improvement.

Other countries in this list have also worked hard to be strategic. Finland has already been mentioned; Switzerland has long required senior civil servants to learn formal strategy methods; Norway has been one of the wisest countries in making use of windfall gains from natural resources, as well as being boldly radical in fields as varied as gender equality and the environment, while the Netherlands has done more than any other country to embed futures thinking into its decision-making. Before its current travails, Iceland presented itself as a laboratory for the world, a nation where the future would arrive first. Other impressive examples of strategies directed to high-level goals include:

- Singapore's strategy to become a leading economic power, executed between the 1960s and the present day within the constraints of a quasi-democratic city state;
- Egypt's strategy to cut child mortality;
- Cuba's strategy to improve public health, which enabled it to achieve mortality rates much lower than wealthier societies;
- Germany's strategy to rebuild the old East Germany, which despite problems ranks as one of the most successful acts of integration in history;
- France's strategy to influence the European Union which for a long period worked amazingly well, casting Europe's governance in a French mould;
- the US strategy to contain the USSR which succeeded beyond expectations when the Cold War ended with the Soviet Union's collapse;
- the US strategy to make the dollar the pivotal currency of the global economy;
- Lebanon's strategy to rebuild the economy in the wake of civil war, a much less even story, not least because of continued interference by its two powerful neighbours, Israel and Syria;
- China's strategy for long-term economic growth, that has so far broken every record in economic history, or its one child policy which cut population growth by some 400 million;

- New Zealand's strategy to achieve a fairer deal with its indigenous Maori population;
- Uganda's strategy to cut HIV/AIDS;
- the policies pursued by many other countries to raise birthrates, including France's policy of providing child benefit for second children (and since 2005 an extra grant for third children), and Singapore's more ambitious plans to raise the birthrate amongst graduates (including state-supported dating agencies); and
- Iceland's strategies for reshaping the labour market, involving schoolchildren in work as well as members of extended families.

Many other examples could be cited, but this list gives a sense of the sheer variety of high-level strategies that governments have pursued. These high-level objectives tend to be so all-consuming that few governments can pursue more than two or three at any one time. In other cases the objective may be more limited, for example:

- building up the science base in Australia as part of an economic strategy to shift Australia's comparative advantage away from minerals and mining to human capital;
- raising employment rates in Denmark;
- dealing with urban migration in coastal China, or official corruption;
- cultivating a meritocratic civil service in Mexico;
- France's strategies to create high-speed rail networks; and
- the widespread adoption of parenting programmes to cut crime (which in the US have been shown to be three times as cost effective as the 'three strikes' programme).<sup>13</sup>

## Bad Strategies

The strategies listed above broadly worked. But some of the most visible strategies of recent years have been disasters, and disasters are always instructive. Indeed, most people learn more from their own failures than they do from successes. When Japan's Emperor famously told his people as the Second World War came to an end that 'the war situation has developed not necessarily to Japan's advantage,' he was responding to a self-imposed disaster with the typical air of denial that afflicts those in power. Yet ironically, this turned out to be the beginning of a period of unprecedented prosperity and freedom, and the government he ruled

over learned quickly and transformed itself completely. One of the most prominent recent disasters was Russia's reform programme in the 1990s. This was shaped by a group of economists from Harvard (notably Jeffrey Sachs and Andrei Shleifer) and others at the World Bank and IMF, and backed by the US government with very large sums of money. Its central idea was shock therapy—that the right mix of shocks could move an economy at a stroke from planned communism to market capitalism. The strategy combined the introduction of market prices, slashing public spending, and privatization of public assets. The programme was designed to set in motion a period of rapid economic growth. Instead it led to a roughly 50 per cent cut in Russia's GDP, almost unprecedented in peacetime in any major economy. Poverty rose from some 10 per cent to at least 25 per cent, and almost every social indicator worsened. The country was left with much stronger organized crime, and powerful oligarchs. In 1998 the rouble fell by 70 per cent. The strategy combined a fundamentally flawed view of how people work (its only intellectual model was the raw individualism of neoclassical economics); misconceived policies and strategies; and disastrous implementation.

The Russian case is unusual in that it achieved precisely opposite effects to those intended. Japanese expansionism fell into the same category, as in some eyes, did the Iraq invasion of 2003: promoted to discourage terrorism and to provide a democratic power in the region as a counterweight to Iran and Syria. At the time of writing it had increased terrorism and brought Iran and to a lesser extent Syria into Iraq's governance as never before.

