



THE REAL STORY BEHIND INDIANA TELECOM REFORM

It's the silly season, and politicians throughout Indiana are promising to spend your money creating jobs for some to dig holes, others to fill them up and still others to count them. But not at all silly, and quietly, with little media attention or political favor, are the Hoosiers finding real jobs in the telecommunication industry. These jobs were created a few years ago when a bipartisan group of state legislators forced government to step out of the way, deregulating Indiana's antiquated telecom laws. The most-recent Federal Communication Commission figures show the results — extraordinary broadband growth here across both wireline and wireless services. Indiana, once considered a follower in telecom regulation, now is in a leadership position. "Over the next few years, Indiana's future success will be judged on the ability to capitalize on these early gains," the authors conclude. "As for today, the evidence is in; deregulation was the right step to promote consumer choice and empower Indiana to be a player in the information economy."

YADON
HANLEY
PAGE 3

THE HIDDEN COSTS OF HIGHER EDUCATION

Even with tuition at Indiana colleges doubling every decade and 10 percent of our students taking out high-interest loans to complete their degrees, the author draws short of suggesting that state lawmakers micromanage our public universities or their spending habits. She insists, however, that the process become more measurable and visible to taxpayers and consumers. Three steps toward that end are suggested:

- Colleges and the Indiana Commission on Higher Education develop measurable standards for productivity, cost containment and efficiency by 2009.
- Standards be developed to measure the quality of the education and student learning that occurs on campuses, awarding the higher-quality programs more money.
- And finally, Indiana should adopt a guideline that debt service not exceed 10 percent of the total higher-education operating appropriation.

NEAL
PAGE 7

CORPORATE SOCIAL 'RESPONSIBILITY'

A friend of this journal called them "occupiers" — those corporate officers in town for five or so years who take over the local charities and arts in self-directed attempts to bring the natives up to snuff. The authors find such corporate social responsibility morally vacuous in comparison with individual philanthropy. Instead of do-goodism, these executives could most benefit their communities by simply minding their own businesses. The spillover from their economic efforts, the unforeseen consequences of profit-seeking, is in fact their *only* corporate social responsibility. The authors conclude that: "Corporate capitalism has been the handmaiden of economic growth; together they have lifted more people out of poverty and misery than all other forms of organizing resources. The institutions that support property rights and individual freedom provide incentives to husband and increase wealth via exchange and specialization." Or as Adam Smith put it in 1776:

COELHO
McCLURE
PAGE 15

Every individual . . . generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. . . . (in a society with individual freedom, a business owner) by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.

THE THURSDAY LUNCH

It's the Accountability, Stupid

The Associated Press headline screamed the news: “Everything Seemingly Is Spinning Out of Control”¹

Setting aside for a moment the media’s responsibility for the spinning, we agree that things are indeed out of control. The answer, though, is not what the AP article implied — more control.

No, our legislatures are pumping out laws so fast that few have time to read them. The solution, rather, is to renew the glue that holds a constitutional republic together — accountability.

The annual Gallup Annual Survey of Public Confidence in American Institutions found that the least-respected institution this year was Congress. No surprise there, but it’s worth noting that the rating is the lowest of any institution in the 35 years Gallup has been conducting its survey.

Congress is rated so low — only 12 percent of respondents with a “great deal” or “quite a lot” of confidence — that it suggests utter public disdain. The July Rasmussen Report found only 9 percent responding that Congress was doing a “good” or “excellent” job. Democracy, clearly, has lost its ability to calm us.

And it is hardly comforting that the highest ranked were the military at 71 percent and the police at 58 percent. Daniel Henninger of *the Wall Street Journal* thinks the reason is the military and the police are “self-reforming” institutions, both requiring self-discipline as a job requirement.²

All of which suggests that the American citizenry is poised for a historic turn — one toward those few remaining institutions it sees as accountable. And the turn will be made even if the institutions can offer accountability only through the discipline of a command structure. Can it be an accident that democracy so often ends in “temporary” military or police rule?

