Effective Government Reform Can Be Achieved in Indiana

When it comes to automobiles, everyone understands that the costly Lexus is a better car than the cheaper Yugo. Similarly, most believe that the sweater purchased at Nordstrom’s is better than a less expensive one bought at Wal-Mart. And what golfer hasn’t contemplated spending $400 on a new driver that might hit the ball farther and straighter than their current model?

Yet when it comes to government, some assume that the less costly, the better.

Should we believe that Arkansas, which in 1999–2000 collected $5,175 of state and local revenues per person, has resources to mount a more effective government than Oregon, which collected $8,373 per person? (Bureau of the Census, 2004, and Smith, 2003.) Even when adjusted for cost of living as calculated by the American Chamber of Commerce Research Association (2004) for the major metropolitan areas of these states, the differences in resources are still large. Oregon state and local governments have 34 percent more total revenues per person than those in Arkansas.

Indiana is similar to Arkansas. In 1999–2000, Indiana collected less state and local total revenue per person ($5,381) than every state but Arkansas (Bureau of the Census, 2004). But in spite of the state’s low revenues, government reform efforts in Indiana often focus on reducing the cost of government—rather than on increasing the value and usefulness of government.

Discussions about changing the underlying structure of Indiana local government organization ebb and flow, often in concert with other burning issues such as municipal annexation, property taxation and property assessment, or the constant clamor for improved local infrastructure and services. Review of available evidence on governmental reform suggests strongly that there are no quick and easy fixes, but sustained effort can improve governmental performance in ways that contribute to economic success.

Several government reform efforts are ongoing currently in Indiana. At the state level, Governor Kernan has directed Lt. Governor Kathy Davis to conduct an efficiency review of state government agencies and departments, and the Indiana General Assembly created the Government Efficiency Commission to look for cost savings in state government.

At the local level, release of the Coalition on Monitoring Public Efficiency and Tax Expenditures (COMPETE) report in 2004 by the Indiana Chamber of Commerce has drawn attention to possible reforms of state and local governments. During the 2004 legislative session, the Indiana General Assembly also established the Local Government Efficiency and Financing Study Commission and the Property Tax Replacement Study Committee to examine local government operational and fiscal structure. Local governments and their professional organizations continue to advocate more flexibility in local government finance.

It is appropriate to suggest that state and local government might change to facilitate the many demographic and economic changes which Indiana institutions and citizens are experiencing. However, rather than focusing on small adjustments to a
system of government that was formed when Hoosiers traveled by horse and the economy was driven by fluctuations in the Ohio River rather than by global events, we suggest an alternate approach to government reform—one based on wisdom gained from other reform efforts across the country.

This report explores four crucial ideas to consider in crafting successful local government reform in Indiana.

- First, the pursuit of reforms based solely on cost savings is likely to be disappointing. Often more value can be added to reform efforts by asking precise questions about what we want state and local governments to do for citizens and businesses—and only then focusing on tackling the cost structures involved.

- Second, state and local governments not only provide direct public services, they also influence greatly the transaction costs of everyday life and doing business. Thus, we should be interested in how particular reform efforts can reduce the costs Hoosiers face in doing business and achieving a high quality of life.

- Third, reforms can be more successful when joined with regular benchmarking and measurement efforts that allow tracking progress.

- Finally, long-term political and popular support is critical to successful reform. While the experience of others is a useful tool, successful efforts in Indiana must be crafted within the political, structural, fiscal, and cultural conditions and preferences in the state.

**Government costs are often difficult to cut**

Although reforms often are advanced largely on the basis of cost savings to governments and taxpayers, as is the case with the recently updated COMPETE study, too much focus on cutting costs is sometimes misdirected, for several reasons.

First, successful reforms are pursued principally to solve particular problems, meet new challenges, or exploit new opportunities. Importantly, the question of cost should be subordinated to goals and strategies. Without an understanding of desired goals and strategies, discussions of cost lack the context needed to judge whether too many or too few resources are devoted to particular governmental activities.

Consider a recent public policy initiative, BioCrossroads. BioCrossroads is a public-private effort to develop long-term economic competitiveness in Central Indiana, principally by building upon the region’s life sciences assets. Substantial political and popular attention is focused and resources are being mobilized behind this important initiative.

What state and local government actions can enhance the success of the BioCrossroads policy initiative? The answers to this question are not immediately obvious, and alternative responses deserve discussion and attention.

One reform strategy could be to improve public higher education, an important area of state government activity. How can the state’s university resources be best mobilized? What should we do to enhance the capacity of IUPUI, the locus of much life sciences research capacity? Notice that these questions focus on substantive actions the universities might take to further the BioCrossroads initiatives, not on a blanket statement that the costs of higher education must be reduced. Cost questions would come later, after sorting out what we want the universities to accomplish.