Failures are instructive because they remind us what makes a strategy good. These failures—from Japan's defeat in the Second World War to Russia's economic retreat in the 1990s—happened because of deeply flawed assumptions that were not adequately interrogated by those in power. Right from the start they were doomed because they were based on flawed observations and weak intelligence. There was inadequate planning for any path of events other than the one hoped for. And then, to compound the problems, they proved unable to learn quickly from mistakes.

## Anti-strategy

The truly bad strategies, and the mediocre ones, have encouraged critics who claim that any strategies will be at best futile and at worst damaging. A variant of this argument was made several centuries ago by Pandolfo Petrucci the Lord of Siena whom Machiavelli quotes as saying that wise

government should be organized moment to moment because of the unpredictability of the times. The modern variant of this argument is that the environment is so unpredictable, so full of unknown unknowns as well as known ones that any planning is foolish (as the old saying goes, life is what happens while you're making other plans). Since no plan will survive its first encounters with reality, the best stance is to improvise and adjust. According to this view strategy and planning provide a comforting appearance of rationality but are not functional.<sup>14</sup> They are a symptom of humanity's fear of losing control and of 'being cast into the abyss' rather than a cure for it.

For other critics, strategy exemplifies the mistaken belief that thought and action can be separated. This belief in its modern guise is most closely associated with Frederick Taylor, who broke the workings of factories down into their component parts, and believed in a rigid division of labour in which thought was monopolized by professionals and managers broken down into cadres of specialists; some for finance, some for marketing, and some for strategy. This approach is associated in recent decades with the work of such figures as Michael Porter who have advocated a highly detached and formalized model of strategy-making in which the only useful knowledge can be codified, abstracted, and turned into models. As critics like Henry Mintzberg point out, these models rarely work well in practice. They exaggerate the solidity and relevance of the data, undervalue frontline experience, and prove slow to adapt when things go wrong. Another common vice is that they tend to reinforce hierarchy, encouraging strategists to blame implementers when things go wrong, or to devise ever more elaborate methods to constrain their autonomy.<sup>15</sup> It's claimed that 90 per cent of strategic plans in business are never implemented and that 70 per cent of change projects fail. Perhaps this is not surprising since in a 2005 survey of 1,400 chief executives 91 per cent said that increasing complexity required new skills and tools, but only 5 per cent believed that they had these skills.

At one extreme bad strategies reflect the hubris of leaders who believe that they can plan systems which are in fact far too complex for any planner to grasp. At another extreme they become empty exercises which give the appearance of coherence even where there is none. There are important insights in many of these critiques of strategy. The twentieth century was replete with grandiose and ineffective plans and strategies, from the Soviet economy to the US military, and from businesses like Ford and IBM, to Nikita Khruschev's extraordinary plans for turning virgin lands into fertile farms, with far-fetched targets, inflated rhetoric at every turn,

and for a time imaginary successes before the strategy ended up with dust bowls. Visions may, after all, be ‘things you have before you get locked away’, as one minister once commented to me. But none of these are arguments against strategy as such. They are rather arguments for better strategies that are humbler, wiser, done for real, and more integrated with their systems and their environment.

## Incrementalism

An equally old tradition of academic study of government has been suspicious of the very idea of strategy in government. Instead it has argued that most of the daily business of government is more like incremental adjustment in response to the battles and compromises of organized interests, with little assessment of alternative options and no clear boundaries between means and ends. The classic exposition of this case was written by the political scientist Charles Lindblom in 1959. He described government as ‘muddling through’, with clear goals and strategies the rare exception.<sup>16</sup>

Muddling through is indeed common in most governments (and in some businesses), and is entirely rational if you don’t know where you want to go, or why, or how. Muddling through can even be designed into the DNA of government: the German constitution favours iterative adaptation over bold leadership for obvious historical reasons, and America’s still reflects its founders’ fears of too imperial a presidency. In others muddling through results from fractured authority, internal competition, or simply no one taking responsibility for the future. In benign times this may not matter too much: Italy managed reasonably well for much of the post-war period with very weak governments. But in more turbulent times the muddlers are likely to lose out to the nations that can act quickly and decisively.

