Governing Matters:
Mitch Daniels and Steve Goldsmith Usher In a New Competency Era

By Jay F. Hein

Seven minutes. It was astounding when Michael Phelps and his American freestyle relay team broke the seven-minute mark to win the gold at the 2008 Beijing Olympics. But it seems simply unbelievable that a patron could enter and exit their local Bureau of Motor Vehicles (BMV) within the same time frame. Yet, that is how fast many Hoosier motorists are cruising through their visit to the BMV.

Welcome to Mitch Daniels' Indiana. Upon becoming the state's 49th governor in 2004, Daniels has demonstrated that governing is an evidence-based and measurable science in contrast to the abstract art of campaigning. The media loves to paint colors around the political mosaic of personalities as well as the parlor games featuring who is up or down. Opinion polls suffice for substance in these portraits. But few articles get written about the average wait time at the BMV, one of many performance indicators stipulated and monitored personally by Indiana's governor.

Admittedly, too few political leaders care about such mundane matters either. But Mitch Daniels is not your average politician. His RV- and Har-

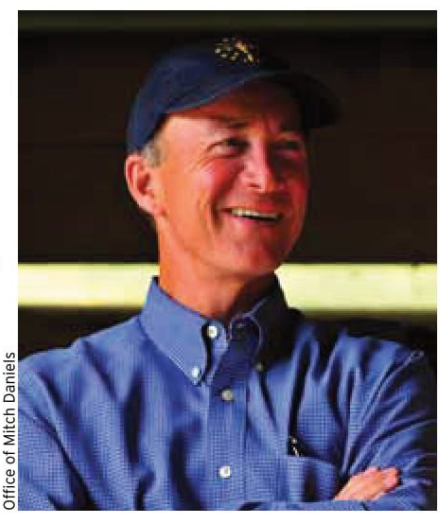
ley Davidson–fueled campaigning across the state of Indiana was indeed colorful. As chronicled on MitchTV, he could be seen in search of the state's best tenderloin sandwich while bunking at average citizens' homes in small hamlets.

Once in office, the politicking quickly gave way to governing. Among his disturbing findings was a state BMV that was disdained by the public it was intended to serve, compounded by fraudulent practices and widespread mismanagement. No one was minding the store. Customer service quality was not measured and there were no reports of wait time averages, because such things were not recorded. They are now.

Following the old maxim that "you can't manage what you can't measure," Daniels began business process reengineering at the BMV that clocked the initial average wait time at 40 minutes. With that number now resembling Olympic speed levels, customer satisfaction registers a whopping 97 percent. It actually makes you wonder what's wrong with the other 3 percent.

Office of Mitch Daniels

Mitch for Governor


Office of Mitch Daniels

Mitch Daniels

Upon receiving the top award from the national association of motor vehicle administrators—the state's second such award in three years—Governor Daniels commented, "You are the first repeat winner of this award in its history. Your transformation of the Indiana BMV from the 'worst to best' motor vehicle agency in North America is one of the greatest public sector success stories we've ever seen."

Mitch Daniels is a conservative's conservative. Yet members of his party are better known for opposing government rather than great public sector success stories. A close examination of Daniels' ideas, as well as his intriguing history of partnership with former Indianapolis Mayor and government reform guru Steve Goldsmith, sheds light on what might well become the 21st century governing model. It's an Indiana success story rooted deeply in principles and achieving a government that is better, faster, and cheaper.

The *M* in OMB

Making government work better is the reason Mitch Daniels and the White House Office of Management and Budget (OMB) were made for each other. Most observers, if they're aware of the OMB at all, understand it to be the budget agency. Indeed, its staff assists the President in preparing the federal budget each year.

But the larger portion of its responsibilities resembles such things as evaluating the effectiveness of policies, programs, and procedures for all of the President's cabinet agencies. This, of course, dovetails with formulating spending plans and the budget work but also stretches into the realm of legislation, rule making, and program design.

Its director therefore must be the White House's top policy wonk while also its sternest budget hawk. He must have the vision to understand how to move the President's agenda and the discernment to understand what is necessary rather than simply a nice thing to do. It requires diplomacy in saying "No" to friends within the administration and the resolve in saying "No way" to spending threats from the other end of Pennsylvania Avenue (i.e., Congress).

