

Universidad Del Turabo
Launch of the Governance Center

**“An Academic Focus on Improving
Governance”**

Remarks by
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Introduction

Today I want to start by congratulating the Chancellor, the Dean and the Universidad Del Turabo for their vision and their commitment to improving the wellbeing of Puerto Rico by setting up this Center to Study Governance. I also want to tell everyone how honored the Mercatus Center at George Mason University is to be collaborating with Universidad Del Turabo in this venture.

I have visited Puerto Rico many times over the last ten years and I have met with your previous and current Governors. I want to say to you that when I met with your current Governor Luis Fortuno in December of 2008 the unfolding financial crisis the country was facing was as bad as that of Greece or perhaps worse. Not only was the fiscal deficit much worse than projected but it was also becoming known that the government had not been paying its suppliers and in some cases those unpaid bills went back a number of years.

A situation like this could only occur because the disclosure and accountability process for the country were woefully inadequate. The project the University is commissioning today will go a long way to seeing that the government will not be able to so misinform the public again. In my considered view it is this historic inadequate transparency and accountability that has led to Puerto Rico's poor economic performance over the last

decade or more. Hopefully the intended projects of this new Governance Center will shine a spotlight on these inadequacies and be a driving force in significantly improved governance in Puerto Rico.

A Time for Change

There are times in history where unique windows of opportunity open, which allow change that previously was thought impossible, to occur. In the relationship between governments and the people we may at this point in time be going through just such a unique occurrence.

The Changing Culture in Governance

Over the last twenty years there has been a quiet revolution in governance spreading around the world. That revolution has been a dramatic change in the principles of accountability for the public sector. Gone are the days of only having to show to the nation that public monies were spent in accordance with the appropriation. Now it is also required that an accounting be made for the public benefit that arose from the expenditure of those monies.

There are a number of powerful forces that are driving these changes in over 60 countries including developed economies, developing economies and underdeveloped economies around the world. Politicians are being forced to realize that the taxpayer is not an unending source of new money for new policies. In fact, they are realizing in most cases that their government must live within its current share of GDP or less.

In addition, the information revolution is making all of us better informed than ever before, so we citizens are more knowledgeable about the success or failure of government initiatives and we are more openly critical. The impact of these pressures on government organizations is that they are expected to produce greater public benefits with the same or less in resources. This can only be achieved by directing resources to the most effective programs and removing resources from ineffective activity. In order to succeed these organizations must become totally results focused.

While on the surface this may not seem a momentous change, when the traditional practice and culture of government bureaucracies are considered, one comes to the realization that this is a 180-degree change in direction for

government organizations. In the past it was possible to ensure next year's funding by focusing on the needs and wants of the legislature. In the shadow of this new paradigm, next year's funding must be earned by focusing on the needs of customers and the public, and by solving their problems.

This is illustrated clearly by the New Zealand experience in using openness, transparency and accountability to select only the most effective programs for funding. One consequence was the size of government was reduced by two-thirds if measured in government jobs or by 50% if measured as a percent of GDP. But unemployment across the economy dropped from a peak of 11.9% to 4% as resources across the economy now flowed to more productive activities.

With the application of high levels of transparency to the effectiveness of government activities then the self-interest of the politician is best served by supporting the removal of poorly performing programs.

Accountability

What is accountability? Surprisingly many languages don't have an equivalent word for the English word accountability. Our normal interpretation of accountable is "*to be responsible*" and that is the first definition we find in the dictionary however the second definition in the dictionary is the more appropriate for the purposes of examining accountability in Government. That definition describes accountable as "*the responsibility to account for ones conduct*".

At the Mercatus Center at George Mason University in Virginia where I work we have developed our own extended version of the definition of accountability to underscore the work we do at the Government Accountability Project. That definition says that: "*accountability is that process that requires us to disclose fully and truthfully our performance to those who are entitled to know*". There are some additional concepts in that statement which we believe are fundamental to the process of accountability being satisfactory.

- First it says "*requires us to disclose*" so it is not a matter of choice but a matter of compulsion and disclose means to publish in some manner either by verbal statement or by written document. So just acting in a responsible manner is not enough, the detail of actions taken must be published in a form able to be scrutinized by others.

- Second it says “fully and truthfully” that means partial disclosure is not enough because partial disclosure might 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, impression or untruth. That also means that the facts 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.
- Fourth “to those who are entitled to know” means those who employ us, those who place their trust in us, those on who trust us to take actions that may affect their lives, so it is not necessarily everyone that we need to disclose to but only those to whom we owe a duty as we execute our actions.

Disclosure

Your first reaction to these statements is probably why is he telling us these things? Everyone knows this stuff. Well that is certainly true and most of us abide by these rules every day, 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.

