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Liberating People for Self-Government

By Stephen Goldsmith



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Let me begin by stating the obvious: We do not have enough wealth in this country, or in the state of Indiana or the city of Indianapolis, to redistribute it fast enough to buy our way out of poverty. This is true for a couple of reasons: because there is not enough wealth and because it is a self-contradictory process.

Indianapolis is the 12th largest city in the country, and we have the same problems as the other top 25. If we do what the mayors of the other large cities have done, particularly east of the Mississippi, we get elected and raise property taxes so we can do more good deeds for the people who are in our communities. But when we raise property taxes, people figure out that since wealth is mobile, they can pick up their business, pick up their home, and move to the other side of the city line. When anyone moves to the other side of the city line, by definition the city is a little less wealthy, just because one wealthy guy got up and left. So we have to raise taxes a little bit more to make up for the guy who left, and then raise taxes a little bit more, and so on.

As reflected in an interesting study done a couple of years ago by the Federal Reserve Bank in Philadelphia, there is a supply side curve in property taxation, in addition to enormous out-migrations of wealth and populations from urban centers, in part because of the policy decisions made by mayors, and, to some extent, governors. In a global economy this problem is even more pronounced because firms do not have to stay in Washington, D.C., or Chicago, and you don't have to manufacture on this side of the ocean. You have a number of other choices about where to invest, and this mobility means we have to think about our issues somewhat differently.

My office is on the twenty-fifth floor of the City-County Building in Indianapolis. On a clear day, I can look out my window and see the dollar bills float across the city line and land on the other side where the schools are better, the crime is less, the property taxes are lower, and the dollars find a more hospitable place to land. This is a concept that you can repeat in any large city in the country. That is one dynamic. Another important dynamic is that top-down, autocratic, control-driven systems do not work.

CREATING SYSTEMS THAT DON'T WORK

Ever since the 1930s, government has been very interested in control mechanisms: how to control purchasing, how to control hiring, how to control everything. But no matter how much good we want to do through government, we are creating systems that cannot do so. These big rule-driven systems insure that we do not have enough discretion in the way we deliver public services to tailor those services to the needs of a highly diverse population. If we take a situation in which wealth is mobile and add to it this dynamic that big systems do not work very well, we begin to get a sense of the problem.

Let me give you a story about big systems and competition to illustrate this. In Indianapolis, we have a severe labor shortage and tens of thousands of people on welfare simultaneously. This is perverse, to say the least. So I invited America Works to come to Indianapolis. America Works

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is a for-profit organization, and we pay them a performance fee when they take someone off of welfare and that person has a job for six months or more. Inviting them to Indianapolis was controversial because even there, there is a feeling among social service providers that you cannot both make a profit and do a good deed—a particularly socialist view of life.

About 45 days after America Works came to Indianapolis I asked them how they were doing, because I had a lot of political capital involved in this experiment. They said, “Not very well.” I said, “Why not? Can’t you train anybody to secure a job?” And they said, “That’s not the problem. We have lots and lots of employers who want the employees. We can’t get the welfare department to refer anybody to us.”

So I decided to visit the welfare department. Each week I do a different city job. I’ve done this for a long time; it’s a good way to learn what goes on. Welfare is run out of the state. So I called the state and said, “I want to go to the welfare department.” The state director of welfare said, “You’re not welcome.” I responded, “The police department still works for me and I’m going.”

So I went to the welfare department, stood behind the desk, and watched state employees administer the system. They were not slovenly; they were not lazy. They were doing their job, which was to verify eligibility and hand out a check. They had a little check sheet that said, “Have you looked for a job?”

But there was nothing in their job description that connected their performance rating to whether welfare recipients found jobs. There was a total disconnect between the bureaucracy and the values that we claim we are trying to implement. Furthermore, everybody had to be treated the same in this rule-based system. If the applicant’s problem was that her husband beat her up, or that her son was a drug addict, or that she could not get a voucher to get to the bus system, or whatever the case might be, the system did not allow enough discretion to solve the problem because it is a “one size fits all” system.

COMPETITION CREATES VALUE

Another key point is that competition creates value. I had a chance-of-a-lifetime opportunity to have breakfast with Milton Friedman about six weeks ago. We talked about schools. I kept saying “public schools,” and he kept saying, “They’re not public schools. They’re government schools, and there’s a difference.” I said, “What difference does it make?” He said, “Here is the difference. You can’t have innovation if you don’t have markets. And you can’t have markets if you don’t have customers. And you can’t have customers in the ordinary sense in a monopoly. That’s a big difference.”