Locally, the Gallup findings are applicable. Hoosiers are uncertain about their future. They doubt the self-discipline and the accountability of their legislatures, their chief executives, their city councils, their county councils and their courts. Here are the talking points at our table and perhaps many others:

- Schools, libraries, museums, convention centers, music halls, sports stadiums, economic development districts and dozens of other local governmental and quasi-governmental units hold tight the hands of bonding attorneys and architectural firms who walk them through the arcane world of government finance in exchange for percentage fees. And now the compounding finance

costs of these corrupt alliances can be exempted from the one-percent cap on property taxes.

- In every Indiana city there are appointed members of planning and zoning boards moving other people’s property around as if playing Monopoly, accountable only to rules understood by specialized law firms.

- In Fort Wayne they want to put private businesses under the review of Neighborhood Code Enforcement. That makes two breathtakingly stupid assumptions: That the city’s inspectors would know more about maintaining a business than its owners; and that a business owned by, say, the mayor’s brother would not enjoy a certain advantage in the new scheme of things.

- A career Hoosier politician, elected to Congress as a “conservative” on the strength of his anti-abortion rhetoric, breaks a term-limits pledge before going on to prove himself dependable only in mangling the definition of limited government, particularly in regard to his own earmarks. He and other office-holders feel secure in the knowledge that incumbents nationwide with serious, well-funded ballot opposition can be counted on their hands.

- A state Supreme Court watches approvingly as the Statehouse passes multi-issue legislation constructed to make it impossible for lawmakers to be held accountable for votes on any specific issue, even campaign pledges — all in violation of plainly written language in the Indiana Constitution.

At the start, we mentioned the media’s role in all of this. The Founders, as every schoolboy once knew, granted newspapers extraordinary protections — extended now to radio, television and the Internet.

It was thought that a free and fearless media would hold government accountable to the Constitution, would keep track of the quick and the clever among us.

It hasn’t worked out that way. This table blames an assortment of usurpations, including the inheritance tax, that discouraged individual ownership of media property.

Declines in circulation are best explained not by Internet competition but by hometown distrust of distant, corporate owners — that and today’s penchant for disparaging rather than predictive news.

Perhaps nothing more need be said than this: Several newspaper chains, one owning influential dailies in Indiana, have announced they will outsource certain types of copy editing to India.³

With things spinning so, maybe they think that’s where the Indianians live. — *tcl*

1. Alan Fram and Eileen Putman. “Everything Seemingly Is Spinning Out of Control.” Associated Press. Yahoo. News, http://news.yahoo.com/s/ap/20080622/ap_on_re_us/out_of_control. Last viewed June 22, 2008.

2. Daniel Henninger. “Is Sour News Good News for the Dems?” *The Wall Street Journal Online*. http://online.wsj.com/article_print/SB121443758852805303.html. Last viewed June 26, 2008.

3. No byline. Associated Press. “Orange County Register to Outsource Some Editing to India.” *Business Week Online*. <http://www.businessweek.com/ap/financialnews/D91GQIK80.htm>. Last viewed June 24, 2008.

THE REAL STORY BEHIND INDIANA TELECOM REFORM

*Indiana Is Now in a Leadership Position;
Government Had Only to Step Out of the Way*

by **ROBERT YADON** and **MICHAEL HANLEY**

First the bad news. Cable prices have risen 77 percent since 1996, roughly double the rate of inflation, according to a recent Bureau of Labor Statistics report released in May 2008.¹ This isn't a surprise for most cable subscribers in Indiana. It is a reflection of a failed national telecommunication policy that deregulated the cable industry in 1992², and consistently supported cable's monopolistic pricing, plus horizontal and vertical integration within the cable industry. Technological change and marketplace forces have changed the telecom landscape since 1996, but national policy has not kept pace and U.S. consumers are paying the price.

