



The New Political Reality

Stephen Goldsmith | February 3, 2010

For decades, public officials viewed voters either as passive recipients of government largesse or as active advocates for special treatment. Getting reelected generally meant launching – or enhancing – federal programs, with the clear intent of garnering votes. This political calculation was based on the presumption that Americans were more concerned about their own benefits than about the collective future of the country.

But the political incentives have changed. Voters are hungry for government that spends within its means – as evidenced by the spending limits suggested by President Obama in his State of the Union Speech and the recent surprise election of Scott Brown.

General interest voters have awakened to the threat of unconstrained public debt. Their concern is justified. Unchecked – in fact, without dramatic adjustments – the trajectory of government spending and borrowing is set to erode jobs, cripple the economy and degrade quality of life – particularly for families in our most desperate communities.

The current fiscal crisis isn't a passing phase; it's a new, enduring reality that must be confronted. Crisis is now the norm. Intuitively, Americans understand the need for fundamental, transformational change in their public institutions. Citizens worry deeply about deficits and rising taxes; they care more about controlling government excess than about new promises predicated on increased spending.

As the Massachusetts Senate race showed, the long-ignored general interest voter has reasserted himself. The question now is whether he can finally change the growth dynamic of government.

As I pointed out in my last column for e21, the challenges facing American government aren't going away. The general interest almost always loses out to the better organization and more intense focus of various special interests – leaving us with an ever-more-unsustainable collection of corporate tax breaks, untenable labor contracts and new entitlements. The special interests that the founders hoped would cancel each other out have instead perfected a series of techniques that allow them to accrue favors.

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But this state of affairs isn't inevitable. Elected officials who are truly committed to affordable government can take the following steps.

Create a Constituency for Fiscal Restraint

Without the average taxpayer becoming more assertive, government probably can't be brought under control. Public officials who wish to be on the right side of the right sizing movement must create structures that facilitate participation. On the expense side, clear visibility into each expenditure and contract will allow active bloggers to become whistle-blowers, informing elected officials and protecting taxpayers. Texas, under Governor Perry's transparency initiative, has led the way in this area.

Lead by Example

"Right-sizing" must be directed from the executive suite. Transforming operations isn't a job that can be delegated to subordinates.

Bureaucracies often reward activities, not results. To counteract the natural bureaucratic tendency toward expansion, leadership for transformation must be supported out of the mayor or governor's office through a work group assigned the task of right-sizing government.

In 2005, Indiana Governor Mitch Daniels took over a state in good fiscal condition; but he saw that trouble lay ahead. On his first day in office, in January 2005, Governor Daniels issued an executive order establishing the Office of Management and Budget, including the creation of a small but important department of Government Efficiency and Financial Planning. With a \$1 million annual budget and a staff of less than ten, this office was charged with three tasks: 1) Assisting agencies to create performance measures; 2) Identifying and implementing cost savings; and 3) Conducting a systematic review of all state-government programs.

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This office drove change from the top down. While most states were caught flat-footed by economic events, Indiana confronted the economic downturn from a position of strength.

Don't Sell Out Future Taxpayers

Officials frequently secure labor peace at the expense of their successors and future taxpayers. Even those entities legally required to balance budgets can game the numbers by delaying or not properly scoring long-term obligations. Labor contracts invariably expand unfunded pension obligations, pushing the problem into the future. As we will address in a later column, public pension requirements are poised to force

cities and states to default on a significant number of other obligations.

Similarly, whenever a legislature earmarks, it sends a clear message to government employees that they needn't worry about frugality – that there's plenty of money to go around for pet projects. Earmarks are the broken windows of the appropriations process, sending a distinct signal to observers, in and out of government, that elected officials tolerate nonessential expenses when it serves their political interests.

Create Legislative Structures that Promote Efficiency, not Profligacy

The domination of politics by special interests is an enduring characteristic of democracy. There is no way to repeal the law of diffuse costs and concentrated benefits, the mechanism through which special interests organize to influence. This dynamic operates to expand services to special groups at the expense of those with less – or no – presence at the bargaining table. Invariably, the result is greater, largely ill-considered costs accruing to those not present.

During my tenure as the Mayor of Indianapolis, the City Council as a whole consistently supported my outsourcing and downsizing initiatives. But the committee of jurisdiction and its chair always saw their job as the protection of the employees and entrenched vendors – that is, protecting the special interests at the expense of the general interest.

True reform requires legislatures to create special procedures to ensure the general interest can prevail. For example, when the Cold War came to an end in the early 1990s, a number of base closings were called for. To eliminate the dominance of interest politics, a commission was established (the BRAC



Commission) and endowed with special procedures to ensure decisions were insulated from political considerations.

Similarly, Texas's Sunset Commission requires an affirmative vote of the legislature to extend the life of public agencies. This independent commission is also charged with conducting an external review of the purpose and practices of each agency, with the express goal of recommending reform or elimination. The sad political fact – which Texas is commendable for having confronted – is that the traditional legislative committee structure can't do this job because members are captured by special interests. It takes a new structure to force change, one that requires demonstrable results for bureaucratic survival.

Insist on Demonstrable Results

It's essential to reexamine the fundamental goal of any public program in order to align means with ends. Too many government agencies deliver activities and not solutions, masking symptoms while often exacerbating problems.

Consider homelessness. Too often, agencies focus on running homeless shelters rather than fostering solutions to homelessness. In 2003, New York City redefined its goal from serving the homeless to reducing homelessness and redirected resources to prevention. The new approach worked. By 2008, of those receiving more comprehensive assistance, more than 90 percent had not reentered shelters within one year of being served – and the city had reduced the homeless population dramatically. This “Better, Faster, Cheaper” approach to government can eliminate billions in needless spending that produces literally no value for American taxpayers. Public leadership requires a sharp attention to true public value and the toughness necessary to hold

agencies, and funded contractors and non-profits, accountable for results.

Get Serious About the Structural Tools of Change

Government cannot be truly efficient without the right set of tools. These tools include dull but crucial concepts like Activity Based Costing, the only way government can determine the true cost of providing a service. If the goal is to be the lowest cost provider of a service, knowing your costs is essential to enabling true and fair competition between public and private delivery mechanisms. Public sector efficiency depends on financial tools that allow accurate reflection of costs and performance.

In addition, appropriation processes that penalize frugality in subsequent appropriations send all the wrong signals. In contrast, revolving funds, pay for performance, and other approaches reinforce the need for productivity and quality.

We are in a new political reality, one characterized by constant budget shortfalls and an electorate insistent on long-term fiscal discipline. The road ahead will not be easy. Public officials can lead the way back to budget sanity by embracing these approaches to affordable government.