

**Policy Study No. 186**

**March 1995**

# Revitalizing Our Cities\*

## Perspectives From America's New Breed of Mayors

### Introduction

The winds of change are blowing strongly through city halls across America. A new breed of mayor, inspired by the successful streamlining of American business, have signaled the death of business as usual in urban governance. These mayors are at the forefront in effecting the most fundamental transformation of city hall since the Progressive Era ushered out Boss Tweed and Tammany Hall.

The outline of a new urban agenda is beginning to emerge: strengthen neighborhoods, make streets safer, shrink bureaucracy, privatize services, lower crushing tax burdens, cut business regulations, and inject competition into the public education monopoly. The goal is twofold: to provide opportunities for the urban underclass to become self sufficient and to stem the continuing exodus of business and taxpayers to the suburbs.

The Reason Foundation has worked closely with these new breed mayors to enact needed reforms.

In 1994, the Reason Foundation convened a national conference in Chicago which brought together a number of the country's most reform-minded, big-city mayors, and their staffs to share insights and lessons into revolutionizing urban governance.

We are pleased to present the mayors' landmark speeches.

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\* A video tape of these speeches is also available. Call 310/391-2245 to order.

## Milwaukee Mayor John Norquist

I want to take this opportunity to share my thoughts on how cities can unlock their value and improve the American economy.

I want to start off by telling you about a series of events a few weeks after the Los Angeles riots of 1992. I was at a meeting of the advisory board of the U.S. Conference of Mayors. In addition to the feeling of grief, there was a feeling that, finally, the federal government would understand how neglected cities had been. Revenue sharing might be restored. Block grants might be restored. Something would happen, and finally more federal dollars would go toward our nation's cities.

I remember sitting at that table with the other mayors, and a staff member of the organization said this is a real opportunity for the urban agenda to become a live issue. And I remember thinking I didn't agree with that sentiment.

*You can't build a city on fear. Fear turns into hatred. I also say you can't build a city on pity, because pity turns into contempt.*

The notion that somehow a riot would cause the federal government to wake up and put money someplace was wrong. I did think however that there would be those who would notice what happened to South Central Los Angeles, people who would remember it for a long time. And those are the people that control large amounts of capital. The people who decide where to invest their money would remember the scenes from Los Angeles and would not put their money there.

As it turned out, the fear that was generated did not motivate the federal government toward much additional spending. There was no federal largesse, just a tiny stimulus package, despite both houses being Democratic. But every time something [such as the Los Angeles riots] happens, investors all over the world thinking of investing in cities hold back, because they remember.

You can't build a city on fear. Fear turns into hatred. I also say you can't build a city on pity, because pity turns into contempt. People don't want to invest large amounts of money in things they are afraid of, or things that they pity.

### The Natural Value of Cities

Instead of generating fear or sympathy for themselves, cities should identify their values to private investors and the government. You want everyone to understand the importance of cities. If people really understood the importance of cities they wouldn't tax them so much. The natural value of cities generates tremendous wealth.

I think they understand this better in other countries than we do in the United States. The traditional function of cities is a marketplace where people do business. If people are close enough together, they create markets and specialization, which in turn creates wealth, which allows leisure time, which leads to culture, religion, art, music, and civilization. Economically and culturally, that's what cities have always done. Cities need to understand this themselves; they just can't go begging for money, which is a very counterproductive activity.

We need to understand that this is a competitive world and that the marketplace of the United States is on average, 3 percent more efficient each year. If government can't do that, then it's becoming an increasing burden at best. City governments that want to add to the economy, to help people, need to be more efficient. We need to hold down costs, reduce costs, raise quality, and stop complaining about not having enough revenue. It's a question of survival. Anything else won't work.

Looking at the federal government to help us is not the answer. Instead we need to improve our product, and reduce our cost.

*By adding to a government that focuses on feeding itself, feeding its own bureaucracy, you end up delivering rotten service to people who deserve better. In some cases, people are struggling to get out of poverty and we force them back down.*

## Efficiency

Government efficiency is a matter of social justice. You can actually end up screwing the poor with inefficiency. Cities can spend a lot of money delivering rotten services, hurting a lot of people, and at the same time taxing their socks off. By adding to a government that focuses on feeding itself, feeding its own bureaucracy, you end up delivering rotten service to people who deserve better. In some cases, people are struggling to get out of poverty and we force them back down. It's wrong and that's where governments can be very arrogant by saying that all they need is more money. More money to do what

[Lower taxes also helps] a city's economy. We estimate that we've saved more than 1,200 private-sector jobs by reducing our tax rates over the last six years. Property valuations have gone up and we've reduced our tax rates each of the past six years. When we take the money out of your pocket, then that's money you're not going to spend.

[Taxcuts] also served the purpose of getting other units of government, the counties and the schools, in the state to pay close attention to their spending. We've served as an example of reduced spending, benefiting taxpayers who don't live in the city. We feel that more efficient services and less spending make resources more available.

The only department we've increased is the police department. You really do need to drive crime down. Crime is one of the key variables to whether or not businesses choose to locate in the city. Even though we have recent statistics that crime has gone down, we have a long way to go to drive it down dramatically. To the extent that we could do it, the economy will benefit by a geometric amount. There's nothing better than less crime to create a prosperity that would benefit every part of our community.

