

MERCATUS CENTER
GEORGE MASON UNIVERSITY

**THE EFFECT OF TRANSPARENCY ON ETHICS,
HONOR, AND RESULTS IN GOVERNMENT**

A Presentation by

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INTRODUCTION:

The great State of Louisiana has played a dramatic role in the history of the United States, particularly in the early years of the republic as a center of trade, commerce, art, and culture. While recent history will still applaud the State's massive contribution to art and culture the State's role in commerce and trade has diminished. This diminished role in trade and commerce has been accompanied by a significant increase in the incidence of poverty. In addition the State has acquired a renowned perception of a culture of corruption. Whether this perception is fair or not is really irrelevant to the current debate. It is that perception itself that has to be eliminated.

The disastrous event of Hurricane Katrina and the devastation it caused throughout Louisiana may have had an unintended consequence in making many of the people in Louisiana and the rest of the United States face the uncomfortable reality that a

high incidence of poverty existed in the state of Louisiana. That reality seems to have created a mood among the people of Louisiana that the problems of poverty need to be resolved.

We all know there is a very material difference between wanting change and achieving that change. The good news is that history is littered with examples of communities that have recovered from devastation, poverty, corruption and lawlessness. History is also littered with examples of societies that have reduced themselves to poverty but in my view we learn more useful lessons from studying success than we do from focusing on failure.

INTERNATIONAL AND US EXAMPLES:

I am now going to briefly examine the experiences of six different countries and some U.S. communities that have faced similar problems and successfully resolved those challenges. I will then identify some common threads among those examples and set them in a current day Louisiana context.

Germany:

Totally devastated after WWII, morally, socially and economically. Its infrastructure and its industries were destroyed. Yet ten years later it was on the road to recovery and by the 1970's was the most dynamic economy in Europe with full employment and high levels of prosperity.

Japan:

The same story as Germany but its infrastructure and industry not quite so badly damaged. In the 1950's it was the junk manufacturer of the world, by the 1980's Japan was the world's second largest economy producing goods and services recognized as the best quality in the world with full employment excellent growth and a standard of living equal to that of the United States.

So what allowed these dramatic changes to occur? In my view a driving desire by the people to earn the respect of the rest of the world and to reestablish national pride.

Two other countries more comparable to Louisiana in size except that they are nation states.

Hong Kong & Singapore:

By 1948 both these countries were dramatically depopulated, desperately poor, rife with corruption and lawlessness. Today they are two of the World's most dynamic economies, both depend on day laborers coming in from adjacent countries to fill the vacancies in their job market, are rated as two of the world's most open free and accountable economies and two of the safest places in the world to visit. All this achieved while their populations have grown remarkably, Hong Kong from about three hundred thousand in 1948 to six and a half million today while also absorbing huge numbers of

refugees and Singapore from four hundred thousand in 1948 to three and a half million today. The poverty has gone, the lawlessness has gone, the corruption has gone and the standard of living is among the highest in the world.

Finally I look at two more countries, Ireland and New Zealand, that are more like Louisiana in culture and experience and their change period is much more recent.

Ireland:

Ireland throughout the last century until the last decade was the worst performing economy in Europe. It had a history of intractable unemployment often in double digits and sometimes reaching into the low 20% range. The country had low per capita income, close to zero growth rates and as a consequence high levels of outward migration. In fact, during this period Ireland's greatest export was Irish people. Starting around 1990 things began to change in Ireland, the government realized that to provide employment Ireland needed to attract capital investment so they focused on creating an investment climate that was friendly to capital and began to remove statutory and regulatory barriers to investment. The first action was to dramatically lower corporate tax rates and to deregulate labor markets. The result; fifteen years later Ireland has the second highest per capita income in the European Union, one of the best growth rates, the lowest unemployment rate and is bringing immigrants in the tens of thousands into Ireland to fill the vacancies in the labor market.