Where's the good news? Back in 2003, the U.S. General Accounting Office (GAO) issued a report that found that only through direct, head-to-head competition between cable firms and wireline competition would cable bills be lowered by 15 percent for basic and expanded-basic services. Further, the report went on to find that competition from satellite alone would prove ineffective in regard to cable rates. For intermodal competition, the report concluded that head-to-head wireline competition would prove 40 times more effective than satellite alone when it comes to impact on cable price.³



Robert E. Yadon, Ph.D., (left) an adjunct scholar of the foundation, is a senior research fellow in the Digital Policy Institute at Ball State University, a professor of Information and Communication Sciences, and the director of the Applied Research Institute. Michael Hanley, M.A., is a senior research fellow in the Digital Policy Institute at Ball State University and an assistant professor of journalism.

1. Matt Richtel, *Cable Prices Keep Rising; Customers Keep Paying*, *The NY Times*, May 24, 2008. Available at <http://www.nytimes.com/2008/05/24/technology/24cable.html?partner=rssnyt&emc=rss>.

2. *Cable Television Consumer Protection and Competition Act of 1992*, Public Law 102-385, Oct. 5, 1992.

3. U.S. General Accounting Office (U.S. GAO), *Issues Related to Competition and Subscriber Rates in the Cable Television Industry*, October 2003; *Telecommunications: Issues in Providing Cable and Satellite Television Service*, Oct. 15, 2003.

4. Available at DPI's website, www.bsu.edu/digitalpolicy.

Indiana Becomes Proactive in Reform

Indiana, like other states, could passively await national telecom reform at the federal level. History suggests, however, that any federal action on telecom deregulation would be subject to lengthy Congressional debate and lobbying pressure from all sides that, over time, have only delayed enactment of effective reform legislation. Therefore, absent any timely federal mandate for effective reform, change would have to begin at the state level.

In response, the Digital Policy Institute (DPI) at Ball State University issued a report entitled, *The Economic Impact of Telecom Reform in Indiana: 2006*.⁴ This report substantiated earlier research, including independent studies by federal agencies, major universities and think tanks, all of which came to a similar conclusion. Only direct, head-to-head competition would lead to increased capital investment, increased broadband services, new jobs, and lower costs for Indiana consumers.

On March 14, 2006, the Indiana governor signed into law the state's most comprehensive telecom bill (HEA 1279) in more than two decades. With strong bipartisan support, Indiana's new reform

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— Conclusion of the 2006 report of the Digital Policy Institute at Ball State University

THE COVER

Indiana's new reform legislation, including statewide franchising, became the legislative template for over 20 others to follow, including our neighboring states of Michigan, Ohio, Wisconsin and Illinois.

legislation, including statewide franchising, became the legislative template for over 20 others to follow, including our neighboring states of Michigan, Ohio, Wisconsin and Illinois. Today, over 50 percent of the U.S. population is covered by new telecom reform legislation.

Early Deregulation Results

While the impact of Indiana's new telecom reform legislation will continue to be evaluated over time, one early snapshot was documented in a second report by DPI entitled, *An Interim Report on the Economic Impact of Telecommunications Reform in Indiana*, released on February 15, 2008.⁵ In the nearly two years since passage of HEA 1279, the report uncovered a number of positive post-HEA 1279 events that, collectively, help to gauge the impact of deregulation for Indiana citizens and the Indiana economy.

These early findings included the accelerated deployments of digital subscriber line (DSL) services in more than 100 new rural Indiana communities, capital expenditures of more than \$516 million in new infrastructure, new competition for video in multiple markets in Indiana, more than 2,200 new jobs created for Hoosiers, significant new investment in broadband wireless, including next-generation WiMAX, and finally a positive impact on price in the marketplace. Some discussion seems appropriate.

FCC Figures Document Progress

The growth of broadband service in Indiana since deregulation is more than mere speculation or, as some would suggest, public-relations hype from the major telecom companies. The cumulative impact of telecom reform in Indiana is best documented by recent Federal Communication Commission (FCC) statistics for the 12 months following the start of deregulation.