## Educational Choice

Other leaders of government occasionally say to me: "What the heck are you doing sticking your nose into our business" One of them is education because public education in the United States, even by its own admission, leaves much to be desired. [Few people] immigrate to this country for our K-12 public education. Yet we're the top country among industrial nations when it comes to higher education. Even though higher education has its inefficiencies and problems, people in higher education know that they have a high enough quality to attract students from other countries. The single variable that makes the biggest difference is school choice. Even people who aren't wealthy in the United States can go to a public or private university of their choice. They can go to any number of schools that they want because there is some competition among schools. We haven't had that in K-12 education and the result is the most monopolistic school system in the world. Nowhere is that manifested more than in cities.

I want to tie this into what I said in the beginning. We need to unlock the natural value of cities. For most goods and services—other than farm products or mining—the place you're most likely to find high quality and low price is in a city. No matter if its Tokyo or London, New York or Chicago. There is a reason why there are more restaurant choices in Chicago than Rapid City, South Dakota.

In cities, you get the highest possible quality services—except in public education. The University of Chicago is in a neighborhood ravaged by problems, but it may be the best university in the world. The K-12 people say, 'We are surrounded by all these problems.' Well the University of Chicago is surrounded by problems and it's one of the very best. In Washington, D.C., with the highest murder rate in the country, you have Georgetown University. In New York City, you have Columbia and N.Y.U. And yet when you get to K-12 education, how many of you want to put your kids in the public schools How many of you want to put your kids into the Washington D.C. public schools

The President of the United States chose to put his child in the Sidwell school, a Quaker school, a religious school with religion in the curricula. I back him up on that. He cares about his child. All we're asking for in the heart of urban America is for the parents of children who grow up in low-income families to have at least some choice as to where their children go.

I think the relationship of the church and state is an overwhelmingly important issue, but I think people who complain about it in terms of schooling misread it. The founders of this country did not intend that we have a Church of England. They did not intend for us to have a Church of America. But the founders didn't intend for us to have no religion in this country, or that the government should actively discourage religion. I can tell you that even as the separation of church and state is important, it is not more important than the well-being of the children. People born into low income households through no fault of their own only get an education monopoly. There are far greater threats than religion, yet we use that excuse against a system of choice.

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## Welfare Reform

We also have a welfare system that pays millions of Americans to stay out of the labor markets and penalizes those who try to enter that market. They lose their health insurance and their taxes go up. They have day care responsibilities that cost more than the wages they earn. I believe as many conservatives and some from the left that we should eliminate the welfare system and replace it with work.

## Transportation

One final issue: the federal government has damaged cities and undermined their basic values in its involvement in transportation. The federal government, through trillions of dollars [in spending], subsidized a superhighway and undermined the basic value of cities and their advantage of close proximity. Moreover the federal government created huge traffic machines that spread the economy out over more and more land. The net effect of this is to make it very difficult for cities to survive economically. One of their great values, proximity, has been taken away from them.

The federal government should have stayed out of transportation entirely. They did so in Canada other than one coast to coast highway and railway. Other than that, they stayed out of cities and Toronto and Montreal all have a healthy mix of transportation that work really well economically.

*I believe—as many conservatives and some from the left do—that we should eliminate the welfare system and replace it with work.*

## A Healthy Future

Those are the issues cities face. The fundamental thing is that cities should be looking for how they can unlock their value. Tokyo is the engine of the Japanese economy. There aren't many people in Japan who feel sorry for Tokyo. There aren't many people that are afraid of Tokyo. They haven't built their city on fear and hate. The same would be true of Paris or Toronto. In the United States, we have a strange view of cities, that they have problems.

America's cities neither need to be feared nor felt sorry for. I'm going to tell you that that's a formula for failure. Any mayor that adopts that strategy will find that they have failed. What we need to do is provide better security and improve basic services that people need to work in an urban marketplace. We need to reduce our cost to remain competitive. If we do those things, American cities will be as healthy as other cities in the world.

## Indianapolis Mayor Steve Goldsmith

Indianapolis is about three hours south of here and the 12th largest city in the country. For years we assumed that Detroit, Cleveland, New York, and other large cities were our competition, but perhaps a better way to look at it is our suburbs are our main competition. Their schools are better, property taxes lower, crime is lower, and we're in an economic struggle with them. Recognizing this, we have to say to ourselves the old process of government will never work if we want to be a 21st century city. The same thing is true of any city in the world, especially if you want to stay competitive for the 21st century economy.

### Building a 21st-Century City

We have to find ways to produce more value for our citizens with new methods. The old structures won't work. The cities of the past raised taxes because the demands of poverty demanded more money. Then they raised more taxes, and wealth moved out and they had more poverty. So they raised more taxes, and more wealth moved out and so on. You get yourself in a downward spiral. It is not very difficult for someone who wants to build a \$750,000 to a \$1 million house or wants to rent office space from my county to move 100 yards north or south or east or west to move their wealth out of the city. The people that are least mobile are those who are poor. In an urban community or in a world economy, we have to find new ways to deliver value.

I would submit to you that a 21st century city has to be a city with new governance. A key component of this new governance has to be competition or privatization if you want to be successful.

The first reason why is competition. In my city as you drive toward Detroit from Indianapolis, there is a billboard that says "move into Andersen and save thousands in property taxes." There is an overt marketing process that says why don't you move up the road a little to where things are cheaper. So survival in a competitive world demands that we be more involved in competition and privatization.

Secondly—I know this sounds obvious—capitalism is better than socialism. When you think about this, it's not clear that there is a consensus. Some elected political officials are not clear officials on this issue.

