Ideas into Action

Making a Difference Through Good Governance

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Making a Difference Through Good Governance

Ask yourself why you're in politics . . . Better to be in politics for three years and do something than to be there for 20 and do nothing.

– Roger Douglas, former New Zealand Minister of Finance

What difference do you make for your community as an elected or appointed official? Citizens deserve results for their tax dollar "investments," and they reward their political leaders for providing those results responsibly and openly.

Moving beyond the rhetoric of good governance to the actual practice is a challenge, but not an insurmountable one. Some governments have started experimenting with practical applications of these ideas, and we can learn from their mistakes and build on their successes. In the following, I draw on my experiences in my native country of New Zealand, which underwent extensive government reform centered on transparency, accountability, and outcome-based governance almost two decades ago.

Transparency

Improved transparency is the first step to improved governance. Greater transparency sets in motion a chain reaction: increasing accountability improves the results of government activity, which enhances public trust in government. Transparency has government conduct its business in the full and clear sight of the public. Because citizens can now identify irresponsible behavior, transparency affects re-electability, thereby improving decision-making more than a multitude of rules ever could.

To protect the public, governments require private sector companies to fully disclose information that materially affects the well-being of the company. Governments should apply the same rules to themselves, disclosing fully and truthfully how they are spending public resources and how these expenditures affect the community. Revealing only the amount of money being spent on an issue as evidence of progress leaves the public in the dark; funding levels are bad measures of success and tell us nothing about results. Instead, governments should focus on disclosing outcomes—the results of government activities and expenditures—so the public can make an informed judgment on government performance.

With few exceptions, all levels of government need increased transparency in the budget process. Inadequate fiscal transparency has many symptoms. Cash-based accounting systems disguise the true state of the public accounts. Spending more (or less) money on programs and activities without any idea of real progress on outcomes leads to an endless cycle of confusion as to whether we are making progress, losing ground, or standing still.

New Zealand's 1984 economic crisis created a compelling justification for increasing fiscal transparency. For three decades, New Zealand's governments made reckless fiscal decisions, resulting in declining competitiveness, unsustainable deficits, high unemployment, skyrocketing inflation, and

It Took an Act of Parliament

When New Zealand embarked upon its program of governmental reform, it passed several pieces of legislation to achieve transparency and accountability. The Acts discussed below were among the principle building blocks of New Zealand's government reforms.

Increasing Fiscal Transparency: Fiscal Responsibility Act

New Zealand's Fiscal Responsibility Act requires the government to disclose (at regular intervals and before elections) its total revenues, total expenses, net worth, debt, tax policy, and the government's plan for managing fiscal risk. The government must also publish economic forecasts every six months and use accrual accounting to manage its books. The Act does not specifically prohibit deficit spending, but it makes it very difficult. The government must first request permission from Parliament to go into deficit, giving the cause of the projected deficit, the expected duration of the deficit, and how the government intends to return to positive accounts. Finally, the Act established five principles for responsible fiscal management:

1) reduce total debt to prudent levels;
2) manage debt by ensuring that, on average, total operating expenses do not exceed total operating revenues;
3) achieve levels of government net worth that provide a buffer against future shocks;
4) manage risks facing government prudently; and
5) pursue policies that provide a reasonable degree of predictability about the level and stability of tax rates.

Improving Public Sector Accountability: State Sector Act and Public Finance Act

Enacted in 1988, the State Sector Act (SSA) fundamentally changed the character of public service in New Zealand. The SSA replaced permanent department heads with chief executives appointed for a five year term intentionally out of sync with the three year electoral cycle, emphasizing their non-political role.

Consistent with the reformers' intention to shift from a culture of compliance with procedural rules and input controls to a focus on outputs and outcomes, chief executives now have the freedom to determine all managerial inputs, including salaries, hiring and firing, job classification, and organizational structure. (Prior to the reforms, there were 2000 rules governing employment of public servants alone!)

Another building block, the Public Finance Act of 1989 established the accountability mechanisms between chief executives and department ministers, including:

1) personal performance agreements between the chief executives and department ministers and
2) purchase agreements between the chief executive and minister, specifying the outputs the department will produce to achieve the proposed outcome.

These arrangements provide certain and clear expectations and require public servants to be accountable for the use of resources.

massive national debt. It culminated in a run on the New Zealand dollar, just as a newly elected government took office.

