
The Twenty-First Century City: Resurrecting Urban America

Stephen Goldsmith

Stephen Goldsmith, a lifelong resident of Indianapolis, has been mayor of the nation's twelfth-largest city since 1992. He has put conservative ideas to work successfully in a big-city setting, reducing government spending, cutting bureaucracy, holding the line on taxes, eliminating counterproductive regulations, and putting savings to work in an \$800 million infrastructure program.

Before becoming mayor of Indianapolis and Marion County executive, he was Marion County prosecuting attorney from 1979 to 1990. He holds academic appointments at Harvard University's Kennedy School of Government, the Indiana University School of Public and Environmental Affairs, and the Manhattan Institute. Among the awards with which he has been honored are the Council for Urban Economic Development's President's Award (1995), the National Council for Public-Private Partnership's Distinguished Leadership Award (1993), and the Citizens Against Government Waste Taxpayers' Hero Award (1992). *Governing Magazine* named him Public Official of the Year in 1995.

Mayor Goldsmith spoke to an American Experiment forum in March 1998.

Several years ago, I was in a taxi on my way into New York City to talk to Mayor Giuliani shortly after he was elected. The taxi stopped at a red light, and one of those squeegee guys who wash windshields came out. The taxi driver turned on the windshield wipers in order to interfere with this activity, then the light turned, the squeegee guy reached in to collect, and the taxi driver

expressed himself in New York language.

It reminded me of government services: we often do things people don't really want us to do, we don't do them very well, and then we collect from them.

How do we change that? I offer perspectives, not answers. When I took office in 1992, this country was concluding thirty years of failed big-government experiments, particularly in

urban communities. In order to do good deeds for those who are poor, we raised the taxes on those who are not poor—and they figured out that they could move their businesses to the beltway and move their homes to suburban communities. When that happens, you have a little less wealth in your community and you have to redistribute wealth a little bit more quickly, so you have to tax the next guy in order to make up for the fact that the base has eroded.

After you do this for a while, you get in a downward spiral. My office is on the twenty-fifth floor, and on a clear day, I can actually see dollar bills float across the city line and land in the suburbs, where the taxes are lower, the crimes are fewer, and the schools are better. A lot of money and people have moved there over time.

It was clear to me that we were not going to tax our way out of poverty, that we had to create wealth, not redistribute wealth.

The Cost of a Ton of Trash

On the day I was elected, the Indianapolis Chamber of Commerce, which I had thought was supportive, delivered to me a document that said, in effect: Congratulations. We're glad you're here. You owe a billion dollars in accrued infrastructure—bridges, streets, sidewalks, sewers, and parks—and you promised not to raise taxes, so go at it.

I was elected on a privatization platform, and on my first day in office I went to see the men who pick up trash in our community. These guys—big guys, seven feet tall, 300 pounds—were

really upset about privatization. I wanted to reassure them because I didn't want them to walk off the job. They were really quite angry, and it was a very unpleasant, adversarial situation.

Then I started doing a different city job each week—picking up the trash, cutting the grass, sealing cracks in the road, or filling holes—and invariably, the city employees had good ideas about how to improve their productivity. It struck me as strange that they had to sell these ideas to the mayor in order to implement them.

As a result of my forays into city services, I decided to change our privatization model to a competition model. The problem was that public monopolies are particularly inefficient. It is not that public employees are inherently inferior to private employees; it is that public systems are inherently inferior to private systems. They are not competitive, and they are bureaucratic, suffocating innovation and reducing the amount of value we can add. We began to break up government monopolies, push authority down through the ranks, reduce the size of government, and measure everything.

I have been a lawyer for a long time. When I got elected mayor, I was reading management books. I asked to see the financials, because that's what they say in those books. So the city budget people brought me the certified financials, and the color separations and the quality of the paper and the pictures were really very good. But there wasn't anything that showed how much it costs to pick up a ton of trash, to fill a pothole, or to clean 100 yards of sew-

ers. There was no activity-based costing. We didn't even know what businesses we were in, let alone how much each of those activities cost. It was clear that we had to change the way we did business, because it was difficult to assume that we were effective or efficient if we really did not know how much it cost to do a particular job. We knew how much money came in at the beginning of the year and how much money was left at the end of the year, but had no idea how good we were in any one of those businesses.