### Monopoly vs. Competition

Monopoly is inefficient by definition. The market is a better referee for value and money than I am. When I reach into my taxpayer's pocket and take out a dollar bill, I am essentially saying that I know how to spend that dollar better than they could. When we increase taxes dramatically, accumulate wealth, and with that wealth have only public ownership of assets and say only public employees can produce these services, then we are essentially saying that in these areas, socialism—or at least government ownership of assets—is better than capitalism. We believe otherwise. We say the marketplace is a better place to deliver goods and services. The variety of human conduct requires lots of different providers in the marketplace, internal or external.

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As the world gets more complex, government is set up in an awkward way to respond to this. As businesses downsize or delayer or come up with lots of customer products, the government is not very good at that. We have layers of control, we're relatively autocratic. We're not very customer-oriented. It's worth emphasizing that this commitment to capitalism is important and that the government can't respond very well.

### Success Stories

For example, we privatized the management of twelve golf courses. The golf courses were awful. It was fairly easy to bring instant customer satisfaction. We now have lots of different things happening in our golf courses. Some are priced one way, others another. Some have bunkers. Some have carts, others have clubhouses where there was nothing before. Some have concrete, others asphalt. There is a lot more variety out there. Before, when we had a guy at the top who dictated what all the capital investments would be for each of our 12 courses, it was much less customer oriented.

There are many other examples. We have a bicycle stadium called the velodrome. It is highly underutilized. Some private entrepreneurs proposed a go-cart race. His requirement was that the Parks Department would no longer do the catering and that we contract out for catering. This seemed relatively elementary. The new caterer had enormous menus, steak sandwiches and other things. This was a lot better than the government's hot dog, hamburgers and a bag of potato chips. There's lots of variety that privatization and competition can bring.

## A Populist Strategy

Privatization and competition also means a commitment to equity and fairness in urban government. It's not a commitment to sell the crown jewels to corporate America. It's a commitment to populism, equity, and fairness. If we think about this a little bit, government, even local government, is way too remote. The federal government is way too remote, state government is remote, and local government is still too remote. People—especially in poor neighborhoods, who are disenfranchised—don't feel included, don't feel that the government is producing a high quality service. They want to be better served. We can look at this in three different ways.

First, government is too remote. If we contract with a neighborhood group to maintain its own parks, it gets connected with the park and the neighborhood. We now have contracts with local neighborhood associations instead of the awful way we were doing it before. We've contracted with neighborhood associations to inspect our neighborhood parks on a daily basis instead of hiring our own inspectors who didn't make it to the park and didn't care much about the park. Now a neighbor who walks across the street, inspects the park, inspects the playground, looks for graffiti, and calls in a report on a daily and weekly basis. We have connected people who were previously remote from the city service to that city service.

*Our commitment is to provide jobs, not public jobs. Being employer of last resort gets in the way of upward mobility, of new jobs, and can be challenged in a fair and explicit way.*

Secondly, I would challenge the notion that city hall should be the employer of last resort. This directly goes against the issue of equity and fairness. Should I tax folks in poor neighborhoods in order to hire people who don't live in neighborhoods and pay them more than market wages for inferior services and then take pride in that and say we are the employers of last resort This is certainly not a populist exercise. When we look at privatization and competition, we can say that it is more equitable.

In two years we've downsized our nonpublic safety employment in Indianapolis by 30 percent. At the same time, we have added more private-sector jobs in Indianapolis than ever before. So while public-sector employment is way down, private-sector employment is way up. What's our commitment as an employer to the community If we cause private employment to leave the community by taxing them too much to support big government, then that's not being equitable or fair. Our commitment is to provide jobs, not public jobs. Being employer of last resort gets in the way of upward mobility, of new jobs, and can be challenged in a fair and explicit way.

Third in terms of equity and fairness, I view the process of outsourcing a dramatic way to build up women and minority organizations.

When we say that only government can provide a service, we say that small minority business owners cannot provide that service.

## Competition = Innovation

I want to connect external competition with internal innovation. I think this goes underappreciated and is a powerful reason for privatization. When we innovate, we make the remainder of government more efficient and more productive. We make our results more customer driven.

*The public solid waste employees suddenly discovered they needed to work seven hours a day instead of four to win the bid and that they could double their productivity without hiring more employees.*

In Indianapolis, we have private and public solid waste pickup. When it started years ago, it was franchised. We had five small monopolies and the city negotiated the price and one of those monopolies was the city solid waste guys. When we bid out the process last year, the price went down by \$15 million. Not only did the price come down, but the public sector became more competitive. The public solid waste employees suddenly discovered they needed to work seven hours a day instead of four to win the bid and that they could double their productivity without hiring more employees. They found new ways to pick up trash, new ways to work longer hours, new ways to be more productive. So both sides of the equation came out ahead. So the suggestion that government is less effective with competition is really backwards.

## Making Schools Competitive

We have an inner-city school system that is failing. As it fails, we are charged more and more for services. As it fails more students, it charges more, and property taxes go up. That's not normally how an organization should function.

We're trying to get a contract with a private school company. We think this is an enormously valuable way to break up internal government overhead. One of these private organizations that manages schools might say the following, "Indianapolis spends \$5,500 to educate a child. Give us 1,000 kids at \$5,500 per kid, which is \$5,500 times 1,000 and then measure our outcomes and tell us what you generally want in terms of curriculum and leave us alone." What happens is, they take that money and purchase custodial services, bus services, printing services, and microfilm services.

