The Power of Transparency

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Although the details of President Obama's American Recovery and Reinvestment Plan remain in negotiations, one issue is not debatable: accountability. Drawing from state and local precedents, Obama can ensure that his plan remains untainted by corruption and waste. Accountability--especially web-based transparency--is both good policy and necessary politics.

First and foremost, as Obama has pledged, the recovery plan should offer web-based disclosure of where the money is going and what taxpayers are getting in return. Every state discloses its contracting online to some degree, and half the states also disclose some company-specific data on their economic development and job-creation subsidies. It's a consensus, good "Google government" idea that has even been jointly embraced by Ralph Nader and Grover Norquist.

Thanks to the Federal Funding Accountability and Transparency Act of 2006 (which then-Senator Obama co-sponsored), there is already a federal disclosure website, usaspending.gov, upon which to build. However, the Recovery and Reinvestment Plan needs to provide deeper disclosure; currently, it lists the source, value and primary recipient (public agencies or private companies) of funds. Missing are the identities of subcontractors (who often do most of the work), subgrantees or the names of companies that benefit from various economic development subsidies.

The usaspending.gov platform needs to report on benefits as well as costs. That is, expected and actual outcomes, especially jobs: how many are promised and how many are actually created, and at what wage and benefit levels? What are the demographics of the new hires, and which neighborhoods are getting the jobs? By requiring monthly data updates from the states and localities that are receiving federal funds, the Obama administration can use the power of the purse to enforce compliance: no data, no check for the next installment. Being able to track issues like job quality matters greatly: if taxpayers are subsidizing poverty-wage jobs that leave working families in need of social safety net programs, the plan could create hidden taxpayer costs.

To avoid such hidden costs, job quality standards--used to some extent by almost every state and most big cities in development deals--are critical. They are best tied to market rates, such as the average nonmanagement wage in the labor market or the industry (with a living wage floor) plus healthcare and paid leave. Can we really call it a "recovery plan" if public dollars are being used to pull wages down?

A third layer of protection against waste are clawbacks, or recapture rules, which are standard operating procedure at the state and local level, especially for big development projects. These are money-back safeguards that say: within an agreed-upon time frame, a recipient must create the promised jobs at the projected pay and benefit levels or else pay the money back, usually on a prorated basis (e.g., a 10 percent clawback on a 10 percent job shortfall). The money can then be redeployed to create jobs elsewhere.

These common-sense reforms--disclosure, job quality standards and clawbacks--have been used by states and cities for years. Despite fearmongering by conservatives, there is no evidence they have harmed anyone's "business climate." Indeed, at meetings of development professionals, they are acknowledged as standard necessities, even touted as best practices.

Yet a recent analysis at the federal level of five commonly used programs in five different cabinet agencies found these safeguards mostly lacking. Not one of the programs, for example, provides wage or healthcare standards for permanent jobs created. Three fail to provide a way for taxpayers to claw monies back if a company fails to deliver on jobs. And although all the programs are covered by some form of crude online disclosure, only two provide data about projected jobs, and none report on jobs created.

We can do better. Using pocket change from Recovery Plan funds, Obama's Office of Management and Budget (OMB) can create online software for monthly data reporting. The program would be consistent with usaspending.gov but also provide deeper tracking of where money flows and report on outcomes.

OMB would use this software to receive and post the data from recipients of federal funds. It would also give the software to states and cities, requiring them to use it to collect monthly outcome data from subgrantees, subcontractors and subsidy recipients. States and cities would then submit the data electronically to OMB, ready to be uploaded and posted online.

It is often said of the New Deal that much of it was hardly new at all, that states had pioneered social safety net programs and labor-market reforms. It's time once again for "policy trickle-up." Obama can borrow these best practices from states and cities, praising their wisdom while installing a system that is his best bet for keeping governors and mayors from frittering away his Recovery Plan.