We began a number of competitions in which we nominated public activities one at a time for competitive bidding, using an activity-based costing model. Now we have done seventy-five. Let me tell you about a couple of them that the public sector won and one or two that the private sector won, just to give you the flavor of it.

I announced to my city council that I was going to privatize the wastewater treatment plants. In 1992 in this country, wastewater was essentially entirely a government-run business, overseen by sewer authorities or municipal agencies. Let's not privatize, my city council said. The leading council member in charge of this area suggested that we employ one of the big accounting firms to evaluate our work, and Ernst & Young subsequently declared that we had one of the two or three most efficiently run wastewater treatment plants in the country.

We decided to ask for bids on managing our plants and got five from all over the world. The winning bidder, a combination of a French water com-

pany and an Indianapolis water company, reduced our costs by 44 percent: \$70 million over the first four years of the contract. Remember, we were one of the most efficient in the country, and our costs were 44 percent too high. This suggests that when government benchmarks itself against other government organizations, it is irrelevant. The benchmark needs to be in the competitive marketplace.

Now let me switch to the other side for a second. A few years ago, fleet management services, the organization that takes care of our vehicles—the police cars, the public works cars—was next up in this process. We have about 2,500 vehicles in this particular garage, and I was determined to privatize it. After all, this is Indianapolis, home of the Indy 500, where they change the oil and four tires in twenty-four seconds. It was taking us twenty-four days to change the oil.

The president of the union knocked on my door and reminded me that they had been promised ninety days to put together a bid before any activity was outsourced. We were also engaged in collective bargaining at the time. The next thing that happened was this: the president came back in and said, "Would you mind if we froze our wages?"

I have never had this as an opening offer from a union president. "What's the catch?" I asked.

"The catch is, we want 50 percent of the upside," he said. "We want a share of the gains. We're willing to work twice as hard, but we want incentives."

This organization had practiced total quality management in a monop-

oly for six years, but in the ninety days they had to put together their bid, they cut their management overhead by 75 percent, doubled the number of productive hours per mechanic, did customer evaluations, and met with all their customers. They figured out how they could outsource the cleaning of the garage in order to drive down the unit cost, they won the bid, and their costs came down by 25 percent. This was the exact same group of workers who had been trapped in a traditional monopolistic, bureaucratic system. The competition process allowed them to apply their talents and energies and creativity to finding a better way to move forward.

In 1997 I bid out the wastewater treatment plants and kept the sewer system. Then I realized that we should have done them as a package, so then I bid out the sewer collection system. The blue-collar union workers came to me and said, "Our management isn't very good, so we're going to go out with a private company and bid against our management." The union workers and their private management won the bid and saved \$12 million. The private company doubled the union employees' productivity and reduced their management overhead. Essentially, the union verified our frequent experience that our savings do not come from salary reductions, but from buying world-class management in a competitive environment.

We have done seventy-five of these competitions so far, and we have saved \$400 million. We have invested our savings in \$800 million worth of roads,

bridges, streets, sidewalks, and sewers. We have cut our non-public safety workforce 40 percent, but our blue-collar union workforce is the same as it was before. We have cut taxes three times, increased our budget surplus about four times, and put 100 more police officers on the street—all as a result of simply allowing the competitive marketplace to work.

Building Better Neighborhoods

My goal has not been just to save money. I like saving money, and I like having a smaller government, but those are means to an end. The end was to offer a higher quality of life for the residents of Indianapolis and to more effectively use the tax dollars we had to produce opportunities for individuals who live in our community. As we freed up this capital, we invested it in ways that we thought would stimulate job creation and new residential living, and improve our standard of living.

We created our Building Better Neighborhoods fund, an infrastructure fund of hundreds of millions of dollars. We went to the most neglected neighborhoods in our city—neighborhoods with the worst parks, sidewalks, streets, and housing—and asked for their support in exchange for money to invest in public services in those communities. We have seen many of our more neglected neighborhoods directly benefit from the savings from privatization.

The goal all along has been not just to save money, not just to make government smaller, but also to produce

opportunity. Opportunity can come from private investment—private investment and private jobs are what give folks an opportunity in the future—but as we engaged in these competitions, the goal has been to make the public sector better.

