



CONFRONTING GOVERNMENT DEBT



THE ECONOMICS OF PROSPERITY

GOVERNMENTS IN DEBT

The western world is currently experiencing a banking/monetary/financial upheaval of enormous magnitude. Banks, always the pillars of the community and the nation are collapsing under the weight of gambling debts, and now the governments bravely rescuing them are also teetering on the edge of financial collapse, their bonds downgraded in some cases to near junk status – which reverberates back to the banks which hold government debt as supposedly ‘gold-plated’ security. A fine mess we’ve got ourselves into.

Government indebtedness throughout Europe and the USA has now become a major issue. Longterm indebtedness can never be considered an attribute of sound financial management, but until recently governments have been able to get away with it. Then the need for dramatic bank bailouts sent already indebted governments ever deeper into the red, and their bonds started to look risky in the sense that their debts were seen as unsustainably large in relation to the size of their nations’ economies. US Treasuries were downgraded, while Greek bonds fell to near junk status.

How have governments got themselves into such a morass of debt?

There are three simple answers: democracy, what can only be called ‘blissful ignorance’, and monopoly.

Democracy means ‘power to the people’ from the Greek *demos* meaning ‘people’, and *kratos* meaning ‘power’. Power to the people. The people get what they want. And what do the people want? They want more stuff, more subsidies, more services, more goodies... which they don’t want to pay for. And there’s only one way they can get it: by going ever deeper into debt. And if the people’s representatives want to get re-elected they put up little or no opposition.

‘**Blissful ignorance**’ is not a term sufficiently erudite for economists, but it is very real. The attitude of government and state organizations is that ‘we need it, therefore we must have it’, with no regard whatsoever as to where the money will come from to pay for it. Locomotive drivers for Greek Railways retire at 55. And so they should. It’s a stressful job, with a heavy responsibility for passenger safety. It ‘should’ be, therefore it ‘must’ be. No matter that Greek Railways loses Eur3m a day, with an accumulated debt of Eur8bn. Government debt is fuelled in part by this almost childlike innocence, the idea that if something would be ‘nice to have’, therefore it must be had, without even a moment’s glance as to where the money will come from.

Monopolies are widely recognized to generate inefficiency, not being subject to the rigours of competition. How much more inefficient, how much less productive, how much less inclined to give the public good value for money will government be, when it is an enforced monopoly with no option for the citizen to opt out? Value-for-money is pretty much the last thing government needs to worry about.

But for businesses large and small, it's a constant challenge to keep up, because if your product isn't better or cheaper tomorrow than your competitor's.... you could be out of business. For any business it's a constant worry in the back of the mind: can I improve productivity, or my product design or my customer service, and if possible reduce my prices?

For a select business minority this need not apply. These are the big utilities, the phone company, the gas, the electricity supplier. But though they may be monopolies with no competition they are not *enforced* monopolies. No one is compelled to use electricity or gas or to have a phone. If you don't like the way the phone company treats you, you can always pull it out, open the window and shout. Inconvenient of course, but you do have the option. These days of course, static phones compete with mobiles, and with cable companies which also offer phone service. But the basic fact remains, even utility monopolies are not *enforced* monopolies. You can always opt out if you feel strongly enough.

Not so with government. Governments are unique in that they are not only monopolies, they are *enforced* monopolies. You can't opt out of government. Just try it. Try opting out of taxes. The heavies will soon come round and distraint upon your goods and chattels. So it's hardly surprising that governments display all the faults of monopolies and much more: the arrogance, the indifference to their citizen-customers, the complete disregard for quality and value in their services coupled with a total unawareness of any semblance of meaningful accounting.

So far they've been able to get away with it. This they have managed to do partly through 'incremental taxation', or the 'ratchet effect'. Taxes have been increased by small stages over a long period, each increase being 'absolutely necessary due to pressing economic circumstances'. They go up, but never of course do they go down. The accumulated debt slides inexorably upwards too. But that's the next generation's problem, right? (Actually we don't mention that).

But now it would seem, the option of ever-increasing debt has reached the end of the road, not least because those institutions which lend to governments in exchange for their bonds (IOUs) are becoming wary of governments' ability to pay the interest.