The distinction between incrementalism and strategy can be misleading. All real strategies have to adapt and change, and are made up of many increments, and it’s never wise to be locked into a strategy. ‘Management by groping along’, and the habit of acting fast so as to learn quickly, can be a rational response to uncertainty and can sometimes add up to a strategy.<sup>17</sup> Even in the rare cases where a government develops a fully thought-through reform agenda—such as in New Zealand, or to a lesser extent Spain or Britain in the 1980s—policies have to constantly adjust to the prevailing patterns of power, to setbacks and events. Margaret Thatcher’s

Conservatives had no idea at the end of the 1970s how important privatization would become to their purpose and image. When at roughly the same time France's socialists came to power for the first time in a generation the initial strategy was fully implemented in some fields (such as regional devolution), and comprehensively scrapped in others (such as industrial policy). Conversely, however, even the most committed incrementalists sometimes have to become strategic, responding to bigger forces—as West Germany did when it took over the former East Germany in one of the boldest moves of recent history.

In other fields, too, incrementalism can be very radical. The 'statistical process control' methods developed by William Edwards Deming for Japanese industry, and executed most successfully by Toyota, combined relentless measurement, constant assessment, and mobilizing the intelligence of all levels to drive improvement. These methods have turned out to work well in rethinking flows in the public sector too—from hospitals to transport, taxation and welfare payments to prisons, and their cumulative impact can be profound.

## Predictable Mistakes

History is full of examples of governments that misjudged the future, like the 1822 Parliamentary Committee on Trade which advised King George IV that the idea of a steam engine was useless and the result of 'a distempered imagination', or the Royal Commission, a century later in 1930, which advised that Britain would never need the continental innovation of motorways. The future is never easy to discern; radical change is improbable and unsettling because it means the destruction of contemporary habits and interests. There will always be some eminent experts who can be relied on to be utterly wrong.<sup>18</sup>

In the British television series *Yes Minister*, a senior civil servant comments that one thing shared in common by many of the world's leaders is that they were all imprisoned by the British. Undoubtedly the police who arrested them, and the judges who sentenced them, had no idea that before long they would have to pay them respect as heads of state and heads of government. All large organizations tend to make similar types of mistake. Power brings with it predictable kinds of myopia. Governments share the systematic biases that are built into human nature: the confirmation bias that leads us to look for evidence that confirms what we already believe, and ignore

evidence that challenges it; the narrative fallacy that leads us to connect disparate events into single narratives, and to prefer stories over truths.

Governments' mistakes are predictable: they fall into common patterns. As Robert McNamara acknowledged at the end of a long career (from Ford to the Pentagon to the World Bank), governments' biggest failings are generally those of empathy—the inability to think into the minds of others, particularly enemies. This is the commonest error in diplomacy. Diplomats and leaders simply fail to understand that people living in different countries think differently, and have different cultural references. Within nations, too, lack of empathy explains a large proportion of errors, in particular failure to understand the resentments that powerless people feel towards the rational plans of the powerful, whether they are slum clearances and vasectomies in India or poll taxes in Britain.

A second common pattern of error comes from the psychology of investment: governments find it much harder to end policies and programmes that have had significant past investment. Once a department or agency has spent years devising plans, commissioning consultants, and making public announcements, it is not easy to look rigorously at whether it is still worth proceeding. Many governments have gone ahead with programmes even when there is strong evidence that they are unlikely to succeed, or that the costs will be far higher than originally envisaged (the UK's Millennium Dome was a particularly visible example of this, a costly white elephant that went ahead more because of momentum than because of any great demand or enthusiasm). This is why smart institutions make use of independent advisers to take a fresh look at big programmes and projects—as if they were starting from scratch. Wise leaders recognize that it is better to take the short-term flak for stopping a project that no longer makes sense than it is to take the long-term flak for going ahead.

The third common pattern is wishful thinking. Many strategies assume either that their operating environment will remain constant or that existing trends will continue in a straight line. They may do. But more often history takes twists and turns. A particularly common type of wishful thinking is profligacy, which afflicts governments that put their faith in high rates of economic growth, as well as financial sectors which in every generation repeat the same mistakes of overstretch, soft credit, and weak controls. A good protection against mistakes is to test strategies against alternative scenarios—bad as well as good, for example in the business cycle. Periods of growth tend to encourage even apparently

hard-headed investors to forget that economies move in cycles. Governments are just as poor at preparing for downturns and recessions.