The same is true in every service I deliver in city government. Absent competition, absent customer choice, we cannot create maximum value. Every time we touch a public service and open it up to the marketplace for bidding, we drive up the quality and drive down the price. We can take city employee work groups that have done total quality management for 20 years, ever since it was invented, and say to them, “You’re going out of business if you don’t bid to keep your jobs,” and they will drive down their overhead costs in 60 days.

Competition always creates efficiencies. We have a wastewater treatment plant in Indianapolis. My City-County Council, who disagree with me on virtually all of these issues, asked me to evaluate the efficiency of the wastewater treatment plant. I agreed. We hired Ernst & Young. They came in and said, “Congratulations, yours is the most efficient wastewater treatment plant in the country. You can save five percent if you really tighten down.” I said, “Let’s try this differently. Let’s bid it out and see what happens.”

We had five bids from all over the world, most of which were European, because in the United States this is really a government business and there are few private providers. The winning bid reduced our costs by 44 percent or \$65 million—and we already were the most efficient wastewater treatment plant. When government benchmarks itself against other government monopolies, it is meaningless. We need to open up our services to the marketplace.

BUREAUCRACY: THE ENEMY OF DEVOLUTION

I mention these things just to set the stage for my theme, which is that I am an enthusiast for devolution and I think it has no chance of working. I find nothing inconsistent in my position. A state bureaucrat is still a bureaucrat. No matter how well-intentioned bureaucrats may be, and while they may be a little closer to the public, they are still making decisions in place of customers or parents or other individuals who are in need of public goods. I don't think we can create the organizational culture, going back to the welfare department example, that will allow devolution to work.

Nevertheless, devolution sets in place a chain of events which I hope will allow bold governors and mayors to downsize government. I was a prosecutor for 12 years, have been mayor for five, and yet realize that government is the problem, not the solution.

Let me talk about where the devolution revolution might take us. Although obviously there is a role for government-produced public goods, generally the marketplace, whenever it can be used, is a much better way to deliver those goods. There has been terrible confusion—obviously not in this room, because you are the ones responsible for good ideas, but among public officials—about what is a public good and whether government needs to produce it. We need to address that question.

For example, I went to HUD two-and-a-half years ago and asked, “Would you do me a favor? I'd like to give a voucher to every one of the recipients of public housing. Let them pick where they want to live, and if they don't want to live in my public housing units, then I'll tear them down. Let me go out of business.”

As we think about the devolution revolution, the first principle should be to use the marketplace wherever we can. That means either using tax policy instead of grant policy—tax policy is much more efficient because it appeals to the customers—or using vouchers. I don't believe that is a very robust part of the current conversation about devolution. Devolution today is taking a federal program, delivering it to the state house and having a state bureaucrat run it as contrasted to asking, “What can we do to help citizens make decisions on their own?”

IMPORTANCE OF RELIGION AND MEDIATING INSTITUTIONS

A second point: as we consider these issues, we must underscore the importance of values and religion. If you have not read the Heritage publication on why religion matters, it shows the correlation and/or causation between belief in religion and stable families, belief in religion and rising out of poverty, belief in religion and crime-free environments. It is extremely important.¹

Government has a responsibility, if it can do nothing else, to stop supplanting religious institutions and mediating institutions. We should support them. One way is to abolish welfare. Don't abolish helping people, but abolish the government welfare delivery system and deliver neces-

¹ Patrick F. Fagan, “Why Religion Matters: The Impact of Religious Practice on Social Stability,” Heritage Foundation *Background* No. 1064, January 25, 1996.

sary services through neighborhood-based and religious-based organizations. If your path to the future is a government check, the check itself is part of the problem.

Two summers ago, I took the job training money that mayors generally waste and said, "Let's connect kids in tough neighborhoods with a church because a church is virtually always the most important asset in those communities. Let the churches do job training for the summer." We did it, and it was a great success. At the end of the summer, the state regulator knocked on my door and said, "You've violated the terms of the grant." I said, "Why?" He said, "The problem is that you allowed" not required but allowed "the participants in the program to say a prayer before lunch."