Aware that bad fiscal policy caused the financial crisis, New Zealand passed the Financial Reporting Acts, designed to ensure full disclosure of all pertinent information regarding budgets and public accounts. After the reforms were substantially completed, the New Zealand Parliament passed the Fiscal Responsibility Act (FRA), designed to make sure that the government could never again be as irresponsible as it was before the crisis.

The value of financial reporting legislation is that complete government transparency about the intentions and the short and long term consequences of its fiscal decisions causes decision makers to think twice about the public reaction to their actions. The same applies for actions in all areas of governance.

Accountability

We are accountable daily—to our spouses, children, employers, and employees. Without accountability, relationships fall apart.

The government's relationship with the public also falls apart without accountability. The government should be highly accountable. It passes laws that constrain the liberties of citizens and uses citizens' resources to pay for its activities. However, government is rarely appropriately accountable for results achieved.

Government seldom tells the public whether pollution is better or worse; whether work places are safer or not; or when poverty will be eliminated. It runs programs on autopilot with little oversight or inquiry into the programs' progress. This lack of accountability hurts public servants too. If they do not know for what results they are responsible, how can they feel confident about their performance?

Government can achieve true accountability, starting by disclosing goals, activities, and results. Accountability should also identify programs that deliver public benefits well and shift investments from low to high performers. Effectiveness, however, is more important than efficiency: the wrong thing done well won't lead to the right result.

Implementing accountability can be challenging, but it does not have to be complicated. Policy makers need only ask five simple questions as they consider proposals or apply legislative and executive oversight to existing programs.

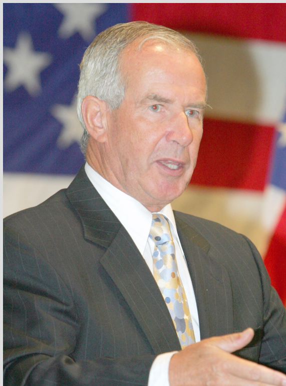
1) **What's the problem?** Before directing resources to any new program or activity, establish that a problem actually exists.

2) **Is there duplication?** Other programs or activities—in the public or private sector—might be addressing the same problem. If so, determine how successful these activities are in solving the problem and if a new tool is needed to get the job done.

3) Will it work? Doing the wrong thing well won't get the right results. Before approving a new program, demonstrate that the suggested remedy will actually solve the problem.

4) Is this the highest priority for these resources? In a world of limited resources, it is impossible to do everything. Be certain that fixing this problem is a better use of resources than fixing another problem.

5) When will it end? Accountability requires a clearly articulated expectation of what progress the program will make and when it will achieve success. The lack of a clearly stated intention to stop funding a program or activity might indicate no intention to solve the problem.



Maximizing the public benefit in New Zealand

When I became Minister of Employment, we had 34 programs designed to put people back into work and reduce unemployment. The existing measures of success were the number of people involved in the programs and how much they liked participating. The most important measure was overlooked: how well do these programs get people back to work? When we asked this question, we learned that only four of the 34 programs did this well. The only responsible thing to do was to stop putting resources into the thirty unsuccessful programs and concentrate on the four programs that were making a real difference. The result? Those four programs were able to put 300 percent more people back into work than before at only 60 percent of the previous cost.

– Maurice McTigue

Results-Based Governance

For government, the only measure of a program's success is whether citizens get measurable, beneficial results. Thus citizens must know what end results government intends to achieve and what progress it's making.

All too often, government measures processes and activities—but governing for results requires knowing how things have really changed. This means comparing the results of different activities addressing the same outcome. Comparison creates competition, and competition is fundamental to improve performance and good governance. Think about it. There are currently over 44 job training programs across the federal government. It is a sure bet that they are not all equally effective. Some cost much more than others per person helped into a job. Some help far less people. Some might be totally ineffective at getting folks back to work. The process of good governance takes all these programs and compares their effectiveness, including the programs' costs, timeliness of placements

and the number of people they successfully helped. Continuing to fund and operate the least effective programs means wasting resources that the most successful programs could use. More people would benefit if the most effective programs used the same resources.

In many outcome areas, government harms the public when it funds existing tools to address problems without making sure those tools are producing the best results. Government spending should not be on auto-pilot. Proof that it is accomplishing the desired outcomes is the only justification for reinvesting in a program or activity. Without good information on results, good intentions might produce harmful effects, violating the first and last motto of good governance: “Do no harm.”

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