New Zealand:

By 1984 New Zealand was the worst performing economy in the OECD. Its annual growth rates were about 1% per annum, its unemployment was between 9% to 11%, its per capita income had slipped from number three in the world in the 1950's to number twenty seven. The government had run deficits for twenty-three years, public debt had soared, investment capital was leaving and young people were going to find jobs and opportunities in other countries. In 1984 the government started a reform process that opened up the economy to world markets, removed all subsidies for industry and agriculture, and required full transparency for government activities and government programs and departments. By 1994 New Zealand was growing at five to six percent per annum, was judged to be the best economy in the OECD, unemployment was down to 3%, per capita income was back in the top ten percent in the world government was running surpluses and has done so ever since. In fact over the last 13 years government has repaid all government debt and has been investing surpluses internationally to effectively prepay social security.

FOUR US SUCCESS STORIES:

Twenty years ago Redmond Washington, Austin Texas, The Technology Triangle in North Carolina and Northern Virginia were not special, in fact hardly even thought of as centers of intellectual capital. Today these communities are the beneficiaries of visionary entrepreneurs who capitalized on the opportunity to exploit brain power and have become major centers of high technology. India and Ireland have also recognized

that prosperity in the 21st Century will come from the intellectual capital of their citizens and have utilized the opportunities created by excellent universities. The great advantage of exploiting these intellectual capital opportunities is that they do not have huge infrastructure requirements. There is an opportunity for Louisiana here if the required effort is put into creating world class universities or attracting the talent from world class universities in other places to enterprises in Louisiana.

COMMON FACTORS:

Here are factors common to each of these remarkable recoveries even though the circumstances in each case were different and we can learn from these common factors.

- In every case there was a strong felt need that empowered the change.
For Germany and Japan it was about international respect and acceptance.
For Hong Kong and Singapore it was the realization that they needed to earn their place in the world by creating their own prosperity.
For Ireland and New Zealand it was about creating the opportunity for their young people to pursue their careers in their own country.
- In every case there was leadership that had a clear view of what needed to be created and the courage to get the job done.
- In each case there was a high level of transparency and accountability.
- In each case there was a realization that countries have to earn their prosperity in a highly competitive world which meant being as good as or better than all other countries.
- In each case there was a realization that to unleash the potential of their people there had to be a free, open and accountable society.

WHERE TO START?

Convincing people everywhere that there is a determination to change is the starting point. For that reason I believe that Governor Jindal has chosen exactly the right uniting theme by very transparently addressing the issue of ethical behavior by people in public office.

The Mercatus Center at George Mason University has been involved in research and outreach on “accountability in government” for the last ten years. Our research has led us to believe that there is a very strong linkage between disclosure requirements, improved performance, and improved ethical behavior, all leading to an improved level of accountability.

Our research also indicates that the mere perception of poor standards of accountability has the same effect as poor accountability in practice. For public confidence and trust in government to improve, it is necessary not only to correct poor accountability, but also to remove all those practices that lead to public perceptions of

unaccountable government. Almost without exception, public mistrust is a result of secrecy and the cure is increased transparency.

The Mercatus Center has been advancing the principles of transparent and accountable government at the state and federal level for over a decade. During my time as an elected Member of the New Zealand Parliament we implemented a series of reforms that dramatically increased the government's transparency and resulted in better government, heightened prosperity, and improved public approval ratings for government organizations. This is the philosophy driving the Mercatus Government Accountability Project, which strongly advocates reforms that make government more open, transparent, and accountable to the people.

Full transparency in government provides an incentive for decision makers to accept that there is a consequence for decisions and that those consequences will be in full view of the public. Full transparency brings information to the public that allows them to make informed judgments about;

- the behavior of elected and non elected public officials,
- about the public benefits arising from public expenditures,
- about progress being made on resolving societal problems
- and the legacy they will leave to future generations living in their state

The ability of the public to review the full performance and financial statements of government entities leads to confidence and trust in the public sector. Full performance disclosure forces public agencies to focus on *actual outcomes* for Louisiana, not the quantity of activities.

DEFINING ACCOUNTABILITY

The Government Accountability Project at Mercatus constructed the following definition of accountability as “that process that requires us to disclose fully and truthfully our performance to those who are entitled to know.” We took considerable care in developing this definition to see that it could apply in all situations, not just limited to government. To understand the full implications of this definition it is best to deconstruct it and look at each of the obligations separately.

