

Using better measures to inform public spending

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You're listening to the ONVIF podcast, the show that explores the latest insights and discussions on global finance, economics, and policy for people who love staying informed about the rapidly evolving landscape of the financial world. Join us as we break down complex topics, interview key thought leaders, and provide essential insights to keep you informed about the evolving world of finance.



00:25

Hello, and welcome to this ONVIF podcast. My name is Nikhil Sanghani. I'm the managing director of the Economic and Monetary Policy Institute at ONVIF. And today, we're delighted to start the first of our three podcasts. In a series we're running with our partners at EY in our project titled The future of public money. This follows on from our project last year on blockchain for public finance management. This year, our primary focus is on the fact that public finances are constrained globally. But there are increasing demands on governments to spend more, whether that's on pensions and health care due to demographic pressures, whether that's on defence, whether that's on tackling climate change. So our sense is that it's increasingly important for governments to do more, albeit with less resources. And we're primarily examining how they can do so through better institutional structures, as well as how harnessing the power of data and technology. In this first podcast, we'll be examining the barriers to effective public finance management, and a sense of how they can be overcome with two experts. And we're, we're delighted that joining us today is Dr. Mark McDonald II, wise, global public finance management leader, as well as Dr. Carolyn Bordeaux, senior visiting scholar at the University of Georgia, and former member of the US House of Representatives from Georgia, seventh district, Carolyn and Mark, thank you both for joining us.



01:49

Good to be here.



01:50

Drastic. Thank you.



01:52

Mike, I'd like to start with you. You've shared in the past, in some of our first discussions about the the need for innovation in government at this point in time, could you share some of your views at this about why that is necessary, and particularly at this point in time,



02:09

but happy to do so. And thank you again, Nikhil for hosting the discussion here. There seems to be a growing and quite common media refrain that most of our governments are facing pretty significant fiscal risk. The Economist some six or eight months ago had quite a provocative summary about are we living in a fiscal Fantasyland and it just it raises a whole series of really fundamentally important questions about what the future of public money is really going to look like. And, you know, at the firm, we think about this really along two lines. The first one is that if we face significant fiscal risks, the real question becomes what should our response be. And it's not just to manage, if you will, the financial components of that, we try and go always to the purpose of what public money is allocated for the reason why taxes are levied. And revenues are raised and then expenditures conducted is really for public purpose. It is for the education systems and the health systems and the transportation systems and so forth, the National Defence and all of the various components of what of what really of what public, the public state is. And so if we find ourselves in a position of fiscal risk, really what we find ourselves in a position of is service delivery, regulatory outcome, social economic stability, risk, and those two things do seem to be converging. And as you said, in your introduction, we want to be able to spend more, but maybe we're at the edge of our capacity to be able to spend. And so are we actually, and this is a question and I think that's it's kind of essentially what is driving the discussion here is, do we actually find ourselves at a place where the fiscal risk is now going to impede our ability to adjust to make a new set of decisions so that we can actually maintain the expectations around a growing stability in our democratic systems, a growing quality of life, a growing quality of public asset, and so forth. And I think that there's enough empirical evidence to suggest that those risks are real and they do deserve to be addressed. And addressing them requires us to think differently about how to actually go about that. No longer can we do kind of marginal changes, let's find some efficiency gains and so on. I believe that we're facing a situation where there is a requirement for a much more fundamental reset in our thinking, in the way that service systems and so forth are designed, where the fiscal outcomes of that will actually be able to address. And that really is an agenda for innovation in kind of the content, what we spend our money on and how we spend it. But whether whether I to what we achieve for it in the innovation is not just in the content, but it is also in the execution of the way that public budgets are set and managed, and public outcomes are delivered.



05:42

Well, that's I think that's a nice segue to bring Carolyn into the conversation on the public budgets and, and do do share, Mark, that sense that we are at a critical juncture here that fiscal resources are constrained, and there may be not being done in the ways that can be done most effectively. What are your thoughts?