It may seem like a silly example, but the point is that religion matters. Government could at least get out of the way. We continue to try to work through "charter welfare" programs, and we have turned over 20 of our parks to neighborhood churches to maintain. We do everything we can to help inner-city kids connect with religion.

So we need to understand the role of mediating neighborhood institutions, and particularly religious institutions, in devolution, and they need to be much more visible and much more activist in the public policy arena.

HOW TO MAKE A DIFFERENCE

When I got elected, I identified seven neighborhoods, 8,000-20,000 people each, with the greatest problems—poverty, single-family head of households, and all the rest—and said, "We're going to try and make a difference. How? By doing the things I'm supposed to do well and stop doing everything else."

My fundamental responsibilities as mayor are really to make sure the streets are smooth, the sewers work, and you don't get beat up on your way to work, church, or school. Yet in most urban communities government is not fulfilling its real responsibilities and instead is redistributing wealth and saying that the problem is that we don't have enough social programs.

In Indianapolis, we have saved \$240 million through competing out city services. We have reduced our non-public-safety work force 40 percent, competed out 65 city activities, and created an infrastructure fund of \$500 million, without increasing taxes. We have invested our savings in public safety, in streets and sewers and sidewalks, and in cleaning up neighborhood parks. We have tried to help neighborhood leaders take back their parks and their streets. We have tried to make a difference with how we provide our core responsibilities. We see neighborhoods come back together. When the police, the community, and the infrastructure are solid, businesses will invest.

After I began making these changes in city government, I sent a letter out to every small business in these tough neighborhoods and said, "What is the most important factor that would make you decide to expand or invest in your neighborhood?" I expected them to say, "The cost of raw materials or the price of my competitor's goods." But the first two problems with whether they would expand were taxes and regulation. It is interesting that the top two items for the business community in determining whether they would invest in their current sites were government and government. So we began to clear out the regulatory burdens and the other issues they addressed, and sure enough they did in fact invest.

This approach is inherently populist. Our small-government approach to big-city problems is only fair to those citizens in our community who lack opportunity. When we artificially put a cab cartel together because we don't trust the marketplace to deliver cab services, when we artificially restrict mass transit, when we drive up the price of housing through silly regulations, when

we hire middle-class folks that are public bureaucrats to run inferior services in inner-city neighborhoods, all of those things are inherently unfair to the people who need the most help.

THE ULTIMATE ARROGANCE

The ultimate arrogance is when we tell parents in failing school systems that, because they are poor, their children are banished to poor education. For people like me, who believe that the welfare system is bad for the recipients, not just the taxpayers, the path to the future is a job. And education is essential to getting a good job. It is irresponsible to allow these government-run monopolistic schools to deny parents choices.

In the City of Indianapolis we have 12 school systems. In the main central school system, there are third grade classes where every child in the class has failed the standardized tests. If you are a poor parent of a second grader in that school, your child will go to that third grade class. The only way out is if you have enough money to move or to send your child to a private school, or if you're fortunate enough to have a voucher that is paid for as the result of the civic concern of a private business.

Let me give you a couple of statistics about the results of these vouchers, taking children with similar demographics. A second grader in the city public schools is 14 percent behind the state average. A second grader from the inner city enrolled in a Catholic school as a result of a voucher is 9 percent behind the state average. By the time he gets to the eighth grade, the Catholic school child has reached the state average. The public school child is 25 points behind the state average. Every year the child stays in public school, he or she is worse off. Eventually, over 50 percent drop out—and that's in Indianapolis. We are not good, but there probably are worse examples around the country.

While fighting the charter school battle and the voucher battle, we had a clarifying event in the Indiana General Assembly last year when the teachers union, which is the most powerful political group in the state of Indiana, came forward and all but said that you can't trust parents to make decisions about where their children should attend school.

THE FUNDAMENTAL REQUIREMENT

All of these issues have consistent themes. The Congress of the United States favors public ownership through the tax code. They make me pay police officers more for overtime through the Fair Labor Standards Act. They tell me how much I should pay someone who paints a part of my HUD-owned buildings. They tell me who can work and who cannot work, and a whole range of other things.

As they push authority down, and as we advocate for devolution, we need to remember that it will not work unless it is just the first step toward a market-based system that recognizes that the way to create true value is to let citizens and taxpayers make decisions that are in their own best interests. There is no better way for our country to allocate public resources and create opportunities.