

Governance and Sustainability

By Professor Frank J. Convery, Chairperson of Comhar Sustainable Development Council and
Director of Earth Sciences Institute, University College Dublin

Friday, 25th June 2010

Governance is about how we manage our affairs, at the level of the individual, the family, the company, the community and the planet. When governance is good, it goes unremarked, and seems indeed unremarkable. But when it is bad...

In the accident at the Deepwater Horizon oil rig in the Gulf of Mexico, it remains to be seen where the balance of culpability lies between Transocean (owner of the rig and the blow-out protector), Halliburton Inc., (the subcontractor that was encasing the well pipe in cement before plugging it), the regulatory system, and the operator BP. But it is clear that the human, environmental and financial costs of governance failure will be huge. And the hypothesis that the Mayflower was full not of divines but of lawyers gains credence: the combination of real damage and deep pockets prove irresistible as lawyers swarm over the proceedings.

In Ireland we have had massive governance failure in regard to financial regulation. A report (the Irish Banking Crisis – ‘Regulatory and Financial Stability Policy 2003-2008’ – available at: www.bankinginquiry.gov.ie) by Patrick Honohan, the recently appointed Governor of the Central Bank, highlights the dramatic costs incurred by us all by governance dysfunction in the Irish financial sector: a cash cost (Anglo Irish and Irish Nationwide Building Society) of about €25 billion, and the same again in an impaired economy.

Honohan’s report is a model of forensic examination of what went wrong and why, completed in less than six months; it stands as a reproach to the hundreds of millions of euros a range of other enquiries have cost, which have taken many years to complete and in most cases lack his clarity and focus.

A much more positive institutional story is provided by the Economic and Social Research Institute (ESRI), an esteemed Dublin think-tank, which provides independent appraisal of economic and social policy. It opened its doors in 1960, and so celebrates its 50th birthday this year. I worked there for a year and a half in the early 80s. Origins are important. It was started with support from the Ford Foundation, and this allowed an independent ethos to be embedded from the outset. The ability and willingness to speak truth to power in ways that are manifestly independent, credible, evidence-based, competent, relevant and timely is its main – indeed its only – rationale. Although its portfolio is broad, and includes excellent work on energy and environmental policy, its anchor contributions are its Quarterly Economic Commentary and its bi-annual Medium Term Review.

In the late 1970s and early 1980s, when Irish macroeconomic policy went off the rails – something we seem to feel the need to do every 25 years or so – Joe Durkan was the editor of the quarterly commentary. He told it as it was, and the ESRI supported him. He is a man of great personal charm and humour, but his public visage was one of foreboding and gloom, which gave an impression that he had been weaned on a pickle (to borrow from Alice Roosevelt on Calvin Coolidge). And this fit the bill perfectly – form and function in perfect harmony.

The biggest challenge for the future is to maintain independence – and, at least as important, the perception of independence – in the future work of the ESRI, as all budgets shrinks. I know from experience that the ESRI devotes huge effort to ensuring the integrity of its outputs. But funding sources can undermine the most rigorous of processes. This perception problem arose in regard to a report prepared for Dublin City Council and published by the ESRI – ‘An Economic Approach to Municipal Waste Management Policy in

Ireland' – which, in effect, challenged aspects of government policy ambitions. The critiques of the ESRI report focused on assumptions and omissions, but the perception problem is fundamental: the report was prepared for Dublin City Council, which takes a different view to government on this issue. There is every reason to use evidence to be trenchantly critical. There is every reason to avoid taking money from one of the protagonists in making the argument.

The term 'Black Swan' comes from Karl Popper's observation that 'No number of sightings of white swans can prove the theory that all swans are white. The sighting of just one black one may disprove it'. Wars are nearly always a surprise, and most are not 'over by Christmas' as the protagonists nearly always seem to assume. Volcanoes in Europe, financial crises and economic meltdown are likewise a surprise to most. 'Black swan' is the fashionable shorthand to capture these out-of-the-ordinary events. Economic models and predictions tend to work best with marginal change. They are at the heart of most ESRI work, and so these inevitable surprises can embarrass.

What to do? Two thoughts: the first is to join the dots. In regard to the current mess, Honohan points out that the ESRI – in its Medium Term Review in 2005 – had included a scenario under which house prices would fall by one-third in 2007, and it had published Morgan Kelly's bleak view in summer 2007. But the macroeconomic implications of these perspectives didn't seem to make it into the forecasters' basket. My second thought is to always have a worst and best case scenario in the mix, combined with more overt treatment of risk and uncertainty, both on the up and down sides. Since the worst always happens eventually, if you keep saying it, you'll be right eventually.