06:02


Yeah, well, first of all, Mark, that was fantastic. That was a lot though. Somebody who moves I was director of the Senate budget and evaluation office in the state of Georgia during the Great Recession, and have moved during my life as a member of Congress between sort of the the high level overarching policy world as an academic as well. And then to the very granular, you know, can I get this budget balanced under a lot of fiscal stress type level? So when I think about these things, I do kind of bring that perspective to it. So I think, yes, we do face some some very serious challenges. We are fiscally constrained. But I think on the positive side, in a sense, we have always been fiscally constrained right? We are always having to really work our way through intense trade offs, as we think about public sector, revenues and expenditures. And one of the things I think, is really interesting, and what I love about this group that you've convened mark around the future of public money, is I think we are really challenged now as not so much in the past, but really, really challenged to do is to start taking much more systematically, a long term view of public finance, and really start to bring into the present, the future costs, risks and benefits. And that may sound very abstract. But one of the things I'm looking at right now is how do we measure? How do we improve state as in the united states, states of national government finances, and one of the things I've talking to lots of people in the business about this issue. And, you know, we have metrics around things like debt ratios, or pension ratios, or Other Post Employment Benefits, right. And what's important about these ratios is that when, you know, say, if you're a budget officer, like I was, you know, you're looking at your annual trade offs, as you look at your budget, and then you're also looking at some of these ratios, right, which you want to be in balance, as well. So that's a way of taking these future costs and kind of bringing them into the current decision making. The challenge we face, some of this is tied to an ageing population is tied to climate change, migration issues, lots of really serious problems, is bringing some of those issues also into our current thinking. And climate change, obviously, being the huge challenge hanging over us. And what this means at a very granular level, for instance, is yes, you got that debt ratio, and you want to keep that, you know, within certain parameters, but would it make more sense to take on a lot more debt? If it means you're making investments in infrastructure, that will mean that your jurisdiction has long term economic health? So I think what is the challenge that we face? And I think what I hope will come out of some of our discussions that we have about the future of public money is how do we start to develop present value metrics, present value ways of thinking about these long term costs and risks that we face across, you know, every nation on this earth?



09:15

think that's a really interesting insight that one follow up question maybe from that is, do you then get the sense that one of the biggest hurdles here is that lack of sufficient data or monitoring to be able to do that net present value metric? Or is it the case? I mean, maybe to be devil's advocate here, at least at a federal level in the US that there is already some imbalances or some that the current the current regime can't really go on. We already have some of that data and weariness there. So do you think that is there on that lack of data or that calculation or are there other features that are holding back effective public finance management?



 09:51

Well, absolutely. Right. We have that we have a lot of those measures out there. That does not mean that states aren't overextended in terms of all of these financial liabilities. Notice that they have what when I think about the challenges we face in you, you'd asked me to consider the barriers. And before I left to run for Congress, I was starting to look a lot at behavioural economics. And one of the insights there, and I'm, I'm sure Mark has also been in this space as well, and maybe you're right is that human beings, they just don't apply the appropriate discount rates as one might say, but they really want a present. They want a present benefit, and they're willing to pay the out the out year costs, right, you know, who knows, you may be dead by then right, sort of our animal brains tend to be very present focused. And that then is reinforced by political processes that also reinforced that present focus, right? It doesn't matter if you're up for election in two years, doesn't matter that you did something that's going to be of extraordinary benefit, and may even save the country 10 years from now, if you're not reelected, and the whole thing falls apart anyway. So it really is we face two challenges. One is the cognitive challenge. And one is, you know, just the structural challenges that are just baked into our political systems, political systems work, I think for purposes of what we can do is to start to bring the information to bear on the process. And that's just step one. But where do we come from as analysts? Where do we come from as people who care about these issues, what we can do is start to build out the metrics and the decision making processes that can that can help in this space. And even though yes, our federal government at the United States is heavily overextended. That is very, very present in our political debates. And that is because you have groups that are showing those metrics of what our debt to GDP ratio is, who are jumping around and screaming about this. And step one was to have those metrics so that it could enter the political debate in an effective way.

 11:54

Yep. Yeah, Mark, I could see you Kaylee nodding along. Because

 11:59

I am in such agreement, it is remarkable to me that, in so many places around the world, I would say, perhaps in most places around the world, that we do not have, or somehow we don't pay attention to the very sets of measures that Carolyn has just identified. It is undoubtedly, in the case that we can explain that kind of a way is the short term bias that, you know, elected officials must and I think completely legitimately have to respond to the electoral cycle, which is obviously a much shorter cycle than is a long term financial plan or a long term, fiscal cycle. But that does not mean that we can afford to ignore that long term reality, because that's essentially what it is. And you know, Carolyn, when you were talking about a long term view, The Economist and US would talk about intergenerational equity, we would talk about, you know, all of these sorts of things. But kind of the base implication is that, if we don't attend to these sorts of issues in the moment, with an eye to what that impact is going to be in the future, we are going to regret not doing that. And not to enter into a debate about climate science as an example. But that is happening and is arguably happening in real time, as we've sat back and watched it happen. And we are going to regret that. It is now all about adaptation, as opposed to, you know, investment in prevention and so forth. And I think that you can, and by the way that is very, very expensive. And is just another one of these fiscal risks that exists out there in the future. But the future is now. And so we face those risks right now. They are