However our experience through our research at the Mercatus Center shows us that by comparison government fails against nearly all these criteria and the political process allows this failure to go unchecked in all but the most egregious of cases. Let me qualify that statement a little otherwise the statement is unfair. Most developed western style democracies have reasonably good accountability systems to deal with corrupt behavior in government so our work on accountability does not focus on corrupt practices but rather on whether governments achievements or lack thereof are fully and truthfully disclosed.

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 do you the citizen/elector judge whether that was a good or poor performance?

Results

Here is an example. 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 also know how many children can read 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 farmers anymore because now the market will provide enough income for their businesses to be viable?

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?

Shouldn't we know whether people's health 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.

It also implies erroneously that lack of coverage indicates an inability to get health care when needed. What would be valuable information would be what proportion of those without health coverage were unable to get health care when needed? What proportion of those without health coverage had their health outcomes seriously prejudiced as a result? Why are these people without health coverage? The answers to these questions would enable us to make much better decisions about public policy than using bald data that counts those who currently don't have health insurance.

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. Then I am told it is too hard to measure the things that government does because there is no bottom line in the public sector like the private sector where profit, rate of return or shareholder value is easily measured.

- *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 this morning important to the public policy debate? 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 very 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 solution was right or that the current policy mix was going to produce the best result. Previously the practice was that if you wanted to make change then you had to produce the evidence that the current policy was wrong, a process that was frequently derailed because the agencies of government controlled the information.

Examples of Managing for Results

I am now going to tell two anecdotal stories from the reform period in New Zealand and one from the United States to demonstrate the impact of this style of thinking on the policy process.

Here is a very simple issue 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 departments 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 driver's license must now be replaced every 10 years and driver's licenses are now issued by the Automobile Association.)

Education Reform a Governance Problem

Facing similar problems to those current in many developed countries regarding the performance of public schools the New Zealand Government embarked on major education reforms in 1985 - 86. 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 in addition it became evident that 70% of every education dollar was spent outside the classroom.

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 right to choose where their child would go to school and with that change schools were exempted from the natural accountability process. In economic terms the consumer of education services, the parents had been distanced from the decision-making process.

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

Hunger in the United States

In 1946 America adopted a policy of issuing food-stamps to people who were unable to provide all their family's food needs. 60 years later the Department of Agriculture still issues huge quantities of food-stamps to

needy families. In 60 years the incidence of hunger measured by the quantities of food-stamps issued has not diminished in fact there are now over 45 million people on food stamps. The department measures the success of this program in terms of how many food-stamps they issue. Now let us just accept that this is a valid indicator of the incidence of hunger, which it is not, then government policy over 60 years has totally failed in reducing the incidence of hunger.

So what went wrong here? Are food-stamps just a bad policy? The answer is no, food-stamps are not bad policy they feed hungry people and that is good, but will they eliminate hunger? The answer to that question is no. Food-stamps address the consequences of hunger but they don't touch the causes of hunger, like illiteracy, lack of language skills, lack of marketable work skills, and health or social problems.

Similar failings will be found in government responses to other societal problems, in the absence of policies that address the causes of societal problems while alleviating the consequences no progress is made.

What would have made a difference? Well if the Department of Agriculture had been made accountable for reducing or eliminating hunger then in my view there would be fewer hungry people in America today. The outcome or public benefit that agriculture should have been accountable for was diminished hunger instead they were held accountable for feeding hungry people and they are still feeding them today. In addition any reasonable managerial analysis would say this program should not be administered by the Department of Agriculture but by a department whose skill sets are consistent with welfare work.

What is the relevance of this concept to Puerto Rico and Universidad del Turabo?

For 10 years the Mercatus Center at George Mason University ran a project designed to test whether academic research focused on the transparency and accountability of government departments would make a difference. This project deliberately coincided with the implementation of a new Federal law called the Government Performance and Results Act. This law for the first time required government agencies to produce an annual performance report of their activities for the most recent fiscal year focused on identifying the results achieved. Our objective was rigorous academic evaluation of these

reports not for the results achieved but for the quality of the disclosure of those results. Our research was designed to rank the reports from the best to the worst in terms of the quality of the disclosure. Over that 10 year period the quality of the results information released by departments improved by an extraordinary amount. It was our considered view that by year 10 the worst report of that year would have exceeded the quality of the best report in year one by a considerable margin.

Was this academic effort worthwhile? In our view by many measures the answer is yes. At the end of the decade every department was expressing its goals in an outcome form, using measures that showed progress towards the public benefit targeted and was disclosing the strengths and weaknesses of the department's processes, procedures and control systems. The only disappointment was that Congresses appropriators were not using results information as extensively as they should in determining public expenditures. That failure by Congress goes a long way towards explain the deep fiscal problems the American Federal Government is in today.

Conclusion

The purpose of this discussion is to show the importance in policy development of knowing first whether current policies work, or whether different activities would produce better results. That requires identifying the public benefit sought and then seeking proof that the current actions taken beneficially impact that outcome. Absent this information then every decision taken could better be described as "a faith based initiative."