Mitch Daniels earned wide praise in fulfilling all dimensions of this job while serving as President Bush's OMB director (2001–2004). He also displayed some of the personality that Hoosiers would later discover on the campaign trail and in the Indiana state capitol. To soften expectations among his administration friends courting OMB for pet projects, Daniels attempted to have the Rolling Stones' "You Can't Always Get What You Want" playing for callers on hold.

Sometimes his wit and parsimony would combine to strike in less congenial ways. Testifying before a congressional committee, Daniels' impatience with their spending pleas boiled until he exclaimed that Congress's motto must be "Don't just stand there, spend something."

Daniels sought to disprove the Washington mind-set that more government spending equals more results by establishing the first-ever White House accountability system for all agencies under its purview. Called the President's Management Agenda (PMA), the system sought to improve management of programs to achieve desired results with the same productivity gains and cost savings enjoyed by the private sector.

In July 2001, President Bush directed Cabinet secretaries to designate a chief operating officer (COO) responsible for day-to-day administration of their respective agencies and reporting outcomes of the PMA to the OMB. These agency COOs formed a President's Management Council to build a community of management leadership that fosters mutual learning, problem solving, and innovation transfer.

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Such design work could be attributed to Daniels' experience as aide to Richard Lugar, first in the Indianapolis mayor's office and later in the U.S. Senate. Or to his service as President Reagan's political director, which enabled him to gain insight into all levels of government. In these combined roles throughout the 1970s and 1980s, he had built policy and advanced legislation. However, it was the place he worked in between the Reagan and Bush administrations that Daniels himself cites as his best preparation for governing: Eli Lilly & Co.

Daniels served as part of Lilly's top brass, first as president of North American Operations and then as senior vice president for Corporate Strategy and Policy. In the parlance of popular management theory, he learned that execution is an essential extension of strategy. It matters little what is drawn up in the corporate suites, or said on the campaign trail for that matter, if corresponding action does not follow suit.

It was during this time at Lilly that Daniels served as chairman of Indianapolis Mayor Steve Goldsmith's revolutionary managed competition initiative. This endeavor fused together, for the first time in his career, the threads that animate Daniels' political philosophy of classical liberalism with his pragmatic governing style. An adherent of what is known as the Austrian School of Economics, Daniels has long drawn upon the likes of Friedrich Hayek to understand government's limits and often its unintended consequences.

He turns to the writings of Milton Friedman to express the power of free markets and competition as a preferred mechanism for human flourishing. In a revealing interview with Jonathan Rauch (http://fivebooks.com), Daniels explains that he believes,

> *…in limited government, but within that sphere of things that government does, we believe government should do them as well as possible. We've done everything we can think of to implant the accountability that's not really there. Government is a monopoly and we know how monopolies mistreat their customers and overcharge them because of the absence of competition.*

These words echo the dean of the Austrian School, Ludwig von Mises, who said, "In public administration, there is no connection between revenue and expenditure . . . there is no market price for achievements." Mises' words accurately reflected the emerging welfare state of his day, yet it did not anticipate the Indianapolis experiment a half century later.

The City Model: Better, Faster, and Cheaper

Steve Goldsmith was elected mayor in 1992 following 32 years of Republican mayoral predecessors, a remarkably lean city government, annexation that increased the city's population by a quarter, and the addition of a $1 billion United Airlines maintenance facility. In other words, the prevailing mood was likely more steady as she goes rather than a sense of urgency for change.

However, the city also had $1.1 billion in unfunded infrastructure needs and increasing competition from the suburbs for jobs. Goldsmith often stood at his 25th floor office window envisioning dollars floating out of the city toward the doughnut counties. He refused to raise taxes, seeing that this would only drive away more jobs and skilled

workers, a vicious cycle experienced by many urban centers in the 1990s.

Instead, he campaigned on a platform of privatization and managed competition to achieve budget savings. This followed the example of the Reagan-era Grace Commission, which was aimed at cutting waste and fraud as well as the government process improvements later made popular by the book *Reinventing Government*. The book's authors David Osborne and Ted Gaebler advocated a new public management whereby officials viewed citizens as customers and streamlined old programs into market choices.