Standard 'solutions'

In dire situations of serious economic deficit, governments can generally be relied upon to offer one or other or both of their classic solutions: less money on services, and/or higher taxes.

Governments have us well trained with their smooth slogans and slick sound-bytes, which we dutifully copy and repeat like good school children. It goes like this and it's very simple. If we're in debt and want to get back into balance we have two choices: increase taxes, or reduce public spending on government services. And in the worst cases, both.

They don't mention it, but there is a third option – yes, it's the “P” word. Time to reveal... it stands for “*Productivity*”, the art or science of giving the customer, or in government's case the citizen tax-payer, better goods and services tomorrow at less cost than yesterday. An idea which of course strikes terror into the heart of any government department.

Perhaps now, faced with a growing mountain of debt combined with taxation rates nearing intolerable, in a world becoming increasingly questioning of government competence, honesty, and international credit-worthiness, governments will finally be forced to confront the “P” word and start to get their acts together.

The goal is not to raise taxes, nor to slash services, but to make government work better. Over the past twenty years just about every part of the world economy has been transformed by technology and new ideas, yet no sector anywhere has changed less than government.

But... can we ask, or expect the organs and departments of government to increase their productivity, given the inevitable loss of their own jobs which that would entail? Sure we can ask, even expect. But whether such an exercise would yield any meaningful results is highly doubtful.

WHO GOVERNS GOVERNMENT?

This is not the first time such a question has been asked. The need for outside discipline over the governing body, be it King, President or democratically elected government, was clearly appreciated more than 800 years ago in 1215.

Perhaps we can learn more from Magna Carta than copying a few paragraphs and ideals.

While the Magna Carta is revered and respected as being the ‘grand-daddy’ of constitutions, and while it is studied, analyzed, and to a large degree copied, *a fact rarely considered is that the Magna Carta was ‘consumer-driven’*.

The King did not write a constitution in which a few crumbs of monarchical self-discipline graciously thrown to the public were greatly outweighed by his own rights and privileges. It was the barons, nobles and clergy who as objects of the king's whims and the taxpayers who funded them, it was they who drew up the Great Charter and compelled the King to set his seal on it.

The concept of Constitution is that those who wield power must themselves be subject to rules, superior standards of generally accepted good conduct.

Good Governance accepts constitutional constraints. Good Governance also recognizes the role of independent agencies outside government, able to publicize and criticize

government procedures. A free and uncensored press able to investigate and report on government misconduct is one of the basic pillars of a free society and when conducted responsibly can be a major contributor to good government.

And individuals too are getting better at keeping tabs on government. At the close of 2010 computer hackers unleashed a large body of US government secret documents which were avidly read by the public. Of course from government's point of view this is High Treason. But many 'ordinary folks' quietly saw it as a courageous blow against government secrecy and the arrogance which lies behind it. As long as the media, and the public remain totally independent and aggressively inquisitive, the public interest will in general be well served.

Turning to the specific goal of improving government productivity to provide better value at less cost, the bottom line is clear: the motivation to improve government efficiency and standards of business conduct is unlikely to come from inside government itself, and even if it does, the disciplines thus created are likely to be more cosmetic than real. Governments frequently pay lip-service to improving productivity and financial discipline, but seldom make any real changes. Self discipline is a noble ideal, but it rarely if ever amounts to much.

A current example of outside discipline over government in the financial area can be seen in the independent Bond Rating Agencies which assess the credit-worthiness of governments and thus directly influence the interest rates governments are obliged to pay on new debt issues. These agencies are not, understandably, popular with governments.

Sensing an injury to their pride and limitation on their freedom of action, governments may well claim that being subject to such outside agencies creates a conflict with democratic principles. To the contrary. Requiring that government must account for every penny taken and spent, by ensuring that government and its dependent infrastructural services deliver the best possible product at the lowest possible cost, and by ensuring that government does not pay itself more than its private-sector equivalents, is entirely compatible with the interests of "the people" who must pay the cost and who if specifically consulted would no doubt enthusiastically approve.