Data shows that Indiana experienced the largest net increase in high-speed Internet lines ever. FCC figures show that

as of June 30, 2006, Indiana had 1,191,752 high-speed lines; by June 30, 2007 (the latest FCC reporting period), that number had increased to 1,809,728, an increase of 52 percent.⁶ The increase of 617,976 lines now ranks Indiana 19th in the United States for penetration of high-speed lines. Projections indicate that June 2007 through June 2008 figures will likely show Indiana with two and one-half million high-speed lines, a 100-percent increase since passage of HEA 1279. Here's a detailed look at five key broadband issues and technologies and how they have been affected by deregulation.

DSL

DSL lines increased 28 percent (122,630) from June 2006 to June 2007, growing from 443,473 to 566,103. Indiana ranked 14th in the United States for the number of DSL lines in June 2007, the same ranking as the previous year, however the number of DSL providers in the state continued to increase, reaching 42 in June 2007, up from 40 in June 2006 and 38 in June 2005.⁷ DSL growth continues to slow, however, as the service nears saturation and new broadband technologies become available.

Wireless

The number of high-speed fixed wireless lines and wireless Internet-service providers (WISPs) in Indiana has grown significantly since June 2006. There were 10,834 high-speed fixed wireless lines as of June 30, 2007, an increase of 72 percent, or 4,538, over 2006.⁸ Wireless growth had been flat during the six months preceding deregulation, growing just one percent. Indiana ranked 16th in the United States for the number of wireless subscribers in June 2007, up from 18th in June 2006.⁹

The increasing deployment of wireless broadband services in Indiana offers new opportunities for residents in underserved and rural areas to gain cost-effective, high-bandwidth access to the Internet at greater speeds than dial-up. The

5. Available at DPI's website, www.bsu.edu/digitalpolicy.

6. FCC Form 477 Table 9, June 30, 2007. Available at www.fcc.gov.

7. FCC Form 477 Table 8, June 30, 2007. Available at www.fcc.gov.

8. FCC Form 477 Table 9, June 30, 2007. Available at www.fcc.gov.

9. FCC Form 477 Table 9, June 30, 2007. Available at www.fcc.gov.

technical limitations of Wi-Fi that prevent a true ubiquitous solution across most underserved areas of the state may soon be addressed as newer, licensed technologies like Wi-MAX are deployed, augmenting existing services by providing greater reach and higher throughput speeds.

Fiber Optic

For Indiana to be competitive as a location for business expansion and economic development, a necessary ingredient is a statewide high-speed fiber network. Indiana boasts an impressive collection of firms providing fiber-based network services spanning most areas of the state.

Each of the major incumbent telephone inter-exchange carriers have extensive optical fiber networks throughout the state that support voice, high-speed data, and in some cases video traffic.

Since the passage of HEA 1279 each carrier has increased investment in its networks, predominately in rural Indiana. AT&T, for example, is investing \$250 million to deliver next-generation video and broadband services to Hoosiers.¹⁰ Thus far, it has completed the upgrade at 33 central offices in rural communities to become the first carrier to offer high-speed DSL service throughout its entire network in Indiana. Further, AT&T is expanding its trademarked U-verse broadband video and high-speed digital DSL service in many areas of the state, in direct competition with local cable TV firms.¹¹ Verizon has launched its trademarked fiber-based video service FiOS in Ft. Wayne, New Haven and Hometown, again in direct competition with a local cable TV firm.¹²

Like the major carriers, independent rural local exchange carriers (RLECs) also boast an impressive fiber optic infrastructure within the state. The Indiana Fiber Network (IFN) was formed in 2002 as a fiber backbone and transport firm, owned

by 19 independent local telephone firms across Indiana. With more than 1,000 route miles of fiber optic cable across the state, IFN provides necessary interconnect and broadband services to smaller telephone firms and their customers in predominantly rural areas of Indiana.¹³

Fiber optic networks connecting Indiana's cities and towns are important, but equally impressive is the growing list of communities that are deploying fiber-to-the-home (FTTH) locally, and offering high-speed Internet and video services. There were 14 communities or developments offering fiber connections directly to the household as of April 2006. There are also municipal-owned fiber networks that supply services for area residents and businesses. Crawfordsville and South Bend have municipal-owned fiber networks.