*We can urge bureaucrats to be more efficient, but they will do so only in incremental steps and it would take years to do what one outsourcing contract can do instantly.*

The school bureaucracy—which is spending \$.60 on every education dollar to sustain itself instead of educating kids—will be convulsed because if they want to service these new schools, they will have to be competitive. The bus driver will have to be competitive; the bureaucrats will have to be competitive. We can urge bureaucrats to be more efficient, but they will do so only in incremental steps and it would take years to do what one outsourcing contract can do instantly. Schools taking money to the customers' level and will change the way services are delivered in a dramatic way.

## \$68-Million Savings

Indianapolis has recently signed a contract with a private firm to manage its wastewater treatment plants. (I decided to sell our water/wastewater plant and then realized I couldn't do it because the IRS tax code which favors socialism rather than capitalism by saying I can't sell assets if they are joint municipally and federally funded. So I privatized the management instead.)

The city council member who had been responsible for the construction of the plants—two of the most advanced in the world—said, "we have two of the most efficient plants in the country, we don't need to privatize management." She said why not hire one of the big six accounting firms and have them come in and see how efficient our plants are. An accounting firm was hired and produced a study that said, "you are one of the most efficient plants in the country and you could save perhaps 5 percent more if you managed it a little better." I said thanks, but no thanks because what's relevant is what the marketplace will do to the management of our plants, not what a consulting company can say we could do. So we bid them out. Four of the largest companies in the world bid for the project. The winner brought down our costs by 44 percent or \$68 million dollars. Not 5 percent but 44 percent for one of the most efficient facilities in the country. How did they do it They have technologies we don't have, research we don't have, economies of scale we don't have. Not that our employees are bad, but our technology, scale, and research capabilities were limited. The decision to bring in private technology and management created value in unexpected ways.

## Cost Savings from Competition: Indianapolis

Activity

% Savings

Chuck hole filling	25%
Microfilm	61
Printing	27
Trash Collection	25
Wastewater Treatment	44

## Answering Objections to Privatization

Lastly, I want to talk about two or three of the most common complaints about competition and privatization. These complaints reflect a basic misunderstanding of the policies that drive this new form of governance. The complaints really miss the mark.

How many times have you heard, "you can't privatize because you will lose control" What you really lose control of is other people's wealth. When you bring down the price of public services, people get to keep more of their money, so we get less control of their wealth.

*I think the control issue we've all heard about is a red herring. The quality of the service I provide to my citizens will go up due to outsourcing—and also with the services I measure internally—because with competition, I now can measure the outcomes a lot more effectively than before.*

What else do you lose control of You lose control of patronage. You lose control of the ability to hire folks into city operations. You lose control of being the employer of last resort no matter how inefficient that may be.

If by control however, you mean the quality of service provided, then control goes up. How easy is it to terminate an incompetent public employee compared to terminating a contractor that doesn't fulfill his contract In the latter, you have more control, if by control you mean better quality services provided. I think the control issue we've all heard about is a red herring. The quality of the service I provide to my citizens will go up due to outsourcing—and also with the services I measure internally—because with competition, I now can measure the outcomes a lot more effectively than before.

To be sure, there are going to be outsourcing failures. There are a lot more internal failures, but the press never writes about internal failures and we don't even identify them in government because we don't measure them. We just measure the amount of money we spend. If we spend 5 percent more than we need to for incompetent services, no one really notices. If we provide services on the outside however, it's watched more carefully. I will have some failures but I won't have nearly the number of failures I would have had if I didn't cause competition. The issue of whether I will have private-sector failures is not the relevant issue. The issue is: Can competition bring more value to our services and how can we create a monitoring system that will reduce the number of failures and enhance the number of successes

*I really believe you can create an environment where the unions can be players in this process. We are down 30 percent in two and one-half years yet few union workers have lost their jobs.*

Lastly, there is the notion that competitive bidding is all anti-union and the unions will oppose it. There is great union anxiety because there is a change in the status quo. But if the union believes the future economic health of the city is important to its long-term success, and if the public manager understands that the middle manager is more of a problem than the unions themselves; and if they understand you can create value by delayering, and downsizing the control mechanism of government, I really believe you can create an environment where the unions can be players in this process. We are down 30 percent in two and one-half years yet few union workers have lost their jobs. So this does not have to be an anti-union activity.

## The New Governance



I'm not here to suggest that privatization is the answer to all urban problems. I suggest that a new governance is the answer. And privatization is an invaluable tool to getting us there. If we look at the fact that cities need more economic development, more investment, and need to do that more efficiently; that they need to reduce crime, and enhance the value of our community, then we can get there with a new governance that includes competition.

As we look at the Indianapolis experience, we have made lots of mistakes, but at least we've delivered \$500 million worth of capital investments, no new taxes, 100 new police officers on the street, more minority investment than have been done in a long period of time and some hope that people who have become disenchanting can become reconnected to their communities. I think these lessons are helpful ones and could lead us to a 21st Century future.

## Chicago Mayor Richard Daley

I came into office in April of 1989, committed to better management of city finances and services. I said that city government would have to run like a business, or it would go out of business. The city has been losing jobs and population for decades, shrinking the tax base and forcing higher taxes on those who stayed. At the same time, federal and state governments were forcing Chicago to meet many costly new mandates. Meanwhile, local governments were responding to increasing pressure in the worst way possible, with fewer services at greater cost.

From the outset, I made it clear to the public, union leaders, the business community, the city bureaucracy, and any entrenched interests who might stand in the way of progress, that there were no sacred cows. Every area was fair game for improvement, and higher property taxes would be my absolute last resort.

