



Does Fiduciary Irresponsibility Foil Economic Development?

One View

E. Steven Potts

Professional Services International

Graduate School – USDA



The Chicken or the Egg?

- ◆ If sound economic development is to occur, must it be surrounded by sound fiscal management (fiduciary responsibility)?
- ◆ Or, is economic opportunity both the necessary and sufficient condition for business success?



Is Economic Opportunity Sufficient??

- ◆ Economic Opportunity is clearly necessary for business development
- ◆ Some “Economic Domains” have limited economic opportunity
 - Somalia
 - Nepal



Is Economic Opportunity Sufficient??

- ◆ Others have enormous economic opportunity
 - China
 - Russia



Is Economic Opportunity Sufficient??

- ◆ Most are somewhere in the middle
 - Peru
 - Philippines
 - Honduras
 - Ukraine



Is Economic Opportunity Sufficient??

- ◆ Most would agree that Economic Opportunity certainly is a necessary condition.
- ◆ But is it sufficient?
- ◆ I Say No. It is not.



Fiduciary Irresponsibility Foils Economic Development

- ◆ Actual data is limited, but anecdotal message is clear
- ◆ Speaking
 - From Observation
 - From Personal Experience
 - From Other Sources



Fiduciary Irresponsibility Foils Economic Development

- ◆ What is Fiduciary Responsibility?
- ◆ It is the government's action/inaction in certain key areas of responsibility



Fiduciary Irresponsibility Foils Economic Development

- ◆ Fiduciary Duty is a legal relationship between two or more parties (“fiduciary” (trustee) and “principal” (beneficiary)) that in English Common Law is arguably the most important concept within the portion of the legal system known as *equity*.



Fiduciary Irresponsibility Foils Economic Development

- ◆ A fiduciary duty is the highest standard of care imposed at either equity or law. A fiduciary is expected to be extremely loyal to the person to whom they owe the duty: the fiduciary must not put their personal interests before the duty, and must not profit from their position as fiduciary, unless the principal consents.
- ◆ (Source: Wikipedia)



Fiduciary Irresponsibility Foils Economic Development

- ◆ In democracies, governments represent the ultimate fiduciaries. If they cannot be trusted, who can??
- ◆ What, then is Fiduciary Irresponsibility in the context of government?



Fiduciary Irresponsibility Foils Economic Development

Fiduciary Irresponsibility includes:

- ◆ Corruption
 - Taking of bribes
- ◆ Unethical conduct
 - Nepotism
 - “Steering” contract source selection



Fiduciary Irresponsibility Foils Economic Development

Fiduciary Irresponsibility includes:

- ◆ Financial Irresponsibility

- Consistently spending more budget than revenues collected
- Failure to tie government budgets to results
- *Consistent deficits lead to clinging debt!*



Fiduciary Irresponsibility Foils Economic Development

Fiduciary Irresponsibility includes:

- ◆ Inconsistent taxation practices
- ◆ Waste of public assets/resources
- ◆ Lack of accountability
- ◆ Failure to enforce
- ◆ Failure to inform



Fiduciary Irresponsibility Foils Economic Development

◆ Let us consider three cases

- The former GDR
- The “new” Russia
- Ukraine

– Starting points were almost the same, speed of economic development was vastly different



Fiduciary Irresponsibility Foils Economic Development

◆ “East Germany”

- An immediately superimposed legal system
- Immediate strong government fiduciary responsibility
- Draconian financial controls
- Immediate economic development success, including massive international investment



Fiduciary Irresponsibility Foils Economic Development

◆ Russia

- Initially no control, abdication of all government responsibility
- Assimilation of wealth/resources by “oligarchs”
- Zero transparency, Zero enforcement
- Massive Bank Fraud
- Time delay – ten years to fiduciary responsibility
- Recent results – remarkable
- ’02-04 Best performing mutual fund in the world:
 - ING Russia Fund (Russia Troika Dialog)



Fiduciary Irresponsibility Foils Economic Development

◆ Ukraine

- Total disintegration of fiduciary responsibility
- Abrogation of government's debt
- Massive crime wave
- Creation of an entirely new government
- Gradual Proactive responsibility
- Fifteen years to rapid economic development
- Best performing stock market in the world, 2006-2007



Fiduciary Irresponsibility Foils Economic Development

- ◆ Fiduciary Responsibility on the part of government is NOT sufficient for economic development. However,
- ◆ Fiduciary Responsibility IS necessary for Economic Development.



Fiduciary Irresponsibility Foils Economic Development

Why is this the case?

- ◆ Economic development depends upon business investment.
- ◆ Rational Investors require:
 - Economic Opportunity
 - Foreseeable Outcomes
 - Manageable Risk



Fiduciary Irresponsibility Foils Economic Development

Rational Investors do NOT:

- Invest for charitable or humanitarian reasons
- Trust irresponsible governments
- Accept unpredictable risks



Government Fiduciary Responsibility Accelerates Economic Development

Rational Investors seek ethical, responsible governments that:

- spend within their means
- tie budgets to results
- enforce the laws
- inform the public



Government Fiduciary Responsibility Accelerates Economic Development

Rational Investors seek governments with:

- Reasonable, consistent & predictable tax burdens
- Accountable government officials
- Limited waste and abuse
- Sound fiscal management



So What?

- ◆ Ask yourself,
- ◆ What does this mean for my situation?



The End

- ◆ espotts@psii-worldwide.com
- ◆ Stephen_Latimer@grad.usda.gov
- ◆ www.apafs.org