Recently, Columbus announced the selection of Smithville Digital, a subsidiary of Smithville Telephone, to install and manage a fiber network within the city-owned 7.2 miles of conduit that is intended to provide access to high-speed technology for area businesses and spur economic growth by attracting high-technology industries. The network is scheduled to come on line in 2008.¹⁴

Rural Indiana's access to fiber optic cable got a boost in 2008 with the awarding of a \$16.2-million grant to the Indiana Telehealth Network from the FCC's Rural Health Care Pilot Program. Funds will be used to improve telemedicine capabilities by connecting the 35 Critical-Access Hospitals throughout the state. The grant allows Indiana commercial companies to bring broadband capacity in the form of fiber optics to rural communities. A secondary benefit of bringing fiber optics to rural Indiana will be the potential for increased economic development as the health-care entities make fiber connectivity available to their communities.¹⁵

For Indiana to be competitive as a location for business expansion and economic development, a necessary ingredient is a statewide high-speed fiber network.

10. *Progressive Telecom Reform Legislation Sparks Landmark AT&T Investment; \$250 Million in New Technology Coming to Indiana*, AT&T Press Release, May 31, 2006.

11. *AT&T Continues Creating Jobs Across the State*, AT&T Press Release, September 18, 2007.

12. *Verizon Announces Initiatives to Boost Broadband Availability in Indiana and Bring Fort Wayne Area Customers One Step Closer to Real Choice for Cable TV*, Verizon News Release, November 28, 2006.

13. See www.indianafiber.net.

14. Erika Smith, *It's all about the bandwidth*, Indianapolis Star, January 21, 2008.

15. Sources: *Inside Indiana Business* (<http://www.insideindianabusiness.com/>)

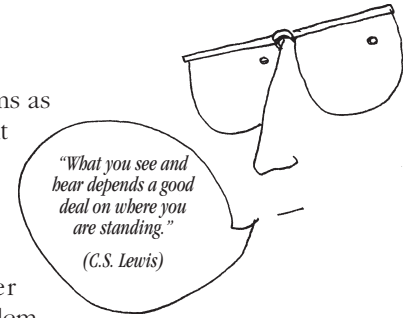
TABLE 1

Indiana DSL vs. Cable Modem High Speed Line Growth (June 2005 to June 2007)

	DSL	Cable Modem	% Cable	% DSL
June 1, 2007	566,103	410,438	42.03%	57.97%
December 1, 2006	525,054	550,127	51.65%	48.35%
June 1, 2006	443,473	490,020	52.49%	47.51%
December 1, 2005	379,465	445,420	54.00%	46.00%
June 1, 2005	304,800	397,481	56.60%	43.40%
Growth 2005-2007	86%	3%		

Source: FCC Form 477 Table 9, June 30, 2007. Available at www.fcc.gov.

cable modems as the dominant high-speed service in Indiana.



Why has the number of cable modem lines dropped? There's now aggressive competition in Indiana from DSL providers as connections continue to increase, and triple-play Internet services from incumbent and rural local-exchange carriers are increasingly being offered.

Claims by major cable firms that they are capturing market share from DSL at an accelerating pace,¹⁸ is not supported by FCC figures that show the national gap between cable modem subscribers and DSL subscribers continuing to narrow. As of June 2007, the FCC figures show cable's national share of the high-speed market at 55.57 percent, down from 59.67 percent in June 2005, while DSL has continued to increase from 40.33 percent in June 2005 to 44.43 percent in June 2007. As Table 1 indicates, the impact of deregulation on high-speed market share here in Indiana is more pronounced.