### Benefits of Privatization

There are many tools we used to accomplish that record, but one of the first and most effective was privatization. Privatization has been characterized both negatively and positively. Some see it as a way to bust unions or off-load political responsibility. Others see it as a way to downsize government by tapping into the market forces and introducing competition.

I see privatization as a way to accomplish something more fundamental as well: it recasts government as more of an overseer instead of a provider—the guardian of the public well-being—instead of the source. To survive, government managers must attack the systematic inertia of bureaucracies, in which employees are penalized for creativity and innovation and rewarded for maintaining the status quo.

Fulfilling this role requires new skills. Government employees have to sit down with private-sector professionals and set performance standards. They must be more analytical. They must have the ability to monitor the services they have contracted out and be able to evaluate the progress. And they have to be able to evaluate candidates for privatization.

All told, Chicago has privatized over 40 separate functions of government under my leadership, include: custodial services, office-product purchases, tire collection, towing of abandoned cars, traffic signal design, drug treatment, and architectural and design services.

*Here's another example: by contracting out drug and alcohol addiction treatment services, we now serve 200 more clients at three sites instead of one, for \$700,000 less per year.*

As we open new public facilities—like the city's new central library—we are privatizing the entire management from the start, including security, custodial services, and equipment maintenance.

The new international terminal at O'Hare Airport has been completely privatized as well, as has management of airport parking garages. The bottom line is better service to the public at lower cost.

## Cost Savings and Service Expansion

The annual savings of our privatization initiatives total tens of millions of dollars. In at least one case, we are actually earning money.

In the past, city tow trucks could not keep up with the thousands of abandoned cars littering our streets. Today, a private company hires neighborhood towing companies to tow the cars, and then sells them for scrap. The contractor pays the city \$25 for each car from the scrap-sale profit. The city also makes money if the car is redeemed by the owner. Since the program began in late 1989, the city has earned over \$6 million dollars and removed over 180,000 abandoned vehicles from the neighborhoods of Chicago. And the time it takes to remove them is dramatically shortened.

Here's another example: by contracting out drug and alcohol addiction treatment services, we now serve 200 more clients at three sites instead of one, for \$700,000 less per year.

### Cost Savings of Privatized Activities in Chicago

Activity	\$ Savings
Abandoned Auto Towing	\$3,000,000
Architectural Services	1,200,000
Custodian Services	4,000,000
Drug and Alcohol Rehabilitation	2,400,000
Harold Washington Library	3,721,244
Office Supplies	2,400,000
Sign Shop	6,200,000

## Easing the Transition

One of the dangers of privatization is that it can demoralize the work force and alienate the public employee unions if it entails widespread layoffs. We have made the unions our partners in the privatization program by using mostly unionized contractors, and by minimizing any job losses. Whenever possible, we reassign city employees if their function is privatized. In some cases, we have gotten the private companies to employ displaced workers until another job opens up in the city.

One recent development signals a real victory in the effort to make government more competitive. This year, we deprivatized one particular program we first bid out three years ago: maintenance of street sweepers and garbage trucks. Today we can do it cheaper in-house. This sends an important positive message to city employees who harbor suspicions about privatization. I have not embraced privatization so wholeheartedly that I have forgotten the bottom line—which is better service at lower cost. If city departments can do a job more efficiently than outside firms, they should do it. They're encouraged to compete for the contract. In and of itself, privatization is not a goal. And it is, by no means, the only tool to make government more efficient.

## Doing More with Less

None of these things would be possible unless we were continually seeking new ways to do more with less—to become smaller in size but greater in performance. Governments at every level, including school systems, transit agencies, and parks departments must become leaner, more efficient and more responsive.

Public employees must also be made to understand that the public are their customers and that they do not work for a monopoly. They need to put themselves in the shoes of the customers on the other side of the counter.

*When government tries to be everything to everybody, it becomes nothing to anybody.*

Privatization can never be a substitute for intelligent management or a shell game to off-load political responsibility and liability. It does not excuse government from its responsibility to lead and to be responsible for basic services. But as a public policy tool, privatization recognizes that people have become extremely cynical of government's ability to solve problems or address issues intelligently and efficiently. By taking some functions of government out of the public sector, privatization helps reduce public cynicism.

Given the continuing pressure on local governments to meet federal unfunded mandates, it is more important than ever that local governments focus on doing some things well and others not at all. When government tries to be everything to everybody, it becomes nothing to anybody.

The government that recognizes its limitations and establishes cost-saving partnerships with the private sector to overcome those limitations, can successfully give people something real, concrete, tangible and useful for their money. And they deserve no less.

## Jersey City Mayor Bret Schundler

I'm an old sociology major, so I'm used to seeing things in terms of power relationships. The issue is whether private individuals or organizations should be responsible for delivering health and human services or whether the government should do so in a monopoly. Across America, people are changing their minds about how things should operate.

*I didn't say I would take care of all your problems for you; instead, I said I'll put the power closer to you so you can take care of your own problems.*

One example that people are changing their minds was my election. Jersey City is very diverse. We have as many different kinds of people as New York, Los Angeles, and Chicago, but they all live side by side. We are 35 percent European American, 30 percent African American, 25 percent Hispanic, and 10 percent Asian. Our city is also religiously diverse, with a Jewish population, Buddhist, and Hindu.

The city is diverse in many regards, except in economics. Jersey City has a small middle class, a large working class, and a substantial low-income class. Forty-one percent are on social security or welfare; thirty-one percent don't speak English.