Second, the potential gains from reducing the costs of Indiana governments are likely to be low because Indiana already has low-cost governments. As we noted, total Indiana state and local revenues per capita were second lowest in the nation in 1999–2000. Moreover, Indiana’s state and local revenue generation is business friendly, so reductions are unlikely to attract more business. The Tax Foundation computes the State Business Tax Climate Index, composed of indexes in five areas believed important to business (corporate income tax, individual income tax, sales or gross receipts tax, state fiscal balance, and conformity of state fiscal system with other systems). (Hodge, Moody, and Warcholik, 2003.) Indiana’s most recent index score was 7.04 (eleventh best ranked in the nation), compared to the national average of 5.97. Indiana ranks best of all Midwestern states on this index.

Third, it is easy to overestimate possible savings. For example, consider the recent COMPETE report, which used commonly accepted methods to estimate savings. In this report, the proposal to consolidate jails looks only at direct jail operation costs, missing costs incurred to transport prisoners longer distances. More important, it also misses the dynamic that when employees are consolidated into larger jurisdictions, they typically command
higher salaries, possibly offsetting any personnel cuts.

Fourth, even when government structures are changed specifically to reduce costs, the success of these efforts is mixed. When carefully examined years later, reforms often fail to achieve the expected cost savings. The preponderance of evidence suggests that cost savings are rarely found through one-time efforts, and even savings associated with cessation of major governmental activities are difficult to sustain over time. For example, repeated efforts to reduce the personnel costs of the national government through various reorganizations and reviews of practices by *Grace Commissions* did not succeed, according to the most complete analyses. Light (2003) analyzed the size of the federal workforce, including not only direct federal employees, but also those working under contracts and state and local government employees working to fulfill federal mandates. Reductions occur only when policies and programs are ended, not through reforms. Employment in several federal agencies (Defense, Energy, and the National Aeronautics and Space Administration) did decline following the end of the cold war in 1990, but employment in other areas continued to increase in the 1990s. With the increase in defense and homeland security following the terrorist attacks of September 11, 2001, the total federal workforce had returned by 2002 to 96 percent of the 1990 level.

Fifth, reformers commonly argue that consolidation of government units that perform similar functions leads to lower costs. But after reviewing available analyses, Staley (1992) concluded that most efforts to reduce costs by consolidating local governments failed. He further argued that the availability of a large number of local governments encourages competition, reducing costs and encouraging economic growth. This is consistent with a longstanding contention of experts in local public finance that when many local governments exist in a metropolitan region, citizens have more choices about the tax, service, and amenity packages they prefer.

It is important to remember that cost does not necessarily need to be the primary rationale for reform. For instance, some proposals in the COMPETE report can be justified as well on the basis that reforms would enhance legal compliance or equity, or create structures similar to those of other states, hence making them more familiar and acceptable to investors from outside Indiana. For example, if we centralize poor relief, we might standardize benefit decisions. This could reduce legal challenges, make relief more equitable across jurisdictions, and lessen incentives for poor relief recipients to move among townships.

Similarly, if Indiana counties are given the responsibility for property assessment—as is the case in many states—it would enhance legal compliance and equity. A professional assessment system would make Indiana’s processes more acceptable to outside investors. One analysis of assessment costs in Georgia suggests that improving the accuracy of assessments increases costs. However, economies of scale do exist in this area. Offices that undertake greater numbers of assessments show significant cost savings up through at least 200,000 parcels (Sjoquist and Walker, 1999).

**Effective reforms enhance critical government functions**

Discussions of local government reform in Indiana might be framed more effectively by giving primacy to two related goals:

1. ensure strong performance of critical governmental functions, such as investments in infrastructure, quality education, and safe neighborhoods; and
2. reduce transaction costs for individuals, businesses, and nonprofit organizations when they pursue socially beneficial objectives such as launching businesses or nonprofits, complying with public policies, and investing in education and skill development.

Much of what governments do is best understood not in terms of specific services, as seen in the COMPETE report, but as
making it easier for individuals, businesses, and nonprofit organizations to achieve their goals. We can find clear examples of this at the national level. A sophisticated analysis of differences in the economies of 127 nations attributes most of the variation to differences in government-created institutions and public policies which result in “large differences in capital accumulation, educational attainment, and productivity, and therefore large differences in income” (Hall and Jones, 1999, p. 114).