The Former Lifeguard

Two last anecdotes. I decided to hire private managers for half of our swimming pools. We had a big fight, but we did it. Later, I went to visit the other half of the swimming pools. We built two brand-new water parks, one in a suburb and one in one of the toughest urban communities. The parks people in the suburban community told me they wanted this new water park because we were going to make a profit from it—which seemed to be a curious idea—and we could invest the profit in the inner city.

As I walked around at the ribbon cutting—the pool had been open for thirty days—I turned to the pool manager and said, “How are you doing?”

“Great—look at all the people,” she said.

“No, I mean how much money are you making?” I asked.

“You would have to call park headquarters,” she responded. “They keep track of the money.”

“Now, wait a minute,” I said. “We’re running this place so that theoretically you can make a profit. You’re the pool manager and you have no idea what the revenues or expenses are?”

“They don’t let me see that stuff,” she said. “It’s not my job.”

A week later, I went down to the

inner-city pool to cut the ribbon. I took my eight-year-old and five-year-old daughters with me. While they were swimming, I saw some chipped concrete. I got a broom and started sweeping up the chips because I was worried that people would cut their feet. After I did this for a while, I thought I should check on my kids, so I asked the lifeguard if he would mind finishing the sweeping.

“I’m a lifeguard,” he said, “not a custodian.”

It was irresistible: “I’m the mayor—and you’re no longer a lifeguard.”

The moral of the story is that we had imprisoned both of these organizations in traditional government approaches. The job classification systems prevented a team approach. We didn’t have profit sharing for the people who worked there. We didn’t give people the information they needed to manage the pool.

As we take bids on public services, we try to liberate public employees to compete, but if we keep the existing systems, it is very difficult for them to do it. When people think about privatization or competition, they think about big systems—wastewater treatment systems, airports, large toll roads—but the most significant and interesting ones for me have been the little ones. Twenty of our urban churches have contracts with our parks department to manage their neighborhood parks, to clean them and run the programs in them, and to create neighborhood revitalization and a sense of ownership.

Wastewater is a worldwide business. The company that won our business employs more Ph.D.’s than we

have employees; there's no way we are going to be competitive. But in terms of maintaining a neighborhood park, the church on the corner may very well be the best group; the neighborhood association may be the best group to take care of the grassy median. As we have reduced the size of government, we have looked at ways to create relationships with value-enhancing neighborhood organizations, which also support families.

After twenty or thirty years of watching cities descend, we now see a whole group of new bipartisan, pragmatic Republican and Democratic mayors who understand that if you get the basics right—if your city is safe, if the roads work, if the schools educate individuals for the future, if the tax and regulatory climate is competitive—cities have lots of advantages.

Cities are vibrant, exciting, diverse places where people like to live. I think that we will see again in the twenty-first century the same sort of excitement about cities that we saw earlier in our national history—excitement that builds on a well-managed place with lots of opportunity produced by application of marketplace principles.

After his speech, Mayor Goldsmith spoke with Mitch Pearlstein, president of Center of the American Experiment, and other members of the audience.

Janet Hansen: We've had a contracting business [in the Minneapolis–St. Paul metropolitan area] for thirty-eight years, and less than 2 per-

cent of our business comes from municipalities. Have you done any privatization of street sweeping and maintenance? Governments get grants to buy sweepers, and then they expect private businesses to compete when we have to pay \$100,000 and more for a piece of equipment. We've noticed that cities, when they add up their costs, don't count the costs of the machine shops and all the maintenance and all the bookkeeping, so they figure they can do it cheaper.

Stephen Goldsmith: Our street sweeping is all private, and the equipment is owned by the private company. Your question has several complicated applications. In the activity-based costing model that was set up for us by an outside accounting firm, we fully load the cost of equipment. In fact, our public employees now identify equipment that ought to be sold and equipment that ought to be kept, and they rationalize the use of their equipment because the cost of a particular piece of equipment is built into their bids.

We have contracts in other areas where we have private individuals managing public equipment. So say we already have the street-sweeping equipment, we could sell it to you, or we could lease it to you, or we could offer it up as part of the bid and have a costing model. The goal is competition, not privatization. Long-term private contracts are only a little less inefficient than public monopolies, and in some ways they are worse, so we try to turn the contracts over quickly. That creates a problem if the contractor has

to buy a big piece of equipment, so we have tried to structure the transactions accordingly.