This is a city that hadn't elected a Republican mayor since the first world war. The reason they elected me, a Republican, mayor is that I didn't say I would take care of all your problems for you; instead, I said I'll put the power closer to you so you can take care of your own problems.

*When you look at the material circumstances of the welfare state, it meets people's needs pretty well—at least their physical needs. But it doesn't give people a sense of purpose.*

### Misguided Philosophy of Entitlement

In the last 50 years, I would argue that we've been living under a philosophy of entitlement rather than a philosophy of empowerment. To create a just society, we need to give people the power to protect their own self interests and be able to

walk on their own two legs and feel good about the impact they have on their own lives. But that's not the case in the last 50 years. You can see that most vividly in our most distressed inner cities.

When you look at the material circumstances of the welfare state, it meets people's needs pretty well—at least their physical needs. But it doesn't give people a sense of purpose. What's plaguing life in our housing projects isn't material deprivation, but a lack of meaning. This is especially true of children when everyone they know lives for the check they get. They don't have a sense of what you can actually become on your own. A lot of children turn to drug dealing simply because they want to be somebody. Everyone they know lives a dependent existence but they want to be somebody, and drug dealing is a way to achieve some status. They know they'll eventually go to jail, but that's just what life's about in that environment. That's what is tearing people's lives apart in those housing projects. Talk to people in that environment and they'll tell you they live in fear.

When I was campaigning in our own inner city projects, I was moved by how desperate the situation is for some of the people in America. There was a lot of graffiti, only one stairway worked, and there was graffiti where flowers should have been. On the playground where children should be able to play, there was glass and litter. On the street corner, there were drug dealers. Nobody in the world should be expected to look at this as normal existence. But for some people in America, this is the reality of existence today. Because the philosophy of entitlement has destroyed the poorest section of our society.

## Making Our Streets Safe

I'd like to talk first about how we can make our streets safe and orderly again.

Fifty years ago streets were orderly. We had police officers walking the streets, usually a small beat. It's hard to mug someone if there's a policeman on every corner. The question is why don't we have a policeman on every corner. The answer is we can't afford to. The average police officer in Jersey City is earning \$60,000 average. That's \$60,000 in a city where the per capita income is only \$10,000. When you add on the overtime and benefits package the actual cost is \$80,000 to \$100,000. We can't afford that in a city where the average person makes just \$10,000.

I can guarantee you that people don't like this. I guarantee you that all people in Jersey City, including the poor, want safe streets. Safe streets shouldn't be limited to rich folks that can afford to hire private police.

I know as mayor, my political self-interest lies in getting people the police protection they want. But I can't negotiate contracts freely with police. We would be able to make neighborhoods safe if I had the power to negotiate. Instead, the power to make contracts has been removed from me as mayor, and has been usurped by state government. They write the laws and they negotiate contract settlements. The result is that every year settlements have grown across the board at twice the rate of inflation for public safety personnel. If the rate of inflation is the rate of price growth, that means you are getting a little more of the pie each year. If you extend this to eternity, the Jersey City Police Department would eventually have all the money in the city. They are getting more of the pie every year, and we can't afford to spend anymore money. We can't raise taxes anymore. We can't pass more state taxes because state taxes are too high and jobs are leaving.

## Devolving Power

What I set out to do was to bring power to the people and bring control back to the families and give power back to the people so they can have control over the lives they lead.

*The fact is, when you have a government monopoly, there isn't a great interest in doing a great job. If you don't have to work extra hard, you don't work extra hard—that's human nature. Rather than a monopoly, we need to have a system where accountability is natural. We need to put control in the hands of the people themselves and promote competition in the provision of services.*

In the Grand Central Business district in New York City, there used to be a lot of litter. When the people took this problem to the government, the government said: 'Give us more money.' When the people did, the streets were still not cleaned. Of course, if government kept the streets clean it wouldn't have any excuse to ask for more money. When you have a monopoly, you can't expand market share; you only expand by charging more for the same thing.

What New York City did was to form the Business Improvement District. Businesses assessed themselves an incremental 2 percent more in taxes and hired a private maintenance company to pick up litter and clean up graffiti. If you go down there you'd be impressed. They did with just 2 percent what the government could not do with 100 percent.

Now we're going to do the same thing in Jersey City. We're going to have a convention and invite outdoor maintenance companies to set up booths. We're going to invite the citizens and have them vote on which contractor they would like to have in their neighborhoods. If the firm does a good job they're going to keep that contract. If the firm doesn't do a good job, they will be fired. The people who are paying the bills actually have the power that fires the firm if they don't do a good job.

The fact is, when you have a government monopoly, there isn't a great interest in doing a great job. If you don't have to work extra hard, you don't work extra hard—that's human nature. Rather than a monopoly, we need to have a system where accountability is natural. We need to put control in the hands of the people themselves and promote competition in the provision of services.

## Giving Parents Choices

The same idea applies in education. Most of us agree that Americans should be able to get an education, because that opens the door to opportunity. We've come to a consensus on that.

*I said, 'I'll give you the power to make sure your child gets a decent education.' That was the end of the argument right there. They said thank you, and thank God someone is finally going to get a good education for our children. I got votes from housing projects that never voted Republican before.*

I went into a housing project as a Republican, where they never in history had voted more than 10 percent Republican, and I knocked on doors, and I said we're spending \$9,000 on every child for public education, which is twice the national average. For all that money, more than half of all our children drop out before graduating. Of those who are still in school, only 41 percent pass the high school proficiency test mandated by the state. That's 41 percent of those still in school.