First, it states “requires us to disclose.” Disclosure is not a matter of choice but a matter of obligation. Disclosure also must mean to publish in some form either by verbal statement or by written document. Just acting in a responsible manner is not enough. The disclosure of actions taken must be published in a form easily accessed, easily understood, and at no cost to the citizen.

Second, it says “fully and truthfully,” meaning partial disclosure is not enough. Partial disclosure may lead those who are entitled to make judgments on performance to arrive at the wrong conclusion because they were not fully informed. Truthfully means that disclosure must be based on fact, not conjecture, supposition, or impression. That

also means that facts stated in disclosure reports must be backed up by evidence and verifiable in some way.

Third, “*performance*” in this context means the results of actions taken or what was achieved must also be described. Simply disclosing actions taken is not indicative at all of actual progress achieved towards an actual outcome.

Finally, “*to those who are entitled to know*” means those who employ you, those who place their trust in you, those on whose behalf you take actions that may affect their lives, so it is not necessarily everyone that you need to disclose to but only those to whom you owe a duty as you execute your actions. For governments and for politicians that clearly means they must disclose to the public that elects them.

ACCOUNTABILITY IN PRACTICE

Your first reaction to these statements is probably “Why is he telling us these things? Every one knows this stuff.” Well that is certainly true and most of us abide by these rules everyday, with our spouse, our family, our friends, our club, our business partners, our colleagues at work, our golfing partners, well maybe not our golfing partners, but these ethics are an integral part of our lives and our value systems.

If we move to our business lives then there are a multitude of laws, rules and regulations that control and dictate exactly what the minimum requirements for accountability are. Penalties are imposed for not meeting those standards with an expectation that we will always exceed the minimum standards.

Many governments do not have a formal requirement to disclose their performance. They do however have well developed laws, rules and regulations that dictate the disclosure of how money was spent. However without the accompanying information that discloses what happened as a result of spending that money then how does the citizen/elector judge whether that was good or poor performance?

RESULTS

Here are examples very few of us object to public expenditures on. Education, because we think teaching children to learn and develop skills is a good thing to do. Shouldn't we know by how much children's reading ability has improved as a result of that expenditure? Shouldn't we know how many less people are homeless as a result of the expenditure of money on homelessness? Shouldn't we know how much more viable industry is as a result of economic development assistance expenditure? Shouldn't we know when we won't have to subsidize producers anymore because now the market will provide enough income for their businesses to be viable? What I am talking about here is results transparency.

Imagine if you were an investor and publicly traded companies only had to disclose how they spent money but did not have to declare whether or not a profit or loss resulted from that expenditure of money. How much confidence would you have in your investment? How would you make decisions about where to make your next investment? Why should we have any less of an expectation of government in terms of informing us of the results of their achievement? I have one all encompassing hate about government and that is expecting us the people to accept that spending more money on an issue is evidence of success.

Shouldn't we know whether the health of Americans is improving, remaining static or deteriorating and what effect government health policy has on those outcomes? Instead we have a developing scenario in which the proportion of the population covered by health insurance, Medicare and Medicaid is the indicator of good public health policy. At best all that information tells us is who has coverage but nothing about the quality of their health.

The normal response I receive when I expound these theories to people in government is "Yes that's fine in the private sector but what we do in the public sector is different it is too hard to measure results in government." They are wrong. There is a bottom line in the public sector. The bottom line is "public benefit" that is how did, the public benefit from this expenditure and in what quantity? That "public benefit" is measurable.

MANAGING FOR RESULTS

So why are these concepts that I have discussed here important? The answer of course is; when seeking solutions to problems then the first essential step in that process is to accurately identify the problem. To correctly identify the problem it is imperative to ask and answer the right questions. It never ceases to amaze me when examining public sector policy how frequently the wrong solution is produced because the problem was wrongly defined in the first place. When I was a member of Cabinet in the New Zealand government we had a very useful adage and that was, "if the answer or solution is complicated then it is probably wrong." Another technique that was incredibly valuable in this process was to reverse the burden of proof. This meant making the agencies of government prove that their activities produced the benefits the government sought before the activity qualified for funding.

EXAMPLES OF MANAGING FOR RESULTS

I am now going to tell some anecdotal stories from the reform period in New Zealand to demonstrate the impact of this style of thinking on the policy process and then use that same logic here in Louisiana.