crowding out, or they have been crowded out by today's deficits, where we've got you mentioned public pensions, but you could talk about, you know, anywhere that's got a public health system, there is probably a significant deficit in the investment desired against what we would want as health outcomes and so forth in our transportation systems, et cetera, et cetera, et cetera. We have dug so many holes that are essentially now not perhaps affordable to dig out of, unless we rethink the nature of what we're spending our money on how we're spending it, and what do we get for it? And that, to me, is the basic set of measures that we want, always, if we get them major step down the path, but we also have to respond to them so that it changes what we're allocating It changes the nature of what we're actually trying to try to achieve. And again, I think that's what we're trying to come up with. Right? We're not trying to come up with a series of policy prescriptions, but rather to say, independent of the specific policy prescription. What institutionally, what in management, what in business process? What in technology? Can we actually apply today, to try and establish that there is some hope for the future?



15:29

If I could just maybe count on this as one for you just to get a sense of something more tangible? What is it that could be measured or added to current budget considerations that is being missed right now? I think there's been both yourself. And Mark mentioned things around climate adaptation, migration, pension, maybe asset, the management of existing assets and infrastructure and being able to replenish that, are these old from your experience? Are these things that are already being considered? Or is this something that economists need to get a better grip of and find the new statistics to bring that to policymakers and say, this is the thing that you need to pay attention to?



16:07

So I think there are two things. One is, as Mark was talking about, you know, for instance, with our healthcare systems, you know, we already do face some pretty deep holes. And thinking about strategies to get out of them, of course, is very, very important. But also, one of the things we found is that there are ways to embed these into public processes that actually do change how policymakers approach a problem. So just one great example of that is, as it became evident that we have real problems with deferred maintenance in the United States with our infrastructure, right? So we built out a lot of our infrastructure in the 50s and 60s a tonne of it there. And it is just and you know, we have a lot to do just to keep to maintain what we've got to maintain our bridges, our roads, keep that straightened out. And so one of the innovations that happened was this started, the Governmental Accounting Standards Board, changed its accounting standards to require state and local governments to build in deferred maintenance into their the aquifers, their financial statements. And by doing that, right, all of a sudden, you saw, you know, what that deficit was that deficit started to show up in much more dramatic ways to people, it became present for them. So first of all, I want to say, you know, one is developing the metrics, you know, figuring out what the problem is, you know, how do you measure deferred maintenance? How do you measure, you know, all of those things, there's, there are a huge set of challenges we're still dealing with in that space. How do you bring it into the present for policymakers? Thinking about climate change? Right? We do, I think I'm sure you all may have some insights into places that have done this. Well, it seems to me at the state and local level, everybody's very interested in it, everybody's very aware of it. But

we're still kind of on the early stages of building out those metrics. But what's fascinating is I was talking to folks, for instance, at Moody's, which is one of the the bond rating agencies. And they have basically databases with every single property, house commercial property in this country with an assignment score of climate risk associated with them. And so I think we are starting to build the datasets that can then be translated into risk scores, and then also translated into the strategies that state and local international government can deploy to reduce that risk. So I think it's there. I think we're moving quickly on that. But we just need to continue to push on those kinds of things. And obviously, when you think about climate, we often think about infrastructure. But just to point out one other major issue we're grappling with in United States, it is immigration. And I think every country, a lot of certainly European countries are grappling with that. And I think when you think climate, you don't often think immigration, but we need to build that in also write it to Howard. So there's, there's there gonna be more dimensions to climate than just infrastructure. But that's a good place to start.



19:03

Yeah, it's maybe worth just mentioning in passing here, we add on fifth through our sustainable policy institute, we just ran a discussion in Washington DC about considering the wider socio economic implications of climate change, and whether they can in fact, be models and things like the implications on migration waves or, or inequality. So I think there are there is now work being done on those second round effects. You may may call them. But I think you raised an important point that there, there are some of those metrics already out there. I guess the key is then embedding that into the decision making process and making that present for the policymakers. I think, Mark, is there like to bring you in on that point and institutional structures more generally about how budgets are set or how those decisions are taken and whether there are examples of good practice there that can be can be shared more widely?



