

# Policy Texas Public Policy Foundation

September 2006

# Perspective



## Transparency the Best Defense Against Bad Behavior

An address by the Hon. Maurice P. McTigue  
at the Petroleum Club in Midland, Texas, on September 25, 2006.

### Introduction:

I address many groups each year across America and a few years ago I started to wonder about this American phenomenon of ordinary citizens taking a personal interest in encouraging good public policy. In fact they not only encourage it they make a major personal investment in encouraging improved performance from governments and for those purposes you could do no better than to make an investment in the Texas Public Policy Foundation who's work is right at the cutting edge of improving government accountability.

I do not find the same level of commitment in my own country, in Australia, Canada or the United Kingdom so what is driving this unique behavior in America? I have come to the conclusion that there exists in the United States a very considerable body of people who appreciate the opportunity that America has provided for them and feel a sense of duty that they should leave to the next generation an America that is in at least as good a shape as the one they inherited. That is what I call the legacy culture. However if you visit old Europe you will find something quite different, what I call the "entitlement culture."

In the immortal words of John F. Kennedy at his inaugural address; "Think not of what your country can do for you but what you can do for your country." The European's have reversed that sentiment and they

think only of what their country owes to them. While the spirit of freedom and entrepreneurship is alive and well here today it would not take a lot to snuff it out I know that from the first hand experience of my own country so the battle is not over, keep up that good fight with your support of the Texas Public Policy Foundation and similar right minded organizations.

*Ask yourself why you are in politics—better to be there for 3 years and do something than to be there for 20 and do nothing.*

— Sir Roger Douglas

### A Way Forward

As I examine the history of countries like my own, Ireland, Britain pre Thatcher and Europe and ask questions about how things went wrong I find the same trend in every case. Governments where more and more in denial about the true state of their societies. This denial was in large part driven by the self interest of re-election compounded by a public that did not want to be forced to listen to bad news or experience hardship. So at the seat of deterioration in prosperity, freedom and liberty there always seems to be a lack of transparency, a lack of full disclosure and a lack of accountability. That has led us at the Mercatus Center at George Mason University to make some substantial investments in understanding the process of accountability and the essential ingre-

CONTINUED ON NEXT PAGE

dients that need to be present for accountability to work.

## Accountability

What is accountability? Surprisingly many languages don't have an equivalent word for the English word accountability. That of course might tell us something about those societies? 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's behalf we take actions that may affect their lives, so it is not necessarily everyone that we need to dis-

close 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 everyday, with our spouse, our church, 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 (stealing the money) 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 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. 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 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 solu-

tion is produced because the problem was wrongly defined in the first place.

## Examples of Managing for Results

I am now going to tell two 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 on the policy debate in the United States.

Here is a very simple issue that demonstrates the affect 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 drivers 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.

The solution was not difficult to identify, wipe out the bureaucracy 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.

## 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 \$29 billion. In 60 years the incidence of hunger measured by the quantities of food-stamps issued does not seem to have diminished. The department measures the success of this program in terms of how many food-stamps they issue and 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, and lack of marketable work skills, health or social 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 few hungry people in America today. The outcome or public benefit that agriculture should have been held accountable was diminished hunger instead they were held accountable for feeding hungry people and they are still feeding them today.

## Developing Policy with a Results Focus

Having learned from the deer and the licensing experience and from a myriad of other experiences we then put that new knowledge to work in other areas. For example better environmental and conservation results were achieved by changing the form of property rights for the harvest of resources to a much longer term right with much greater certainty attached to the right. The result dramatically improved stewardship of the resources in question, major conservation and environmental gains and more viable industries. A result that could be described as a win/win situation?

The conundrum of trying to incentivize changes in behavior related to legally tradable products, tobacco and alcohol. They have to meet the full health costs of those products to the health system, so smoke as much as you like but cigarettes cost \$12 to \$13 per pack, beer, wine and spirits have an excise duty per unit of alcohol that equals the health costs of using alcohol. Don't like the price don't buy the product but why should I pay for your risky behavior. This is an extension of the concept of user pays. Motorists and heavy transport meet the full cost of the road system, want better roads then gasoline will cost more.

## The Five Key Questions for Good Policy

1. Where is the evidence that the problem exists?
2. Who is already doing something about this problem?
3. Where is the evidence that this proposal/program will fix the problem?
4. How much will it cost and is this the best use of this money at this time?
5. When will the problem be eliminated?

## The Funding Process

To provide clarity with regard to what is expected to be delivered appropriations once passed by the Legislature are converted into Purchase Contracts with the CEO of the department. These are legally enforceable contracts available to the public and specify very clearly exactly what government is buying with this appropriation.

Now there is a very clear basis for accountability, inability to deliver the outputs specified in the purchase contract could be grounds for dismissal of the CEO. However full delivery of the contract by the CEO and a failure to achieve the outcome sought would be a policy failure and the fault of the government because they bought the wrong goods and services.


## A Purchase Contract

The following is a précis of what the purchase contract for one of the Ministries (Departments) I was responsible for The Ministry for Employment, looked like. It specified with some precision exactly what we expected the department to achieve in placing unemployed people into work.

1. 120,000 number of people will be placed into work for \$60 million.
2. 60,000 will be long term unemployed.
3. 30,000 will be Maori unemployed.
4. 15,000 will be people with disability.
5. 5,000 will be people with significant social problems.
6. The employment strategy will be built around a focus on localities of highest need.
7. All communities must have access to the Employment Service.

Based upon this detail accountability was made dramatically more effective and the work of legislators in applying that accountability more effective and rewarding.

## Conclusion

The purpose of this paper is to show the importance in policy development of knowing first whether current policies work. That requires identifying the public benefit sought and then seeking proof that the current actions taken beneficially impact that outcome. Then making sure the government knows exactly what it is buying with taxpayer dollars. Absent this information then every decision taken could better be described as “a faith based initiative.” 

### ABOUT THE AUTHOR

Maurice McTigue joined the Mercatus Center in 1997 as a Distinguished Visiting Scholar after an illustrious career as a New Zealand Member of Parliament, Cabinet Minister and Ambassador. Prior to his arrival in the United States, McTigue led an ambitious and extremely successful effort to restructure New Zealand's public sector and to revitalize its stagnant economy.

## We Need Your Help

The Texas Public Policy Foundation is a 501(c)3 non-profit, non-partisan research institute guided by the core principles of individual liberty, personal responsibility, private property rights, free markets and limited government.

The Foundation's mission is to lead the nation in public policy issues by using Texas as a model for reform. We seek to improve Texas by generating academically sound research and data on state issues, and recommending the findings to policy makers, opinion leaders, the media and general public.

The work of the Foundation is primarily conducted by staff analysts under the auspices of issue-based policy centers. Their work is supplemented by academics from across Texas and the nation.

Funded by hundreds of individuals, foundations and corporations, the Foundation does not accept government funds or contributions to influence the outcomes of its research.

The public is demanding a different direction for their government, and the Texas Public Policy Foundation is providing the ideas that enable policymakers to chart that new course.

If you believe studies like this are important to Texas, won't you consider a financial gift to support the Foundation and our mission?

Contact Shari Hanrahan for more information at (512) 472-2700.

Give generously today by visiting us online at:

[www.TexasPolicy.com](http://www.TexasPolicy.com)