Our workforce now spends a lot more time in areas where they are very productive, and a lot less time in areas where they were not productive. Street sweeping is one of the things they have gotten out of.

Joe Selvaggio [former leader of Project for Pride in Living, an antipoverty program]: You mentioned reinvesting in job creation and inner-city neighborhoods. Do you have any kind of cost unit or payback period on what it takes to get somebody from welfare to work, or to make a dysfunctional person functional again?

Stephen Goldsmith: It is easy to get people off welfare: you just stop paying them. As a management issue—as opposed to a political issue—it is not very difficult. It is a lot more difficult to get somebody off welfare and into a job. It is worthwhile not to subsidize people to not work, but that's a far cry from creating wealth and the self-respect that comes from a wealth-producing job.

The city of Indianapolis has gone from 6 percent unemployment to 2.1 percent in the metro area. We probably have 25,000 to 30,000 open jobs. We have 7,500 people on welfare. Most of them have disabilities and should continue to receive some sort of government support. But we probably have 30,000 people not working and not looking for a job, so they are not counted. A lot of them are male. Welfare reform is exclusively a female

phenomenon: only women are on welfare, and only women are affected by welfare reform. Men are abandoned in the system.

Your question is immensely complicated. Here's how I think it fits in with what we are doing in Indianapolis. Four or five years ago, I brought in America Works, a pay-for-performance company that helps people get off welfare and into jobs in the private sector. If they keep the private-sector jobs for six months, then we pay America Works. If they don't keep the jobs, America Works doesn't earn anything. It is performance-driven, for profit. The social service community was upset; they did not think a for-profit company, especially not one from out of town, should be there. We had a big political fight, but we went ahead and issued the contract.

About ninety days later, I called America Works and asked how they were doing.

Not very well, they said.

What was the problem? Couldn't find anybody who was hiring employees?

No, they said, it was this: in the ninety days they had been open, they had received only forty-five referrals from the welfare department.

At that time, there were 12,000 people on welfare in the city. I called the state welfare director and said I would like to go to work in the welfare department—one of my jobs of the week. The state welfare director told me I was not welcome in the welfare department, but I went anyway. The public employees in the welfare department were doing their job, which was to see whether the per-

son on the other side of the desk had looked for work and was eligible for benefits, to give that person a check, and to move on to the next person in line. The state employees' pay was not related in any way to whether people got jobs. There was a total disconnect between organizational behavior and the values that as a state and city we thought were important.

Although the discussion really takes place at the state level and not at the local level, which is another problem, we have a series of performance-driven contracts. Organizations compete to get folks into the workforce—they actually go house to house and ask people to come out and work, then provide the assistance needed to get people into the workforce. The city's contribution to the debate is to try to create more flexibility on the part of the intermediary to get people into the workforce.

We are about to launch a major hospitality-industry proposal. Indianapolis has a fairly large downtown entertainment and hospitality cluster—a \$1.6 billion industry involving 45,000 employees. We are going to issue contracts to companies that will manage employees who have multiple part-time jobs and need transportation, child care, and health care. We want an umbrella over them so that we can create career ladders through the hospitality business.

A long answer to an impossibly complicated question. We have made a lot of mistakes, but we have made some progress as well.

Charles Test [of the Libertarian

Party of Minnesota]: You were talking about getting more value for the citizens of the city, and I was thinking about the private monopolies that are protected by government and my own situation when I needed a new furnace at my home. A contractor gave me an estimate—\$3,600. I asked how much this same deal would cost in the suburbs. About \$900 less, he said. It's 20 to 25 percent more in the city because Minneapolis insists on protecting a limited number of licensed contractors—plus the expensive permits. This has prevented me from getting a new furnace, and I imagine that there are thousands of other people who would like to improve their houses but can't afford to because the city extracts this tribute. Has Indianapolis done anything to end this practice?

Stephen Goldsmith: We created a regulatory study commission, had public hearings, and reviewed every city license to determine whether we were producing more in health and safety than we were increasing in cost. We eliminated 60 percent of our building permits. Not only did they slow up projects and cost money, they sometimes created pirate businesses. If you ignored us completely and did a shoddy job, virtually nothing would ever happen to you. It was only when you voluntarily came through our system and were tormented by it that you got penalized. The higher the cost of regulation, the more the bad actors would profit, because the good actors' estimates were higher.