19:58

Well, I mean, But the answer is that we need to rely, we can't we can't reinvent economic behaviour, we can't reinvent the institutional structures of the state really. I mean, we're not talking about that type of reform. So we have to work within those. I think it's I think it's quite simple, really. And in fact, there are well established but perhaps under attended, if you will, attention to the, to the institutions of public finance management that exist right now. So everything essentially revolves around the budget. But remember, the budget is an annual cycle. And, you know, I don't know what the proportionality is, but it's, you know, 90 99%, or something like that of public debate is basically around the annual cycle. But we do have a requirement for integrity in our medium and long term forecasts. I really think the question and this kind of goes to what Carolyn, you said earlier, do we have the necessary information? You just talked about unfunded liabilities in assets and transportation assets and health assets? And in civil assets, whatever, whatever those are? The first question is, are they known? And then if they are unfunded, what do we need to do over time to change them from being unfunded to funded? If, in fact, that is the choice that collectively democratically we want to make? So the answer to your question, Nikhil is that, essentially what we need to do is we need to start to put an emphasis on that longer term view, and bring it into much more directly, the annual debates, the very political debates around short term budget setting, and execution. And there are some jurisdictions that have more success associated with that, they tend to be the ones that actually have taken that very simple idea. And they have practice around it. And I think in

particular, places like Australia, where intergenerational impacts are required to be debated as part of their fiscal management cycles, not necessarily only their budget cycles, but their actual long, long term. And there must be other jurisdictions around the world that are that are like that, too. But that's the sort of thing that I think we need to emphasise.

 22:41

Yeah, I suppose one one follow up from that is the importance then of embedding that in the institutions themselves, whether that's through a sense of a fiscal role, or something to bind governments to those more effective practices that are current. And if you have have a view on that, and the importance of whether that's something a rigid role, or whether that's something more more cultural, that needs to be that sense of fiscal responsibility to the viewer,

 23:09

I have I have written about the cultural aspects of budgeting, yes, which I think is very important to be aware of, and it ties back to those behavioural challenges that we face. But there's a dialogue between them, right, what you find, for instance, at the state level in the United States is they have balanced budget amendments, they're required to be balanced on an annual basis. And while anybody who works in state budgets knows that those are not as binding, as you might think they are, there are lots of ways around them. Nonetheless, that norm is really absorbed by policymakers. And as I've worked, and by and large, our state governments are in pretty solid shape. I mean, they really they balance their budget on annual basis, they look at the long term impacts, they have the bond rating agencies, of course, when they're assessing their bonds, they assign them, you know, the, the ratings in the triple A's and, and states are very, very proud of getting the triple A bond rating from Moody's and Fitch and Standard and Poor's. And even in it sends a signal not just about the quality of their debt, but the quality of their financial management as well. And it has sends a political signal. So when we, you know, as you think about the different institutional structures out there to try to influence that, of course, sort of how how people view sovereign debt, how people view the financial practices, that's one of many avenues there. But I think what you also have to decide what you can, what we could influence, right, what can actually be influenced from a policymaker standpoint, and culture is something that is, is harder to influence, and then just changing some of those fiscal structures. But when you start changing some of those fiscal structures, you start to change the expectations that the public has you start to change the expectations that policymakers have, and it sounds like what happened in Australia is exists actly an example of that, where is if you start to say you have to debate intergenerational effects of policies, then all of a sudden that starts to change the the dialogue and the expectations and the culture around budgeting.

 25:14

Yeah, interesting. So it's the rules and policies that inform the discourse, then, is that

 25:19

the back and forth right you know somebody's got to want to adopt that in the first place

the back and forth, right, you know, somebody's got to want to adopt that in the first place. But, but yeah, there's, there's always, there's always a dialogue between those things. And one of the things I lamented quite a bit about the US National Government is they, they have lost the culture of fiscal discipline that is really been put on the back burner. But you see, with enormous efforts, and a lot of public attention being given to it, as well as real serious fiscal concerns that are starting to crop up, the attention is starting to shift. And people are starting to really start to think about what the long term outcome, outlook is for the national government.

 25:56

The issue I think in and I'm just going to extend it for a moment, here, the issue is not just the fiscal position, but it is now that the fiscal position is such that it impedes our economic attainment, it undoubtedly is going to make its way into our social attainment. And I think that could if not addressed, could end up being a very uncomfortable place and a very different place than one would ever hope for that, you know, we kind of trust that the future is going to be okay. And it's going to be better, so forth. But have we actually found ourselves in a position where there's a risk to that? I think there the empirical results would say that the answer is yes, we do face that risk. Now, to avoid that risk, we are going to need to make different set of decisions about you know, the design of budgets, the execution, etc, etc. And that's really what this is all about.