Another analysis (Light, 2000) of the greatest achievements of the United States national government over the past half century ranked the top ten achievements as:

1. rebuild Europe after WWII,
2. expand the right to vote,
3. promote equal access to public accommodations,
4. reduce disease,
5. reduce workplace discrimination,
6. ensure safe food and drinking water,
7. strengthen the nation’s highway system,
8. increase access to health care for older Americans,
9. reduce the federal budget deficit, and
10. promote financial security in retirement.

This list of government achievements illustrates well the positive effects when government provides opportunities for individuals and organizations to pursue their interests and visions. Only one deals specifically with the cost of government (reducing federal budget deficits). Furthermore, some of these achievements required that more government action and cost be initiated, such as safe food and water and a stronger national highway system.

Studies suggest that effective state and local government performance improves local and regional economies. Some economists believe that public investment is a key catalyst for job creation, wage growth, and increased property values. Smith (2003) found that over the five-year period from 1995 to 2000, the real Gross State Product (GSP) rose an average of 29 percent in the five states with the highest per capita state and local government revenues. For the five states with the lowest revenues (including Indiana), GSP rose only 19 percent. And Erie’s (2004) extensive, long-term analysis of Los Angeles provides a convincing argument for the importance of the vision of elected and professional public officials who developed the physical infrastructure of railroads, sea ports, airports, and highways. This infrastructure helped that region develop into the world’s ninth largest economy and a key center in a global economy.

There is evidence that effective government performance can improve a state’s quality of life. Analyzing data collected in the Syracuse University Government Performance Project, Coggburn and Schneider (2003) concluded that state management performance has significant positive impacts on the quality of life in states as measured by the Morgan Quitno Press ranking of Most Livable States and State Policy Reports’ Camelot Index.

The relationship between state and local governmental structures can also affect economic performance. Pagano and Bowman (1995) analyzed how ten cities approached urban development, finding that city officials’ image of where their city “fits” in their region and beyond influences their choices of policy tools. Beliefs of what is possible for a region drive the choices of public leaders. Paytas (2001) examined the economic competitiveness of 285 metropolitan areas measured during 1972–1997. Metropolitan economic competitiveness (measured as changes in metropolitan employment above those which can be explained by national trends) is adversely affected by governmental fragmentation and by centralization of state authority over local governments. (Metropolitan areas that host state capitals, however, are more economically competitive.)

Stansel (2002) analyzed the relationships between fragmentation of general governments in the nation’s 314 metropolitan areas, measured as (1) counties, cities, and townships per 100,000 popula-

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Analyses of the relationships among government and economic performance suggest these principles for those seeking to reform governments:

1. Government actions that enhance opportunities should be a high priority.
2. Government investment in critical physical infrastructure can have long-term benefits.
3. State and local government structures need to work well together.
4. Consolidating local governments can have negative effects in smaller metropolitan areas (those with populations below 500,000), and the effects of local government fragmentation are mixed.
A state-level example of another sustained effort is found in the Oregon Benchmarks initiative. This process began with a governor-led visioning effort that yielded three broad goals:

1. quality jobs for all Oregonians;
2. engaged, caring, and safe communities; and
3. healthy, sustainable surroundings.

Ninety benchmarks to measure progress toward these goals were developed in a public process, unanimously adopted by the state legislature, and pursued through the administrations of five governors. The Oregon benchmarking effort is managed by the Oregon Progress Board that was created by the state legislature in 1989 and chaired by the governor. The benchmarks are integrated into state policymaking and the budget-request process followed by state agencies.

Oregon local governments, nonprofits, and business development organizations have developed their own benchmarks to fit with or amplify those of the state. For example, the city of Portland and its home county, Multnomah, organized their joint benchmark effort through the Portland Multnomah Progress Board. They developed benchmarks in various areas—economy, education, environment, governance and civic participation, health and families, public safety, and urban vitality.

Continued commitment to the benchmarks process is an important measure of its value in Oregon; policymakers and civic and business leaders involved judged it successful enough to continue for two decades. Oregon also can point to progress during this period even as it adjusted to declines in its historical economic base in natural resources. Gross state product per capita increased 70 percent between 1990 and 2001 in Oregon, versus a 55 percent increase in Indiana (Bureau of Economic Analyses, 2004). In addition, per capita income of Oregonians increased from 93 percent of the national average in 1989 to 97 percent in 1999, besting Indiana’s increase from 91 percent in 1989 to 94 percent in 1999 (Bureau of the Census, 2004).

After considering examples such as GPRA and Oregon Benchmarks, it is evident that guidelines for effective performance measurement systems and their incorporation into policymaking and management are well developed. Guides and expla-
nations are available from several sources, including the Urban Institute (Hatry, 1999).