We had a three- or four-year fight

about cab cartels. Breaking up the cab cartels was one of the more fulfilling battles. Politically, it was a very difficult fight. These things do not have neat Republican-Democrat divisions. The constituencies change on every issue. In the argument about the cabs, it turned out that the poorest neighborhoods were the poorest served. Mom and pop operators wanted to buy their own cabs and go into business but couldn't because the cartels had priced them out. We ended up with an interesting lobbying effort with lots of minority- and women-owned companies and inner-city residents opposed to the traditional cab cartels. We eliminated the cartels and the predictable marketplace events occurred: 60 percent more cabs individually owned, rates down, service up.

Mitch Pearlstein: You have referred several times to the really tough battles. What have you learned about negotiating them?

Stephen Goldsmith: The coalitions that we have put together around policy issues have been eclectic, interesting groups of individuals. Generally, I don't think that many people in Indianapolis care about privatization. Even when my approval ratings were high, the approval rating of the word privatization was at 50 percent. People clearly wanted a good rate of return on their tax dollar and effective city services, and they really didn't care how I did it; they just wanted to hold me accountable. The extent to which you can see that neighborhoods are better, or that more people have jobs, has been the way

through the thicket. Creating the coalitions has been difficult, and sometimes we have won and sometimes we have lost. We are nowhere near Minnesota in terms of education quality, education choice, tax credits; we are light years behind. I pride myself on having lost more battles over reforming public education than any mayor in the country.

Steve Minn [a member of the Minneapolis City Council]: Many of my constituents are puzzled when I tell them how high our debt service costs are. The transition from using debt to paying for your services is usually a tough one. How did you manage to do it in Indianapolis?

Stephen Goldsmith: Do you borrow for capital or for operating costs?

Steve Minn: We do both, unfortunately. About 24 percent of our general operating budget is debt service. One of the highest in the country, but we still have a triple-A rating.

Stephen Goldsmith: That says something about the rating agencies.

I don't know that there is a right answer on this issue. Essentially, what we have done is take the savings from competition and invested it in infrastructure. We have no debt on our operating side; we obviously have some debt on our capital side. Whether the public side wins or the private side wins in our competitive process, we have taken 25 percent of the cost out of everything we bid. If you think about the scale of government and multiply times several years, that is a

significant amount of money.

The other predictable result is that as government becomes more efficient, tax revenues go up. A Philadelphia Federal Reserve study showed a supply-side curve to property taxation. In Indianapolis, after six years of increased property taxes, enough assessed value went out that revenues actually went down. As we have cut taxes—and I mean actually cut taxes, not played a game with assessments—revenues have gone up. Our growth on the revenue side has been so strong as a result of reduction and competition that we have been able to eat through a lot of issues.

Jeff Hagen: What has been the role of nonprofit faith-based organizations, and how have they influenced Indianapolis?

Stephen Goldsmith: Those of us who have elected jobs tend to spend a lot of time talking about what we are going to do to make life better. This is the reason that many people have public jobs, but the limitations are obvious. My job is really pretty straightforward: I need to make sure that the streets are smooth, that the sewers work, and that you don't get beat up on your way to church or work. If I get the essentials down, then the marketplace should work.

But in addition to the power and authority of government, and the power of the marketplace, there is another element: the social capital, if you will, that comes from private organizations, families, and faith-based organizations. Without that social capital, no matter how much I mess around in the first two areas, we will not have vibrant commu-

nities in the twenty-first century. This is particularly clear where we have high numbers of teenage pregnancies, fatherless households, and the absence of faith. When those come together, I could have a police officer on every street corner, and it wouldn't make any difference.

Four or five years ago, we began to try to figure out how to make government an ally of faith-based organizations, rather than hostile to them. Most people pretend that government has been neutral, but in a lot of ways, it has been hostile to faith-based organizations. We are calling this initiative the Front Porch Alliance. We have neighborhood-based brokers going block to block, church to church, asking what we can do to assist in outreach efforts: Do you want to purchase the neighborhood crack house? Are you trying to start a day care center? Do you want to maintain the urban park? Or do you just want us to get out of your way?