Conclusion

In summary, the early positive effects of deregulation in Indiana are supported by FCC figures that show remarkable broadband growth across both wireline and wireless services. Long considered a follower in telecommunication regulation, Indiana is now in a leadership position among surrounding states in promoting competition and encouraging the build-out of essential broadband infrastructure and services. Over the next few years, Indiana's future success will be judged on the ability to capitalize on these early gains. As for today, the evidence is in; deregulation was the right step to promote consumer choice and empower Indiana to be a player in the information economy. Q

Anecdotal information from across Indiana finds that where competition is present, an increasing number of homeowners are negotiating lower cable bills or switching from cable TV to competing triple-play services (TV, Internet and phone) at a significant savings.

Statewide Video Franchises

On June 30, 2006, the provision contained in HEA 1279 authorizing statewide franchising for video went into effect. As of June 2, 2008, 36 applications for Certificates of Franchise Authority (CFAs) had been approved by the IURC, and one was pending.¹⁶ National proponents of statewide franchising assert that it increases the number of competitors for video services, thereby improving service and lowering rates.¹⁷ Anecdotal information from across Indiana finds that where competition is present, an increasing number of homeowners are negotiating lower cable bills or switching from cable TV to competing triple-play services (TV, Internet and phone) at a significant savings.

Cable Loses Ground

While the number of providers of cable-modem service increased from 11 in December 2006 to 12 in June 2007, cable was the only category of high-speed lines to lose subscribers in Indiana after deregulation. Current FCC data listed in Table 1 shows cable-modem broadband connections fell 25 percent, to 410,438 in June 2007, from a peak of 550,127 in December 2006. Perhaps of more importance, for the first time DSL overtook

newsitem.asp?id=27383) and Midwest Indiana Business (http://www.midwestbusiness.com/news/viewnews.asp?newsletterID=16837). Accessed January 18, 2008.

16. The analysis in this section is based on the documentation filed by the applicants for CFAs. It is available online through the IURC's Electronic Portal, http://www.in.gov/iurc/portal/.

17. Editorial, Give Cable TV Some Healthy Rivals, Christian Science Monitor, Feb. 22, 2006.

18. Rising Again: Big Cable Looks for Continued '08 Growth, CableFAX Daily, June 6, 2008 (Volume 19/No. 109).

THE HIDDEN COSTS OF HIGHER EDUCATION

The Move to Make Colleges More Accountable

by ANDREA NEAL

On the eve of a critical meeting to finalize tuition for the 2008-2009 school year, the Purdue University newspaper posed this challenge to its board of trustees: “Give students a break.”

“It’s easy to ask students to give the extra money in the form of tuition,” *the Purdue Exponent* said, “and for now, students and their families are finding ways — scholarships, loans, etc. — to pay. But the trend can’t continue indefinitely. If college cost increases continue to exceed inflation rates, eventually families won’t be able to pay for college.”

A similar appeal could be made at Indiana’s other four-year public universities, which have averaged seven percent tuition increases in recent years. That’s double the rate of inflation. By virtually any standard — except perhaps the universities’ themselves — it’s been too much, too fast.

Tuition hikes for incoming freshmen at Purdue’s West Lafayette campus have set the pace, jumping from \$3,872 in 2000-2001 to \$7,750 in 2008-2009. Every 10 years, tuition doubles in Indiana. No other sector of the economy has experienced such inflation. Not health care. Not energy. Certainly not personal income.

And don’t forget room, board and textbooks, which place the average



Andrea Neal, an adjunct scholar, teaches history at St. Richard’s School in Indianapolis.

cost of a year at public college in the \$14,000-\$16,000 range.

Students are suffering the effects. Eighty percent of them work to pay bills, and they’re working an average of 30 hours weekly, according to the Indiana Commission for Higher Education. They are borrowing more than ever and graduating with higher debt loads, an average of \$17,250 for graduates of Indiana’s four-year public colleges.