Here is a very simple example that demonstrates the effect of asking the right questions and then acting on the answers. The Department of Transportation wanted to increase the fees for driver licensing because they were not fully recovering the cost of licensing from the current fees. A not unreasonable proposition until we asked the department why we require this licensing and re-licensing process. The answer of course was that we need licensing to determine that people are qualified and safe to drive a car. Again not an unreasonable position until we asked what part of the re-licensing process tests the competency of the driver and if it does not test the competency of the driver then why did we do it? The department's reluctant answer, there did not seem to be a legitimate reason for the re-licensing process. So we stopped re-licensing and gave people a lifetime driver's license that did not need to be renewed until age 74. After that age then an annual medical was a condition for retaining a driver's license. The department did not need an increase in fees in fact there was a whole function that produced no worthwhile result and a significant part of the department was able to be eliminated. (Note: For national security reasons the photo on the drivers license must now be replaced every 10 years.)

EDUCATION REFORM

Facing similar problems to those current in the United States with regard to the performance of public schools the New Zealand Government set about major education reforms in the late 1980's. Applying the logic described above it became clear that over the preceding 30 years the money spent on education in real dollars had doubled to produce a slightly worse result in terms of educational achievement. Clearly more money was not the solution. The next question was if schools were good in the past and they are not now, what changed? What was different was that the education system had developed a vast bureaucracy to manage education where previously parents had managed schools. In addition that bureaucracy had taken away from parents their rights to choose where their child would go to school. This process had divorced the consumers of education, parents, from the decision-making process resulting in negligible transparency and accountability

The solution was not difficult to identify, eliminate the bureaucracy give managerial control of the schools to parents and give back to parents the right to choose where their child will go to school. That was done and New Zealand schools are now exceeding the educational attainment of their international peers.

SUBSIDIES

Farming has historically been the base of the New Zealand economy and is still the most important industry. By 1984 New Zealand farmers were receiving up to 44% of their income from the government in subsidies and even with the subsidies farming were barely financially viable. Clearly subsidies were not improving the economics of farming, innovation and creativity were at all time lows and no improvement was foreseeable. It

was decided that subsidies themselves were the problem because market signals to farmers were being distorted by the subsidies. In late 1985 all subsidies were withdrawn in total. Naturally farming went through a dramatic shock period for the next two years but since then farming has boomed. The value of their products has skyrocketed and the innovation and creativity that goes into meeting market demand today is unbelievable. Under subsidies the dairy industry produced 35 products from milk, last year it produced 2,200 products from milk. Subsidized lamb fetched about \$12.50 a carcass on the world market today lamb in the best restaurants and supermarkets grosses about \$120 a carcass a tenfold gain from removing subsidies. The last twenty years have been the most profitable in history for New Zealand farming. (Incidentally all subsidies and special taxpayer funded incentives were taken away from industry as well.)

CONCLUSION

The purpose of this presentation is to show the importance in public management of transparency and accountability. Knowing first whether current activities produce the public benefit sought is absolutely critical information to the decision-making process. Good decision-making requires identifying the public benefit sought and then seeking proof that the current actions taken beneficially impact that outcome. This also presumes the courage and common sense to stop funding activities that don't work. Important in this whole transparency approach is to place the burden of proof on government agencies to show that their activity deserves funding based on the benefits it provides to the public.

Absent this information then every decision taken could better be described as “a faith-based initiative.”

PRINCIPLES: PLANNING LOUISIANA'S COURSE TO PROSPERITY

- There needs to be a common purpose that unites the public
- The behavior of elected and appointed public officials needs to be transparent to the public.
- Departments and agencies need to prove the effectiveness of their activities in producing public benefits before any funding is granted
- The government will not fund activities that do not produce public benefits
- Every decision made by government needs to be assessed against whether it increases or diminishes Louisiana's competitiveness
- The performance of all government agencies must be fully disclosed to the public
- Budget appropriations need to identify what public benefit will arise from this expenditure
- Set realistic public expectations about how long it will take to see results
- Keeping the public informed of both successes and failures
- Being prepared to act
- Success should be measured in terms of how many of the brightest of Louisiana's young people get jobs in the state of Louisiana