Upon taking office, Goldsmith's focus on privatization was upgraded to a comprehensive effort to replace the large, centralized, command-and-control bureaucracy with a nimble, entrepreneurial model featuring competition and accountability. To help him in this task, the mayor established a Service, Efficiency, and Lower Taxes for Indianapolis Commission (SELTIC) chaired by then-corporate executive Mitch Daniels and comprising eight other entrepreneurs and 100 public-private volunteers.

Edward Reed, Office of the Mayor

Former Indianapolis Mayor Stephen Goldsmith (left), with New York City Mayor Michael Bloomberg (right)

The SELTIC leaders understood that privatization without a competitive environment would create minimal and unsustainable results. They created competition through efforts such as KPMG's Activity Based Costing tool that compared in-house services with private firms. This practice corresponded with Goldsmith's "yellow pages" test, which stipulated that a market existed whenever several local private companies could be identified performing duties similar to city government operations. SELTIC invited American Federation of State, County and Municipal Employees (AFSCME) public service worker union representatives to join staff at training sessions building performance-based measures into budgets and the contract bidding process.

This process is reminiscent of my dealings with the City of Amsterdam during the same period. I served as a welfare policy assistant to Wisconsin Governor Tommy Thompson during the mid-1990s. Intrigued by the success of our reforms, the mayor of Netherland's largest city sent his senior counselor to observe our policies and programs. The counselor explained that Amsterdam would never privatize its social services system, but they could easily replicate our performance measures. In Milwaukee, we demonstrated that performance incentives increased output and outcomes for private agencies and government operations alike.

Steve Goldsmith's Indianapolis reforms were spectacularly successful. Between 1992 and 1997, the city subjected more than 70 city services to managed competition, resulting in $230 million in savings. The city's budget was reduced by 7 percent achieved in part by a 40 percent reduction in employees (excluding police and fire personnel). Property taxes were cut four times and $750 million was made available for investment in streets and parks.

Such success soon turned into headlines. More than 3,000 government leaders, academics, and others made visits to Indianapolis to investigate the strategies themselves. Columbia and Harvard were among the prestigious academies writing case studies on the Indianapolis competition model. Goldsmith himself described the strategies in a book entitled *The Twenty-First Century City: Resurrecting Urban America*. He was recruited by Harvard's Kennedy School where he led the Innovations in American Government Award program and other efforts, including the "Better, Faster, Cheaper" partnership with *Governing* magazine.

In mid-2010, New York City mayor Michael Bloomberg tapped Goldsmith to serve as his Deputy Mayor of Operations. In essence, Bloomberg has asked Goldsmith to run the city's operations in pursuit of the same outcomes as he achieved in Indianapolis. When observers immediately assumed that this meant privatization, Goldsmith was

quick to point out that emphasis on privatization was a misnomer. Rather, he said, "We ran public-private partnerships and competitions. We helped our unions bid against the private sector, and more often than not, public sector unions won." He expressed no reflexive preference for the private sector but an appreciation of its systems and how they can improve efficiency in city government.

The State Model: Acting at the Speed of Business

Mitch Daniels possesses a similar aversion to the privatization label. In a speech to the 2009 Bradley Symposium, Daniels said,

"I've never used the *p* word. To use it suggests that you started with an ideological purpose and then bent events to shape it. No! We harvested close to $4 billion without raising taxes a penny or borrowing a penny, and it's all being reinvested in the future of our state. It was a fabulous success. But we presented it as a practical solution to a very real-world problem, the infrastructure shortfall shared by every state."

The $4 billion he is referring to is a result of what others call the largest privatization of government service in American history. Indiana earned the label "Crossroads of America," thanks to more than a dozen highways that crisscross the state. One such road, the Indiana Toll Road, is a 157-mile stretch in the northern part of the state that Mitch Daniels leased to a Spanish-Australian consortium for an eye-popping $3.8 billion. The sum was seen as extravagant when it was announced, but it's almost an inconceivable amount given the worldwide economic turmoil over the past two years.