I said to parents in those housing projects, if I gave you \$9,000 for each of your children and let you pick the best schools for you child, public or private, don't you think you can get a great education for your child That wasn't so hard for those people to comprehend.

I said, 'I'll give you the power to make sure your child gets a decent education.' That was the end of the argument right there. They said thank you, and thank God someone is finally going to get a good education for our children. I got votes from housing projects that never voted Republican before.

I want to point out that the school voucher paradigm represents the paradigm for social welfare across the board. We have to take power down to the local level. We can say that policing is a local service and belongs at the local level. The power to clean streets can be taken to the neighborhood level. Individually enfranchising people makes sense.

In a world where we put power back in the hands of people, we can stop government from establishing huge bureaucracies. Today, 70 cents out of every welfare dollar goes to pay government employees' salaries. Instead we can have a system where most taxpayer dollars are kept by the people directly, where most people are paying for their own housing, health care, and food with their own money. Those who are not able to pay get a little voucher to help to make ends meet.

Here's a system that focuses on people who take control over their own lives, which I argue is a system that promotes far more justice than the system we have today. Under such a system, even in the poorest neighborhoods can have safe and clean streets, a quality education for children, and jobs available to those who take them. That's a far better system than we have today, one that would not only curtail material deprivation but would also elevate the spirits of Americans.

## Cleveland Mayor Michael White

I am here to talk about ending business as usual in the business of government. On a practical level, people have shown they are tired of taxes, and tired of government not spending their money the way they would spend their own money.

### **Evolve or Die**

As a matter of common sense, government cannot remain as a monopoly which constantly borrows against our children's futures.

If we did every single thing in term two of the White administration that we did in term one, we would be a failure because our task is not to do what we had done, but to do that and a lot more; and to recognize that the world is marching forward, and that the world is lodged in a competitive environment. Dinosaurs and cities are very similar. Either you evolve or die.

Change is inevitable. Evolution is always occurring; for us and for corporate organizations as well.

We have sought and have embarked on a new effort in Cleveland called "Cleveland Competes" because we know the challenges for government are difficult. As a matter of common sense, a monopoly that doesn't know of new ways to deliver a product; a monopoly that doesn't recognize the difference between the conduct of a government and the quality of life.

*Change is inevitable. Evolution is always occurring. It is for us and it is for our corporate organizations as well.*

I am willing to rock the boat because I have watched what's going on around the country to the cities that have refused to rock the boat; cities that have accepted their service delivery process, never asking the hard questions, never challenging individual bureaucrats, never looking for ways to deliver a good product at a better price are in trouble.

We run your governments, we provide you services and you pay for it no matter what. When it snows in October and we don't get to it in November, you will pay for that. If we're a day late and a dollar short, and one plow too little, you will pay for that. We run a housing and building division. If it is part of the preservation part of our city you will pay for those services. If it is not part of preservation, if it is part of the problem, not part of the solution, you will also pay for that as well because you know as I know you have no choice. Unfortunately, too many of us in government know that as well. We as elected officials, we as public bureaucrats, we as line managers, and we as functionaries, digging the snow, cleaning the streets.

There are a number of us now who are waking up to some new realities. You are no longer our prisoners, you have choices, choices of what public services you are going to buy and whom you are going to buy them from.

*There is nothing anti-government, anti-American about competition. Big cities like Cleveland can compete and they can win.*

Cleveland, the city where I grew up had 939,000 residents living in its confines in the 1950s. Today, there are some 505,000 people 35 years later. Where did they go Did they evaporate Disappear Did they go to Mars, where did they go They made a choice. For all the problems caused to cities by the federal and state governments—and there are many —there are a bundle of problems and situations we've created ourselves. Those 400,000 people in Cleveland, 1 million people in Chicago, and the list goes on, all decided they had a choice and left. They left for a better quality of life, a better bundle of services. They are no longer living in the confines of our cities.

*We won't pay it anymore!" That voice is the voice of our citizens who are saying that for the first time we have the choice to say no to tax increases, to say no to living in the*

*confines of your city. "We have choices," they are saying and, "We will make them, and you will pay if you do not understand and hear us."*

## **No More Business as Usual**

I would suggest that one of the things cities have to do is embrace the notion of competition. City hall has to understand that you either compete or die. Whether you are a corporation like IBM, Xerox, or a city like Cleveland, Hartford, or Los Angeles, you either compete or die. There is nothing anti-government, anti-American about competition. Big cities like Cleveland can compete and they can win. Whether it is in the area of plowing snow or providing services or rebuilding its educational system, cities can compete and win. It means that you have to think differently, act differently and govern differently.

We must understand that in too many of our cities, we are now the primary custodians of obsolete organizations with constrictive controlling mentalities left over from the early days, left over from a civil service period where managers weren't encouraged to be entrepreneurs, but encouraged to spend until their budgets were gone.

Why the change across the country Have we mayors all of a sudden become intelligent over time What is the force behind this revolution What has forced government, mayors, council people, and others to do things and say things like this that would have been considered heresy 15 years ago, especially for a Democratic mayor in a big labor city like Cleveland or Chicago

That pressure, that change, that force has been a very quiet but persistent occurrence. That change has been in the form of six words from the people who pay our salaries. "NO, WE WON'T PAY IT ANYMORE! NO, WE WON'T PAY IT ANYMORE!" That voice is the voice of our citizens who are saying that for the first time we have the choice to say no to tax increases, to say no to living in the confines of your city. "We have choices," they are saying and, "We will make them, and you will pay if you do not understand and hear us."