 27:03

I suppose one. One final question that I'd like to pose to each of you just before we round off this podcast is, if there is I mean, I'm there's a multitude of things that we've already discussed here, if there is one key change or key policy that you would want to implement the same that in the example of the US, which we've discussed here, maybe either at the federal or state level, what is it that you would hang your hat on and say, that's the thing that needs to be done, whether on an innovation point, or whether it's on a, on an institutional point, to be able to either rectify the fiscal risks there or bring about better outcomes, which comes back to your original point, Mike, that ultimately that is what governments are for and what they need to spend their money on? What is it that you? Maybe Carolyn, if you were back in? In Congress? What would be the thing that you're fighting for on that front?

 27:53

Well, the challenge is, I have a hard time saying there's one thing, right, I think, yeah. And I just, as you all and I know, folks that aren't so young, you're dealing with countries in different spots in their sort of fiscal portfolio. One is, and this at the national level, right is was my push was versus just tending to your knitting, right, which is just bringing in at the federal level, the United States, they don't even pass a budget, right? They don't even have the budget process that they have on the books, they don't even follow the basic budget process. So So first step, for any government, right, is just tending to your net, you follow your budget process, you put in place basic financial controls, right to avoid corruption, waste, fraud, and abuse, right? Baseline, okay, then we can move on to the big stuff, right? Unfortunately, right, if you don't have that under control, then you're not going to be able to deal with climate change, you're not gonna be able to deal with any of these other bigger issues until you have that baseline,

those pieces nailed down. But if I could think of one really great thing that could come out of future public money, I think it would be some metrics, ratios, things like that, that could be brought that could help bring these out year costs and risks into the current years debate. Right. So it can help bring that to the table. And then those would also be things that we could then look at building into, you know, existing accounting practices into the debt, you know, and into rating agency into all sorts of evaluations of state public health into the debate for the the medium and long term frameworks, you know, once but first you have to have what it is we need to measure what's a good measure? Right, and then we can bring it into these institutional processes.

 29:38

Thank you and Mark, your reflections on that and what you think government should focus on to bring about the future of public money.

 29:45

Well, I I agree. Again, whole heartedly. I subscribe very strongly to the notion that, you know, transparency, just knowing where we're at. What do we spend our money on? How are we bending on it, what are we achieving for it? What are the risks associated with it, that we can somehow serve that up in a comprehensive and effective and continual way, is is a big step towards at least the hope of response, you can't respond to something that you don't really understand. But I think people genuinely are seeking, you know, a better future than then not. And that if they are given the necessary information upon which to at least make the considerations of trade offs and so forth, then we're going to be in a, in a stronger position, if I might, there is one potential instrument, and this is going to sound a little, you know, I've worked for one of the large public accountancy firms in the world, there are some emerging very, very quickly emerging reporting standards that are starting to require not just the reporting of current and historical, but actually getting into a forecast of what the future is going to hold. And as a single point of inflection, that might prove to be very, very powerful. And there are, as an example, news, sustainability standards that are being considered and debated at the moment, and are very, very close to that we see jurisdictions like the European Union and so forth, that are already moving into this. The second I am required to report what that future impact really looks like. And that it is the same sort of basis of being independent, auditable, etc. That's kind of like good science. I think that is something that we hopefully over the next decade or so is it really takes shape is going to pay significant dividends? It's going to improve our understanding, not just today, but also tomorrow. And, yeah, let's trust that we can respond positively. And accordingly.

 32:16

We have no choice but to help.

 32:20

Bradley right. That's maybe a sanguine note to end on there. I'd love to continue the discussions on this front. I'm sure there's much more we can we can go into which we will be as

discussions on this front. I'm sure there's much more we can we can go into which we will be as part of this ongoing project. Thank you, Carolyn, and Mark, for your insights, I think maybe to wrap up what what I've taken away from this is maybe three, three eyes, if you will, is that the importance of information and these new metrics to bring in some of those future costs into the present, perhaps integrity, you could call it in just getting the houses in order and having a budget process and, and the reporting and transparency that that comes with it and the importance of institutions and the accounting practices, the rules and policies that can maybe embed proper practices. I think there are a lot that were discussed here. And I appreciate your insights on that, though, at least from my takeaways. And yeah, I'd encourage listeners to please share your thoughts on this as well as we continue these discussions on the future of public money. Carolyn, and Mark, thank you very much for your time and yes, we will revisit this this topic very soon.



33:18

Thank you for having me.



33:20

Thank you.



33:23

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