Nonetheless, the toll road lease was so controversial that it almost cost Daniels his reelection in 2008. His favorability plunged to 37%, and he was unable to keep his Republican majority in the Indiana House. It seems hard to fathom the opposition now. The toll road was losing money, and the state reaped more in upfront interest during the lease's initial months than the road itself cleared for the state in the past 50 years. As a result of the deal, Indiana is able to pay for 200 projects previously in limbo. Daniels called bill the "greatest jobs bill in a generation."

Borrowing from his own experience as City of Indianapolis SELTIC chair, Governor Daniels formed a Government Efficiency Commission comprising the state's new crop of business and civic leaders. They have spread across the state government, questioning why things are being done as in the past and how they can be done faster and cheaper.

This is not an academic exercise. When Daniels took office in 2004, the state was $200 million in debt with a $700 million structural deficit. Six years later, the state enjoys a billion-dollar surplus and the first two balanced budgets in nearly a decade. This success has not gone unnoticed. Standard & Poors awarded the state its first AAA bond rating, notably earned while neighboring states like Illinois were going bankrupt. This led *Forbes Report* to list the state as number one in the Midwest for business climate, and numerous similar rankings have placed Indiana on the "best places to do business" map.

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Governor Daniels achieved this remarkable turnaround by making fiscal discipline and managerial excellence his raison d'être. Such behavior was not the result of a fad or to score political points, nor was it even a reaction to the severe distress his state was experiencing. Rather, running a tight ship is simply what makes Mitch Daniels, er, Mitch Daniels.

Drawing upon his experience as an Eli Lilly & Co. executive, he learned that every great business has a clear goal that employees can understand and embrace. Immediately upon election as governor, he made raising the state's per capita income the State of Indiana, Inc.'s number one goal. The new governor carefully explained to each of his agency heads that their success would be determined by how well

their departments improved Hoosier salaries.

This jobs focus was easily applied to the newly formed cabinet-level economic development agency (see next section) of course, but less obvious agencies had the same measuring stick. Take the Environmental Protection Agency (EPA), for example. Governor Daniels did not ask the "enviros" to lessen standards in deference to business but rather to simply expedite their rulings. Previous administrations allowed rulings to take more than two years, which caused great uncertainty and terrible delays in business operations. Daniels understood that business would benefit from quick ruling (up or down), and thus he required the EPA to report its progress in reducing lag time.

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Getting Hoosiers' Fiscal House in Order

The Daniels administration has cut more than $250 million in unnecessary spending and saved another $190 million by privatization and renegotiating the previous administration's contracts. This is simply the blocking and tackling of governing, albeit with a bit of flair. When asked by state bureaucrats for permission to build a new parking garage to house the expanding state fleet, Daniels had staff place a penny on the vehicles' tires. When dozens of the cars still had the pennies months later, not only did the agency not get their garage, but they were forced to sell the unused cars.

Reducing head count is the surest route to reduced spending and sustainable budget management. Governor Daniels has cut staff to 1970s levels, yet surveys indicate improved customer service.

As one of his first actions in office, Governor Daniels created the public-private Indiana Economic Development Corporation (IEDC) to bring jobs to the state. He installed himself as chairman and hired one of the state's leading businessmen as director. He also hired the cofounder of Vera Bradley, one of the state's great business success stories, to serve as head of the Commerce department.

This effort and these leaders insisted that the state would operate at the speed of business in pursuit of new jobs and attracting business from just across the state line, as well as from Asia and points between. In just its first year, IEDC completed more transactions than the previous two years combined and followed up the next year by becoming the only state in the nation to land three high-profile automotive investments: Toyota, Honda, and Cummins. The state is now seeking investments by automakers and others in its alternative energy sector.

The state of Indiana contributed one president, four vice presidents, and several other nominees for presidential tickets during the five decades following the Civil War and bridging the 19th to 20th centuries. Simply put, the state was a critical junction on the electoral path to the White House during the rise of the Industrial Era.

At the dawn of another century, and its accompanying Information Age, Mitch Daniels and Steve Goldsmith represent another set of Hoosier politicians ushering in a new political dynamic: the competency era.

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