An even more worrisome trend: A growing portion of their debt is privately financed at interest rates similar to credit cards. At least 10 percent of students at Indiana University and nine percent at Purdue receive private loans. A \$20,000 loan, at 8.5 percent, would add \$11,000 in interest to a student’s education if paid over 10 years. That’s a hidden cost students may not even realize.

“The cost of attending these institutions is getting so high it’s beyond what students can pony up,” says Jeff Spalding, senior associate commissioner at the Indiana Commission for Higher Education.

Some of the reasons for rising costs are predictable: faculty salaries and health-care premiums, energy costs, the collegiate “arms race” to have the best faculty and programs and the inflationary effects of financial aid.

Universities are labor intensive. Personnel-related costs make up 75

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EDUCATION

It costs more to go to college in Indiana than in 33 other states.

percent of university budgets. “Higher education is experiencing escalating costs for health care, energy and faculty salaries at rates higher than the Consumer Price Index,” notes an Indiana State University spokesman.

At the same time, state support of colleges has been dropping. In the 1970s, students paid about a third of the cost of their education and state taxpayers covered two-thirds. Now it’s about 50-50.

These factors are not unique to Indiana. Yet there’s data to suggest Indiana’s affordability crisis is more serious than elsewhere.

During the 2007-2008 school year, Indiana’s average tuition and fees for public four-year schools ranked fifth-highest among 13 middle-region states, according to The College Board. The only ones higher were Illinois, Michigan, Minnesota and Ohio. Nationally, Indiana ranked 17th. In short, it costs more to go to college in Indiana than in 33 other states.

Room-and-board fees in Indiana also tilt higher. All five of our four-year residential universities charge more for lodging and dining than do the University of Minnesota, University of Kentucky and Illinois State, to name just a few.

Two additional factors appear to be pushing up costs here. For one, our universities like to build and our legislators have been reluctant to stop them. There is no statewide plan for prioritizing capital construction at public universities. As a result, lots of good ideas get treated as priorities. Secondly, there is little oversight — beyond cursory review by trustees — over non-academic fees such as room-and-board charges. Neither the legislature nor the commission has a role in setting these fees. So what’s to keep universities from raising them? Not much, other than market pressure and self-restraint.

Because demand is up for higher education in Indiana, market pressure is minimal. Over the past six years, 65,000 students have been added to the system. This year, for the first time, IU received

so many applications that it had to stop accepting them on April 1. The school’s waiting list is twice as long as usual. It’s the classic example of price inelasticity. Because college education is seen as essential, demand doesn’t change much as prices rise.

If nothing else persuades colleges to rein in spending, students’ growing reliance on private loans should. *The Purdue Exponent’s* April 10 editorial gave voice to a concern shared by college students across Indiana and the country: The price of a college education cannot keep rising at the current pace.

On April 11, the Purdue board did give students a break, in relative terms. It approved a 4.5 percent increase in tuition and fees, standard for Indiana colleges for the coming year. That is higher than inflation still, but thankfully better than seven percent.

Loans, Loans, Loans

In 2004, economist Richard Vedder created a mini-sensation with his book *Going Broke by Degree: Why College Costs Too Much*. In a nutshell, the book argued that financial aid causes tuition to rise. “The evidence is pretty persuasive that massive governmental infusions of funds . . . have contributed to the upsurge in higher-education costs,” he said.

The term financial aid most commonly refers to scholarships: direct grants that students need not pay back. The money comes from federal, state and university budgets and from private sources, such as endowments. Since Vedder’s book came out, the “upsurge” has continued. And though Vedder’s message has stayed controversial, policymakers are starting to admit that the system designed to make college more affordable is making it less so.

Here’s why. “When someone else is paying the bills, people want to buy more of the good or service in question at prevailing prices than when the

	Tuition	Rank	Room/Board	Rank	Total	Rank
Indiana (Bloomington)	\$7,837	1	\$6,676	3	\$14,513	2
Purdue (West Lafayette)	\$7,750	2	\$7,710	1	\$15,460	1
Ball State (Muncie)	\$6,672	3	\$7,240	2	\$13,912	3
Indiana State (Terre Haute)	\$6,462	4	\$6,672	4	\$13,134	4
University of Southern Indiana (Evansville)	\$4,660	5	\$5,972	5	\$10,632	5

Source: Indiana Policy Review Survey 2008

customer pays the bills,” Vedder explains. “This means a higher demand for higher education, and other things being equal, higher tuition costs.”