In another example, the Government Performance Project of Syracuse University assessed state and local government performance in financial management, capital management, human resources management, information technology management, management for results, and overall integration of management systems (Campbell Public Affairs Institute, 2002).

As a final example, the Alfred P. Sloan Foundation (2004) supports a program in Performance Assessment of Municipal Governments, awarding grants to two dozen institutions to support institutionalization of performance assessment.

How can we achieve successful reform in Indiana?
Reforms of state and local governments usually are mounted in response to specific problems, such as economic decline. Choices about process and participation, and how questions about goals, strategies, possible reforms, and costs are addressed within particular political, structural, fiscal, and cultural settings are extremely important. The appeal of specific reform proposals often is based on value preferences about the size of government or the desirability of particular governmental activities. Specific proposals may gain more attention when decision makers and citizens judge governments as ineffective.

Indiana reform efforts should be sensitive to these contexts. Reforms that appear to have been successful in Ohio, Texas, or Michigan may serve as alternatives for consideration, but they might not attract the same supporters and opponents, nor be as successful, in Indiana.

In 2002, the Indianapolis Chamber of Commerce investigated ways to address adequate and equitable funding of regional assets that are important to the economy and quality of life in the Indianapolis region and the state. Many of these important assets are located within and largely financed by single taxing jurisdictions (usually Center Township, Marion County). As part of this effort, the Chamber commissioned the Center for Urban Policy and the Environment to perform a comparative analysis of government structures and finances in the Indianapolis metropolitan area and eight other regions. Successful strategies in those regions and others in the nation provide models of reforms to consider and evaluate within the Indiana context.

A recent example of the dangers of launching reform efforts without careful consideration is seen in New York state, where Governor Pataki launched a “Task Force on Local Government Reform” with the goal of cutting local government costs. The governor announced creation of the task force in his 2002 State of the State report, and appointed members (mostly local government officials). The task force held public meetings around New York

Successful reform in Indiana will require careful consideration, sustained commitment and effort. Successful reforms across the country have addressed these questions within their particular contexts:
1. What important problems can be addressed with reforms of state and local governments?
2. What goals are sought for possible reforms?
3. How will success be measured?
4. By what plausible strategies (requiring government action) could these goals be pursued?
5. How can political and popular support be generated to support successful reforms?
6. How can attention and energy be sustained over time to achieve results?
7. What are the most cost-effective strategies to achieve the desired goals?
8. What reforms should be pursued?
and issued a progress report in January 2003, but failed to issue the anticipated August 2003 final report. The task force is now moribund, failing to sustain interest of the governor or its members.

A successful reform effort in Indiana will require many careful choices. Political and popular support and sustained effort are critical. A successful effort must gain the support not only of legislators, who control the structure of local government most directly, but also a wide base of interests. One approach common to many successful reform efforts is the formation of a broad-based coalition of business, labor, academic, government, and citizen interests from across the state to focus on the ways government can best serve citizens and businesses. A group like this could sustain the long-term focus needed by gaining consensus on goals and strategies and by supporting existing and future reform efforts.

In these times of economic change, individuals and companies worldwide are reexamining their visions, goals, and needs. We require the same thoughtful review of what Hoosiers desire for themselves and from their governments. We need to structure the debate by first asking what state and local policies, programs, and investments are necessary to assure competitive businesses and individuals in Indiana. Questions on delivery system structure and financial support will follow. What short- and long-term investments does Indiana need to make? What tools, resources, and protections must be in place to support those investments? It is our hope that this report will help provide a basis for these considerations.

References


Indiana's Future: 
Identifying Choices and Supporting Action to Improve Communities

This project, funded by an award of general support from Lilly Endowment, Inc., builds on the Center’s research to increase understanding of the Central Indiana region. The Center’s faculty and staff work to identify choices that can be made by households, governments, businesses, and nonprofit organizations to improve our quality of life. Our goal is to understand the people, economics, problems, and opportunities in Indiana, and to help decision makers understand the impacts of policy decisions. The Center also works to mobilize energy to accomplish these goals.

This report examines efforts that have been initiated in Indiana to reform government, and it discusses the strengths and weaknesses of those efforts. It further examines successful government reform efforts around the country and suggests how decision makers in Indiana might be able to benefit from those efforts to develop successful reforms.

The Center for Urban Policy and the Environment is part of the School of Public and Environmental Affairs at Indiana University–Purdue University Indianapolis. An electronic copy of this document and other information about community issues can be accessed via the Center Web site at www.urbancenter.iupui.edu or contact the Center at 317-261-3000.

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