In principle, any independent, non-governmental agencies which naturally exercise, or are specifically given powers to investigate, publicize, criticize and discipline government, far from being 'undemocratic', will serve the genuine interests of "The People".

To undertake the major task of reshaping government accounts and productivity it is essential to call in outside, commercial agencies and consultants of high international reputation, give them a totally free hand to research, identify, and formulate conclusions which must then be acted upon immediately – not after "further detailed consideration by an inter-disciplinary committee blah blah blah..." – the usual government procedure which ensures that nothing ever gets done.

RESHAPING GOVERNMENT FINANCES

ONE

Engage the services of an internationally recognized firm which professionally assesses companies' productivity.

All government departments must be individually and separately identified, the purpose of each clearly defined, together with criteria by which their effectiveness can be clearly measured. Ruthlessly prune the grants, projects, pseudo-government appendages... anything not directly essential to good governance. Be ready to question the current usefulness of departments set up long ago and hanging on out of tradition and nostalgia – or simply lack of serious examination. All departments and organs of government must be shown to contribute clearly and directly to the good governance of the country in order to justify their continued existence.

Many existing government departments and programmes would inevitably be abandoned as being non-essential, while each of those remaining would be required to state clearly what it is doing, what it is costing, and the extent to which it is fulfilling its stated objectives productively.

Subject what remains to a time-and-motion study. Identify the objectives of each department, institute a measure of its success or failure, then ensure that it meets and exceeds its targets with the maximum efficiency and the minimum of expenditure. Clear job descriptions and benchmarks for each department allow for accurate assessment of performance. Recommend cost-cutting opportunities which would reduce costs without reducing quality of service. These professional assessments need to be instituted immediately, given a limited time to report, and their recommendations immediately acted upon.

Infrastructural and Welfare Services to be separated from the legislative and administrative functions of government, and separately assessed according to the same criteria.

TWO

Government accounts are currently totally meaningless to anyone conversant with company accounting procedures. What pass for accounts are vague estimates, fudged by transfers between departments, and budgets set as targets which are never adhered to.

A major firm of internationally recognized accountants should be commissioned to put government's accounts on a standard business footing. Their reports and conclusions to be completed and publicized within 30 days of the end of the specified accounting period, with recommended action executed within 30 days following. This exercise to be repeated on a yearly basis with recommended action executed within 30 days following.

Annual government expenditure may not exceed revenue. Existing debt to be progressively reduced as a major priority.

Full, detailed accounts must be made publicly available online, down to the last penny. All individuals' "expenses" to be included – everything in fact which the taxpayer must pay for. In this way the very fact of continuing exposure to public view will act as a further check on irresponsible or excessive expenditure.

THREE

An officially recognized non-government body representing business and industry to assess initially and on a yearly basis thereafter, imposition of administrative requirements by government on all aspects of business, to recommend simplification, and elimination of all unnecessary formalities in order to minimize costs to business and impediments to business start-up. Likewise complications of tax returns and other government-imposed burdens on business and individuals should be minimized.

Total Remunerations including pay, perks and pensions, in cash or in kind, for all government employees including Members of Parliament to be determined by an internationally recognized, independent agency specializing in Remuneration and Job Evaluation with the object of ensuring and maintaining parity with equivalent private sector remunerations.

RESTORING CONFIDENCE IN GOVERNMENT

These recommendations would be tough on every branch of government, but only thus will governments get their finances in order, improve the level and efficiency of service.

Government must recognize that it is a service to its consumers; its aim should be the same as that of any well-run Private Sector industry or service: to provide the best possible service at the lowest possible price.

This requires significant accounting and productivity reforms. Just as the barons did not rely on King John's dutiful application of self-discipline, nor can we rely on the organs of government to discipline themselves. Only the employment of outside agencies and consultancies can be relied upon to identify and eliminate non-productive departments and services, to maximize the productive efficiency of those remaining, and to place government accounts on a businesslike footing.

Only when honesty, productivity, accounts, transparency and service standards in all aspects of Government and Government Services are rigorously and independently monitored, enforced and maximized can government provide the nation with the best possible service at the lowest possible cost, and begin to restore its battered reputation with a totally disillusioned public.