So more than the administrators, the bureaucrats, the mayors, the city council people, more than the think tanks, what has been driving the municipal revolution in the cities of America are the citizens themselves who are saying we want to do better and we can do better.

I am here today representing a city that, based on our achievements, should not be on the cutting edge of reform. It would be very easy for me to say as mayor, "we are doing alright." After all, our crime rate is down by 8.3 percent. We are doing alright. We got rid of the school board. The one now is doing innovative things, and putting children first. Why be on the cutting edge Why reform We are doing alright. Over a billion dollars in development has gone into downtown Cleveland. We're doing alright. An equally important and significant building boom has occurred in our neighborhoods—1,100 new homes built, over 1,100 rehabs in the last four years. We are doing alright.

I come to you today in line and lockstep with men and women I respect across the country who manage these cities and recognize that as long as cities are not providing the very best service they can, and are not adopting new technologies, and are not organized for success, then we are not doing alright. And there is a direct correlation between how we do it and what we provide and the cost of what we provide and quality of life in our community. There is a direct correlation between the operation of local government and the quality of life in those communities.

*I don't need anymore managers. I don't need anymore bureaucrats. I can get 100 bureaucrats who can fill this position. I'm looking for leaders, people who are willing to challenge the status quo, people who can take risks, go in when there is a problem and rip it apart and put it back together and deliver a good service."*

## **Cleveland Competes**

That is why "Cleveland Competes" was born. No matter how much success we as a community have had in the last 4 years, the call of the day for change is loud and clear. Change or die. This is why Cleveland Competes was born.

Cleveland Competes is more than just privatization. It really has five parts. First of all is new technologies. The embracing of technology in government should be the call of the day. We ought to embrace all areas of technology that enable us to provide the same level of service at a lower price, or to provide more services at the same price. In Cleveland, we privatized our payroll and will save in the first year some \$200,000, and will defer some \$600,000 in computer costs.

The second theme is reorganization. In order to provide a service, there are three fundamental ingredients. You have to have good managers. When I hire a manager, I say "I don't need anymore managers. I don't need anymore bureaucrats. I can get 100 bureaucrats who can fill this position. I'm looking for leaders, people who are willing to challenge the status quo, people who can take risks, go in when there is a problem and rip it apart and put it back together and deliver a good service."

You also need good employees. This movement of competition and privatization and government streamlining is not a rejection of public employees. By and large, public employees are outstanding individuals caught up too many times in a bad system in a bad place, trying to overcome all kinds of obstacles to delivering a good service.

## Leasing of Assets

The third theme of Cleveland Competes is the leasing of assets.

As I stand here today, I will tell you with some chagrin that the city of Cleveland still operates a convention center, two golf courses, and a host of other assets which would make a private-sector operator a profit—but we operate them at a loss. We are probably the only operator of parking lots in our area who doesn't know how to make a profit at downtown parking. Currently, we are examining seven major groups of properties to see which can successfully be run by entrepreneurs. Not only our convention center, golf courses, and parking facilities, but our city jails, houses of corrections, kennels, and even our cemeteries are undergoing evaluation to see what the market can provide in terms of stable entrepreneurs.

*We ought to spend your money the way we spend our money. In government, we don't spend your money the way we spend our money. In government, we have services where we spend 10, 20, 30 percent more money than we should.*

## Competitive Bidding

The next theme is competitive bidding, some call it privatization. At the base of Cleveland competes, there is one fundamental philosophy. We ought to spend your money the way we spend our money. In government, we don't spend your money the way we spend our money. In government, we have services where we spend 10, 20, 30 percent more money than we should. Outdated methods, outdated contracts, bad personnel contracts cause us to spend more than we should of your money in services from street sweeping to asphalt laying to a myriad of other services.

You've heard today all the obstacles to streamlining government and competition. They all exist in Cleveland. Cleveland's city council is still wary about what this is all about. A group of labor leaders—who want to call me everything from a heretic to a communist—now have bought enough time every Saturday for the rest of this year, to tell the public that the government should be spending their money the way we've been spending their money.

But to public-sector labor, we must say this: competition is not a matter of being anti-union or attempting to destroy the quality of life of public employees. Competition must be a fact of life, bringing the whole public sector into line with the realities of our economy.

## Building Better Cities

I have come here today to say to you that for Cleveland and all big cities across the country, there is no going back. The public has said rightfully that we ought to spend your money the way we spend our own money. The public wants a better product at a better price and they don't want politicians to raise their taxes as an automatic knee-jerk reaction to not having enough money. There's nothing wrong with that. There's nothing un-American about that. In fact there's something very right about that. We must evolve and we must change or we will die. I say we are preparing for the 21st century. Corporate



America is doing it and it has to do it. The federal government is doing it and it has to do it. Municipal government is doing it and it has to do it as well.

*To the public-sector labor, we must say this: competition is not a matter of being anti-union or attempting to destroy quality of life of public employees. Competition must be a fact of life, bringing the whole public sector into line with the realities of our economy.*

I come to you today to challenge each and every one of you to look beyond the rhetoric of change and reform and to understand that within our hands is the ability to build new cities and better ways and better neighborhoods. Through reform we could change the pathways of the futures of our cities where more people will move to our cities than away, where businesses can take a second look at what we are doing, where we can renew ourselves.

I come to you today to say that we can change, we can be better, we can be more efficient, and effective and deliver a better product at a lower price. So after this conference is over, let's get outta here and make those elephants dance.