Our juvenile court makes some referrals to faith-based organizations with interesting results. Some of our summer job-training money goes to not-for-profits that are connected with faith-based organizations. We have suburban churches partnering with urban churches and adopting teen moms and doing a whole range of activities. Many of these are small-scale efforts that depend on dedicated volunteers, but they are clearly an important component and one the government needs to nurture. I am not on the side that believes that if government just withdraws altogether, the church and the not-for-profit commu-

nity can pick up the pieces. We have done too much damage in urban communities by now to do that, but as government gets smaller, constructive partnerships have a role.

Allen Olson [former governor of North Dakota]: Did you have media support or opposition?—and in either case, did it help or hurt?

Stephen Goldsmith: Both and both. It really depends on the reporter, but let me try to give you a broader answer. I have had strong editorial support from the local newspapers. The news coverage is, I think, a bit inhibiting for the average city employee. Here's why: If a city employee was doing a mediocre job yesterday and continues to do a mediocre job today, it is not a newsworthy event. You can even continue to do a bad job; so long as you don't rock the boat, it is not newsworthy. But if you take a big risk and miss your goal, then it becomes a newsworthy event. In addition, there is all the anxiety that goes with change.

I think it is fair for newspapers to expose our failures, and we have to have some. But we have too many reports on the input side, which is how well we comply with the red tape of government. I could comply with every piece of red tape in government and have the outcome be awful, and some reporters would think that was a great result. The challenge is to get reporters to think about outcomes and output instead of input, and that has been a struggle.

Greg Filice [a member of the St.

Paul school board]: We are struggling [in the Minneapolis–St. Paul metropolitan area] with the issue of sprawl transportation and getting people to jobs. How do you do it in Indianapolis?

Stephen Goldsmith: I think probably you are ahead of us, but I will tell you what I think. First, Indianapolis is a partially unified government, so I am the mayor of Indianapolis and Marion County executive. We have separate police departments and separate schools, but most other things are consolidated. We had a great mayor in Indianapolis twenty-five years ago, Dick Lugar, who consolidated these units of government and picked up a lot of wealth and started Indianapolis moving forward from a fairly sleepy base. Two and a half decades later, when I was elected, Indianapolis was back in exactly the same place as it was when Lugar consolidated. With faxes and modems and interstate highways, the tax base just moved another layer out.

Over time, as the center gets hollower and bigger, as hopelessness and despair and poverty and crime continue to move out, it becomes clear that this has a very destabilizing effect. It is unfair morally to people inside, and it is threatening to people outside. We began with our own problems and then looked at how we could referee with our surrounding counties. We tried to negotiate noncompete clauses that prohibited economic development cannibalism in the regional marketplace; we tried to negotiate regional transportation agreements on infrastructure planning and development. As we have

taken better care of our own problems, we have increased cooperation from our neighbors.

I think it was a League of Cities study that said short-term urban losses are short-term suburban gains, but long-term urban losses are long-term suburban losses.

Roger Siegal [of AFSCME—the American Federation of State, County, and Municipal Employees]: You said that the workers you met with shortly after you were elected were big men. Did that have any influence on your involvement with city employees, or on your upper or middle management?

Stephen Goldsmith: We simply could not continue to do business the way we had done business: the cost was prohibitive and the centrifugal forces were too great. I was not prepared to accept the status quo, so the meeting with the solid waste workers was intimidating, but not persuasive. What was persuasive was going out with individual work crews in much smaller numbers and listening to them. They had very logical suggestions, and I became increasingly concerned about my managers' ability to manage well in a competitive economy.

Here is my last story. Mayors in Chicago and Indianapolis can lose their jobs over snow plowing. We did a really bad job one day—I got an enormous number of calls—and I wanted to find out what had happened. I asked the drivers to get in one room and the managers to get in another room. I went in to the managers and asked what happened. Nothing happened,

they said. People are just cranky. The weather is bad. We did our routes like we're supposed to. Just relax, and it will all work out.

Then I went in to see the union workers and asked what happened. We'll tell you what happened, they said. A lot of the trucks were broken down; mechanics were slow to come out; the quality of the salt that you purchased was bad; the routes haven't been updated in the last year; you have us on some secondary routes when you ought to have us on primary routes. This went on for twenty minutes, and I came away with a list of suggestions. So we changed the model. The way we were managing was suppressing value and our workers.

Taxpayers and workers both win if we set up our structures correctly. n