

Conclusion and Recommendations

Cost/benefit analysis is an emerging and potentially powerful tool that deserves to be more widely employed by government and non-profit organizations. As the case studies in this book illustrate, it has the potential to steer policymakers to make wiser choices, even as it inspires greater confidence among donors and taxpayers that their money is being spent well. It is the essential first step to the zero based budgeting process that some states are adopting as they re-set priorities in attempting to close large budget deficits.

I'm convinced that the non-profit organizations and entrepreneurs I examined with this tool are delivering "more bang for the buck." When a combination of private and public support has allowed them to develop expertise, they have moved the social and economic health of their communities forward. Where leadership skills are apparent and the basic management tools of planning, organizing, staffing, communicating and evaluation are employed, results are generally very good. Where they are not, a market not unlike the private sector's causes them to either improve or disappear.

But cost/benefit analysis, long familiar to business investors, is still in its infancy in the non-profit and government realms. My review leads me to offer these recommendations for realizing the full potential of cost/benefit analysis:

1. More accurate, uniform, widely recognized and reported measures of program effectiveness are needed. Currently, the reporting of methodology and results is too varied and incomplete. Too often it requires anyone attempting analysis to make far too many assumptions about data relating to costs and benefits.

Institutions of higher education can make a significant contribution to this effort by partnering with non-profit organizations, as illustrated in Appendix 4, to develop standards.

2. Greater commitment to transparency by both government and non-profit organizations is key. I commend the St. Paul, Minnesota-based Charities Review Council for its method of urging greater transparency in non-profit reporting: It has established “Standards of Accountability” and each year, it singles out for public recognition those organizations that either partially or fully meet those standards. Key among its standards is “public disclosure,” that is, legal compliance/financial reporting, listing of accomplishments and reporting consistency. This kind of encouragement can help an organization evolve its data collection and accounting practices in a way that makes cost/benefit analyses easier.
3. For cost/benefit analysis to have credibility, it must be objective, understandable and presented by managers of the highest quality. The surfeit of information of varying reliability available at the click of a computer mouse today gives the quality of management and accuracy of the data they present even greater significance than they have in the past. The need to base public policy on solid data means that leaders must devote an increasing share of their own time and talent to new ways of gathering, analyzing and communicating the right kind of information.
4. Non-profit organizations should see cost/benefit reporting not as a replacement for the qualitative reporting to their constituencies they already do, but as an enhancement of it. Managers that honestly set forth the facts, state clearly any necessary assumptions and display the math they use to reach return-on-investment conclusions will enhance their organizations’ marketing appeal, while bringing valuable discipline to their evaluation processes.

Clearly there is an opportunity for non-profits that demonstrate strong cost/benefit ratios to play a larger role as government sub-contractors than they have in the past. In these days of tight public money and recurring political gridlock, employing apolitical non-profits with their cadre of volunteers seem like an obvious way to get public work accomplished.

Governments increasingly are applying cost/benefit analyses to their oversight of the partnerships they establish with the private and non-profit sectors. While I welcome that development, I’m concerned that

governmental funding strictures are often so tight that they don't allow enough resources for effective evaluation. For example, if the Minnesota Department of Human Services could update annually the information required in Appendix 5 far more effective reviews could be conducted helping to improve the effectiveness of our income support and workforce training programs.

In addition, when cost/benefit analysis is done by government funders, it may take place so far up the political food chain that the credibility of the data that's collected is suspect by either the left or the right. Washington State's Institute for Public Policy avoids that problem by offering evidence-based input early in the legislative process, before the political battles emerge. That makes good sense. The Institute's study on the impact of reducing student/teacher ratios is a case in point.

Government bureaucracies are notorious for collecting data for one narrow purpose and not recognizing its wider utility. The example cited in Section Three illustrates the point. The objective information needed to measure the effectiveness of federally and state funded workforce programs already existed in various state data bases. However, it had not been extracted in a format that was meaningful to anyone. Thanks to a process initiated by citizens, government staffers, foundation leaders and non-profit managers, a revised system is now in place. It allows Minnesota's executive branch to demonstrate to legislators and taxpayers that its workforce development programs are cost effective and save taxpayers money over time.

My hope is that cost/benefit analysis can eventually reduce the credibility gap that exists between taxpayers and their government. While traditional debates between the left, center and right will always be with us, mistrust and disbelief have swelled and are impeding America's ability to solve problems.

The tax bills citizens receive offer little information about how their tax money will be spent or what benefits might be gained from that spending. Categories such as "tax increment district" mean little to an average citizen. There is no reason why a report could not accompany tax statements that describes spending categories that comprises five percent or more of a governmental unit's budget, and explains the benefits expected to be derived from that spending and the number of people served.. The same data could be offered online and updated more frequently than annually, so that it is

readily available to citizens and those who seek to represent them in elective office.

If cost/benefit analyses became part of the debate over the size and role of government, the quality of political discourse could improve. Taxpayers are used to hearing government spending described as an investment, but they are understandably suspicious when the term is used without creditable documentation. A credible analysis of the return on investment produced by public spending could reduce waist while at the same time document those programs for taxpayers where government spending has a future payoff that justifies some sacrifice today.

Minnesota once had a State Planning Agency to guide policymaking. If such an agency were revived, it could be an ideal administrative home for compiling and synthesizing cost/benefit analyses by municipal, county, special purpose district, state and federal units of government. It could assure that the analyses were easily accessible.

Foundations too have expanded their use of cost/benefit analysis. These organizations, in concert with leading think tanks such as those listed in Section Four, can do much to advance the tool's wider use. For example, government is prone to responding to a program that demonstrates a high return on investment with "Yes, but. . ." Yes, but we have short-term fiscal constraints, and cannot afford to budget for the longer term benefits. Yes, but the political system is so focused on the short term that elected officials can't risk spending now to save later. What if the philanthropic community were to say "Let us fund a pool of resources that will pay for this program's expenses, and then let us be reimbursed over time from the cost savings it eventually produces." They would be offering to provide a "prove it to me" vehicle, one that would require a partnership between the philanthropic community and government that would extend five years or longer. If it succeeded, it could inspire more confidence among taxpayers and voters that government can effectively spend now to save later.

Foundations could also work in partnership with appropriate levels of government to support and strengthen the management of non-profits that tackle some of our toughest community issues. Clearly, more support is needed for those attempting to provide youth employment, curb neighborhood violence, stop predatory lending, provide high-quality pre-K education and secure adequate transportation for urban workers to suburban

jobs. Given the right data, foundations can better target their efforts at enhancing non-profit effectiveness, by improving management systems, consolidating or partnering with other non-profits and implementing their own cost/benefit oriented performance review process.

The effectiveness of the things a democratic society chooses to do in concert ought to be every citizen's concern. That's why I urge every citizen to push governments and non-profit organizations to more fully measure and report the cost/benefit ratios of their endeavors. Return-on-investment considerations should be among the questions put to all candidates for public office. In fact, one might argue that public policies won't improve until voters adopt this practice.

It may be satisfying to blow off steam and hurl invectives at this policy or that candidate, but in a democracy, griping shouldn't pass for constructive citizenship. Complaining can be a very expensive pastime. But if citizens join together in groups and apply the same energy to candid debate over policy, informed by objective knowledge of a range of possible costs and resulting benefits, the result could be a major transformation of American government for the better. There's enormous opportunity for progress in citizens simply knowing what works best and together being determined to get more bang for their buck!