



## The Moral Fiduciary Responsibility of Public Service

GUERDON T. ELY, MBA, CFP<sup>®</sup>, AIFA<sup>®</sup>

September 2013

"I never knew how much you loved me." That was the remark of my nephew to his mother (my sister) after the birth of his first child. Until you have a child, you just can't understand the feelings. You would do anything for this helpless little bundle of joy. Although, after months of sleep deprivation and a mountain of dirty diapers, you realize that God made babies cute so we will put up with them.

Rearing children is probably the biggest responsibility most of us will ever face. And to do it right, we have to deal with our children based on what they need, not what we want or need. If you think about it, it's probably the best example of fiduciary responsibility. A parent is required to unselfishly provide for the needs of his or her dependent children and a fiduciary is required to unselfishly manage assets in order to provide for the financial needs of some other individual, group, or entity. While both parents and fiduciaries have legal obligations, I think the moral responsibilities are the more compelling.

That's why I believe that anyone who is responsible, either directly or indirectly, for the management of other people's money is morally a fiduciary, even if he/she is not legally one. And, for me, that includes public officials and employees. While there may not be a legal fiduciary standard for the public sector, there is a strongly implied moral one in the term, "public servant." However, when you see the little town of Bell, California paying the city manager \$750,000, the police chief \$450,000, and the city council members \$100,000 each, you begin to wonder who is serving whom. While Bell was an extreme case, "baby Bells" are all too common. Whereas, in the private sector, you make money by cutting salaries and expenses, in the public sector you make money by doing the opposite. Bloated staffs and budgets are the justification for bloated salaries. And when you run out of money in the current budget, you create unfunded liabilities that appear to be funded because, says Joshua Rauh of Stanford University, "... the costs that are being ascribed by the governments today are a lot lower than the true costs."

*The Economist* says, "...a good starting point... [for] cleaning up the mess in...governments...would be to abandon the accounting tricks." I think a better starting point would be for the public sector to become public servants again by adopting a fiduciary standard. As fiduciaries, they would have to abandon accounting tricks and other self-serving practices because they would be required to act in the best interest of the taxpayers using due care in the decision-making process to insure the accuracy of information, the minimization of cost, and the transparency of actions.

Abandoning old tricks won't be easy because, "There is so much money in [and]...around government that it is very easy to do *well* instead of doing *good*," writes Mark Leibovich in his book, *My Town*. He says "You still hear the term 'public service' thrown around, but often with irony and full knowledge that self-service is now the real insider play." But I refuse to accept that it has to be that way. However, to make the change, public service must be seen as a calling, instead of a career. Like being a good parent, it's all about doing what is right - not what you would like.

Upon the birth of his first child, my nephew was overwhelmed by a sense of parental love. As time has passed, I can imagine he has become increasingly aware of the depth of his responsibility. Public employees and elected officials need to have that same sense of responsibility. That means using tax-payer money wisely and doing what is in the people's best interest, even in the midst of a mountain of work and putting up with people that are anything but 'cute'.

*Ely Prudent Portfolios, LLC is a fee-only investment advisory service working with individuals in or near retirement and non-profits. The firm is accepting new clients with a minimum AUM of \$1,000,000*