Government governance

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This journal has always taken a broad view of the scope of its coverage of governance and disclosure issues, from corporate law to accounting, information technology to differences across nations. Nonetheless, the focus has very much been on corporate governance and publicly traded companies. Although we have often had regulators write for the journal – as we do in this issue with a provocative article by Bob Herz, the chair of the USA Financial Accounting Standards Board, on accounting standards and bank regulation – what we have not emphasized is governance and disclosure within the governmental sector itself. The thinking has always been that the issues of governance and disclosure are either too different or redundant when talking of governments, and that there are other journals that focus on governmental accounting and policy.

Although those reasons remain valid, I have been thinking about whether the tacit assumption that the important governance problems are in the private sector only can be sustained for much longer, given recent developments in Europe and the USA. As I write, the European Union (EU) is facing one of its greatest ever challenges in trying to figure out a policy to deal with the fiscal situation in Greece. Membership in the Euro-zone was once seen as a prize and a seal of approval, of being in the same league as Germany with its rock solid economy. Today, it is considered more of a straitjacket, because without a currency of its own to devalue, any adjustments to national competitiveness have to be real rather than nominal – and it is far from clear whether any democracy today is capable of dealing with pain as dramatic as Greece might need to get its

house in order. Not that we should pick on Greece, despite its traditions of street protests, tax evasion and union power, which make it particularly susceptible to resistance to change. After all, only a few weeks back the President of Iceland vetoed a deal to repay losses to foreign depositors of its banks, which had been paid by the governments of the United Kingdom and the Netherlands.

Although the macroeconomic issues at the heart of this problem are indeed beyond the scope of this journal, what interested me was the news that the previous government of Greece had allegedly underestimated its budget deficit in its official statements, and by a very significant amount. It is this that makes the situation in Greece not just an economic failure but also one of governance. After all, if a business lied about its financial statements its executives would face criminal charges, and in the case of the USA, go to jail for 20 years. Moreover, it is inconceivable that Brussels did not realize that the Greek statistics were too good to be true, but presumably it was in their interests too to pretend that their Euro experiment wasn't about to hit a brick wall. That, too, is a failure of governance and a cavalier disregard for the reputational effect on future official disclosures within the European Union.

Again, perhaps one can dismiss these issues as outside the purview of this journal, but at the very least, one has to wonder about the corrosive effect of such behavior on governance practices by public sector firms in Greece and elsewhere. Do as I say and not as I do has never been a good basis for inducing ethics.

In the USA, the intersection between government and business took an equally

extraordinary turn recently with the decision by the Supreme Court in the *Citizens United v. Federal Electoral Commission* case. In a highly controversial 5–4 ruling, the majority essentially declared that businesses enjoy the same first amendment rights to free speech as individuals, in particular the right to directly campaign against candidates to political office by spending any amount of money they wish in television advertisements.¹ The court majority overturned almost a century of court precedent and federal legislation that had constrained the ability of public companies to so directly influence the political process.

Whatever the rights or wrongs of this decision, which has polarized opinion in the United States, it is worth considering the implications of this outcome for corporate governance. How will businesses decide which candidate to support and how much of the shareholders' money to spend in doing so? Will it be up to the board of directors to make those decisions, or will CEOs have that ability? Some opponents of the decision are already calling for such expenditures to be put to a shareholder vote, though given the resistance in the USA over proxy votes for executive compensation it is hard to imagine this proposal going very far.

And what kinds of disclosures should businesses make over their political activities, and when should they make them – before or after incurring the expenditure, and most important of all, before or after the election? Another proposal being floated is that the CEO of the company would have to appear in a political advertisement that the business sponsors to state that 'I approve this message'. But what if some shareholders do not approve of it?

Some might argue that these issues, serious as they are, pale in comparison to the biggest governance and disclosure failure of governments

everywhere: their refusal to properly account for the unfunded liabilities inherent in their welfare policies, especially in the face of an aging population. As right-wing politicians are fond of pointing out, no public company can keep their books in the way the government does. But then again, governments are not public companies, social welfare is not the same as profit, and, at least in normal circumstances, they can raise funds in ways that companies cannot, such as mandatory taxation or by printing money. Yet, even the strongest advocates of social justice have to admit that at some point there is something to be said for honesty in disclosing the true costs of decisions, however progressive or desirable they may be.

In short, perhaps the need for disclosure and governance is not that distant between the corporate and governmental sectors, even if the solutions are necessarily somewhat different. At the very least the intersection between the two sectors need to be carefully examined. This is something that this journal has always attempted to do, and although we are not going to become a political science publication, we will always pay attention to the politics of business and perhaps now also to the business of politics.

NOTE

- 1 <http://www.supremecourtus.gov/opinions/09pdf/08-205.pdf>.

Michael Alles
Editor

Department of Accounting, Business
Ethics & Information Systems,
Rutgers Business School,
Rutgers University, Newark, USA
E-mail: alles@business.rutgers.edu