The fourth more subtle common error is the failure to understand runaway and dynamic processes. Most of the things that governments deal with change in reasonably incremental ways, and in slow straight lines. Demography, for example, is reasonably predictable: the great majority of the people who will be alive in ten years' time are already alive today. But one of the strange features of the world is that dynamics can run much further than appears likely or common sense. Stock markets tend to rise further than appears logical—and then they fall further too. Epidemics can spread in an exponential way—again, more dramatically than the human mind is designed to expect. Many governments simply did not believe the predictions made for the spread of AIDS in the mid-1980s because they seemed implausible. New phenomena like the Internet, and new patterns of behaviour like text messaging, have also spread at a pace that defies normal human experience. This is why it is useful to immerse decision makers in simulations that help them to understand dynamic, cumulative processes.

A fifth error, shared with most people in their own lives, is the failure to understand that normal probability patterns mean that extremes are likely. Any phenomenon that is distributed in a normal curve will be found in extreme forms. So highly unlikely events are still likely to occur sometimes. A one in a million possibility could happen well over sixty times in a nation of 60 million people. A variant of this is the difficulty governments have in understanding patterns of extreme evil. History tells us that almost any population is capable of extreme evil in the right conditions. Populations are equally capable of extreme good, of generosity and self-sacrifice. But governments tend to assume that people will operate in a more predictable middle zone.

A sixth pattern of error is to continue with assumptions that happen to be wrong. This was well described in David Halberstam's book on the 'best and the brightest' who filled the higher reaches of John Kennedy's administration.<sup>19</sup> They tended to be affected by 'groupthink'—shared perspectives on the world that squeezed out sceptics. Apparently rational chains of analysis might easily miss out the factors that to others were blindingly obvious. Kennedy's administration almost led the world into a Third World War during the Cuba missile crisis because the narrow group with which he was surrounded, mainly men in their forties, and mainly from Harvard, saw the world in a particular way and left insufficient scope for internal argument and diversity to challenge assumptions. Almost

every public organization suffers from a version of this weakness—and finds it painful to dismantle its own world view even when it is clearly leading to failure. This is why it's so vital for leaders to have around them people confident enough to tell them when they're wrong.

Finally there are the errors which come from wanting to avoid difficult or cognitively challenging trade-offs. The human brain works very hard to sustain a meaningful world view, even against the evidence. Today's most obvious example is the question of whether 'people, planet, and profit' can be aligned: there are very good reasons for wanting to believe that they can be. But it's possible that they can't, and past civilisations disappeared because of a failure to face up to profound incompatibilities between existing ways of life and the demands of the future.

These patterns of error are common.<sup>20</sup> The failures they lead to are experienced as strange and incomprehensible. But they are to a fair degree predictable, the consequences of common patterns of human psychology, like the desire to be accepted within a group, which then become amplified in the context of government.<sup>21</sup> They can amplify other common causes of failure—like the malign influence of old ideologies or old intellectual paradigms.<sup>22</sup> Understanding these patterns of failure is at least a partial protection against succumbing to them.

In politicized climates we can add to this list the failures that come from ignoring truths that are simply too difficult to absorb. George W. Bush's resistance to the 'inconvenient truths' of climate change was a very visible example in the 2000s. Two decades before, when Britain's Central Policy Review Staff in the 1980s prepared a report looking at demographic change and pointed out that current pensions policies were simply not sustainable, its leak to the press forced Mrs Thatcher to disavow them. Not long afterwards they were closed down.

Airing future possibilities creates present headaches. It may highlight the flaws and deficiencies of current policies. It may remind voters that they are bored of their rulers. It is equally risky to act now in the name of the future. According to hard-nosed political analysts governments never back prevention over cure. Why spend scarce resources on actions that will benefit your successors, probably from a different party? Why antagonize the powerful interests that currently provide cures? I've often heard world-weary officials offer variants of this argument, and remember a very senior Treasury official telling me in the mid-1990s why no government would ever invest significant sums of money into support for young children, however strong the evidence for the long-term payback. Yet on many occasions governments have acted more responsibly. A classic

instance was the Headstart programme in the US which survived many changes of administration. In the UK the similar Surestart programme was strongly promoted by the Treasury only a couple of years after my cynical interlocutor made his comment, and directed very substantial sums of money to young children on the promise of benefits in fifteen to twenty years' time.

How does this happen? Partly because people want to do the right thing; partly because of a climate of opinion; partly because the sheer weight of evidence becomes impossible to ignore.