



Doing Good Leads to Doing Well: Oversight as a Key to Economic Turnaround

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Overview

- Fiscal Case for Oversight
- Governance Case for Oversight
- Economic Imperative for Oversight
 - An International Perspective
 - Applying the International Perspective to the U.S.
- Implications for Other U.S. Cities and Lessons from New York

Fiscal Case for Oversight

- The Return on Investment Argument
- Asset Forfeiture and How Investigations Pay for Themselves
- Broader Case – Savings and Reform
- Federal IGs – 2010: Investment of \$2.2 billion
 - \$7 billion in receivables and recoveries
 - \$23.7 billion in accepted recommendations on unnecessary spending
 - \$56.6 billion in accepted recommendations on questioned costs

Fiscal Case for Oversight

- Federal and State Partnership – Medicaid and Welfare Fraud
 - Federal government funding supports MFCU
 - Investment of \$205.5 million produces recoveries of more than \$1.8 billion in savings
- Miami Dade County OIG (2012)
 - \$5.4 million budget
 - \$6.5 million in averted losses, savings and recoveries
 - \$21.5 million in questionable costs

Governance Case for Oversight

- The strongest fiscal case is based on larger reform efforts – beyond just the individual case or asset forfeiture
- Effective government requires effective oversight
 - Congress as the “broken branch”: “We spend so much time on politics and appropriations, we don’t do nearly enough to make sure that what we spend money on is working.”
 - Brooks: “They don’t trust the federal government.”
 - Wilson: “The informing function should be preferred even to legislation.”
 - Brandeis: “Sunlight is said to be the best of disinfectants.”

Economic Case for Oversight

Fraud, waste, abuse and corruption are barriers to economic prosperity – thus, the absence of effective oversight is an important barrier to economic opportunity

Economic Case for Oversight

- Economic argument is routinely made in the international context
 - Mid – 1990s World Bank: Survey of 150 officials and civic leaders from 60 developing countries ranked corruption as the biggest impediment to economic development and growth
 - 2003 U.N. Convention against Corruption: “Corruption is a key element in economic underperformance and a major obstacle to poverty alleviation and development.”

Economic Case for Oversight

- Piketty and Inequality: The reason for growing inequality is that capital wealth is growing at a faster rate than the economy

$$r > g$$

- Moise Naim in The Atlantic: The reason for growing inequality in some countries is also the result of corruption

$$c > h$$

Economic Case for Oversight

- “Corruption-fueled inequality flourishes in societies where there are no incentives, rules, or institutions to hinder corruption. And having honest people in government is good, but not enough. The practices of pilfering public funds or selling government contracts to the highest bidder must be seen as risky, routinely detected, and systematically punished.”

Economic Case for Oversight

- What about the United States – and most importantly, what about U.S. cities where poverty rates and inequality are the greatest?
- For economically and fiscally challenged or distressed cities, the focus is often on finding the right silver bullet project – but that rarely results in an economic turnaround.
- Center for Excellence in Government survey: A key factor for economic development is “Effective local government that is free of corruption”
- Pew Report on Local Fiscal Distress: “Cities contribute to their own distress through mismanagement, political infighting, and poor financial judgment.”

Economic Case for Oversight

- In some cases, corruption and mismanagement can lead to economic and fiscal distress. In other cases, it can be an insurmountable obstacle to recovery
- What are the implications of the relationship between corruption and mismanagement and economic distress?
 - Detroit
 - Jefferson County
 - Cleveland
 - New Orleans

Economic Case for Oversight: Detroit

- Detroit is, in many respects, a classic economically and fiscally distressed city – with population decline from 1.8 million in 1950 to 700,000 in 2012 and the nation's largest municipal bankruptcy
- Corruption case against former Mayor Kwame Kilpatrick revealed a pattern of abuse and mispending a minimum of \$20 million in City funds – extortion, bribery and fraud

Economic Case for Oversight: Detroit

- The Kilpatrick case raised issues that went to the heart of the Detroit bankruptcy: solicited and accepted payments and property valued at over one million dollars from persons seeking business with the City or its General Retirement System or Police and Fire pension funds.
- U.S. Attorney Sentencing Memorandum: Kilpatrick “did it all in a city where poverty, crime and lack of basic services made it one of the most vulnerable metropolitan areas in the nation. The scale of his corruption was astonishing. The impact on the region was devastating.”

Economic Case for Oversight: Jefferson Co.

- Between 1950 and 2010, Birmingham's policy declined from 340,000 to 210,000
- Unlike Atlanta, Birmingham was not a city “too busy to hate”
- “Ethics laws could make political corruption illegal in Alabama, but could never make it unpopular.”
- Center of the Jefferson County bankruptcy involved the financing of a multi-billion dollar upgrade of the County sewer system required by federal consent decree

Economic Case for Oversight: Jefferson Co.

- Jefferson County sewer case led to conviction of former Chair of the County Commission – by that time the Mayor of Birmingham – 60 counts of conspiracy, bribery, fraud, money laundering and false tax returns
- Two other County Commission members convicted of bribery and illegal gifts

Economic Case for Oversight: Cuyahoga Co.

- Between 1950 and 2010, Cleveland lost more than half of its population and the metropolitan area lost two-thirds of its manufacturing job base.
- By 2010, more people were living in poverty than working in manufacturing
- 2008 County corruption scandal leads to the conviction of one of three County Commission members, County Auditor and the County Sheriff

Economic Case for Oversight: Cuyahoga Co.

- Corruption scandal leads to fundamental reforms of County government
 - Elimination of County Commission and creation of County Executive and County Council
 - Elimination of elected offices – e.g. Auditor and Sheriff
 - Creation of Director of Internal Audit appointed by Audit Committee appointed by Executive and Council
 - First-ever County Inspector General

Economic Case for Oversight: New Orleans

- Before Katrina, between 1960 and 2005, New Orleans lost 25% of its population. In 2000, there were 16 New Orleans Census tracts where > 50% of residents were living in poverty
- At the same time, there was endemic corruption
 - Louisiana Eastern District had the highest rate of public corruption convictions per capita in the U.S. (2000 – 2009)
 - Conviction of two CTOs for City of New Orleans
 - Conviction of former City Council Chair
 - 20 count conviction for fraud, bribery and conspiracy of former Mayor Ray Nagin

Economic Case for Oversight: New Orleans

- New Orleans is coming back – “Big on the Big Easy” – with population up by 10% between 2010 and 2013
- A focus on reform
 - Inspector General (2006)
 - Independent Police Monitor and reform and Consent Decree in NOPD
 - Budgeting for Outcomes
 - Office of Performance and Accountability

Economic Case for Oversight

- New York City as a case study for the role of oversight and reform in economic turnaround
- After losing ten percent of its population and nearly going bankrupt in the 1970s and enduring a crime epidemic and major and corrosive municipal corruption scandal in the 1980s, “New York came back” (Glaeser)
- DOI, City Comptroller, Conflict of Interest laws, Campaign Finance reform, Ethics laws, Lobbying Law – “The Pursuit of Absolute Integrity” leads to near 50% decline in public corruption convictions since 1980s
- Multi-year financial planning, MOO, Reform of the Board of Estimate, Compstat, Procurement Policy Board and other financial reforms