How much higher? According to Vedder’s estimate, “each one dollar in grant aid leads to tuition fees somewhere around 35 cents higher than would otherwise be the case.”

The effects are significant. Indiana public university students received \$635 million in grants from federal, state, private and university sources in 2005-2006 (the latest year for which totals are available). That works out to \$4,500 per recipient. If Vedder’s formula is correct, the resultant tuition increase for public university students was \$222 million.

An often-used analogy is the third-party payer healthcare system. Its price hikes, like higher ed’s, have outpaced inflation for decades. As long as someone else pays, in this case the insurer, there’s no incentive for providers to keep expenses down and no reason for patients to demand it. It’s no coincidence that one of the few medical procedures whose price has been dropping is laser eye surgery, which is rarely covered by insurance.

The problem isn’t just that financial aid distorts the market; it doesn’t work as intended.

In 2006, the U.S. Commission on the Future of Higher Education reached two troubling conclusions: 1. College costs more because of “a financing system that provides limited incentives for colleges and universities to take aggressive steps to improve efficiency and productivity.” 2. The aid system is “confusing, complex, inefficient, duplicative and frequently does not direct aid to students who truly need it.”

That’s certainly the case in Indiana where a growing percentage of financial aid is used to attract the most talented students to campus. That’s a worthy goal, but it works at cross-purposes to attracting the neediest. According to the Indiana Commission for Higher Education, almost 70 percent of aid given out by the four-year residential colleges in 2005-2006 went for merit and not need.

Grants for need are based on a 12-part formula and determined by family financial data collected on the federal

Free Application for Federal Student Aid (FAFSA), which Vedder has described as more confusing and harder to complete than the IRS 1040 tax form.

At the moment, no politicians are taking Vedder up on the suggestion to consider ditching taxpayer-funded aid. What is under discussion are proposals to make the system more accountable: to make sure aid is going to the poorest students and to require universities to implement cost-cutting strategies that consumers would demand if they were paying sticker price.

Indiana’s Commission for Higher Education has established working groups that have made specific recommendations on affordability and access, which will be voted on in June.

Ideas on the table include: Indiana could stop following the federal formula for determining state grant awards and use a simpler process. It could, for example, limit eligibility factors to two items: family income and family size. Dependent students with family incomes of \$25,000 or less would qualify for a full-tuition grant. Those with family incomes between 25,000 and 40,000 would qualify for a partial grant. Another option would be to provide the first two years of college free to students from families with incomes less than a given amount, say \$44,000.

“For higher education for the last 50-plus years the theme has been access,” says Stan Jones of the Indiana Higher Education Commission. “Access is important. We’re trying to change the conversation in Indiana to accountability.”

Financial aid is probably here to stay. The Indiana governor has proposed a

Most college construction projects are paid for through debt financing — a buy-now, pay-later approach that masks long-term effects and contributes to the rising costs of higher education in Indiana.

Grants and Loans at Indiana’s Public Four-Year Residential Universities 2007-2008

	Students Receiving Grants	Students Receiving Government Loans	Students Receiving Private Loans*
Indiana University	42%	39%	10%
Purdue University	45%	56%	9%
Ball State University	63.30%	55.10%	6.90%
Indiana State University	31%	44%	4%
University of Southern Indiana	40%	42.60%	4.20%

*Does not reflect direct-to-consumer private loans that are not reported to universities. Source: Indiana Universities

EDUCATION

In the 2007 budget session, the Indiana Commission for Higher Education recommended only \$154 million worth of new capital projects it deemed priorities. The Legislature approved \$538.6 million.

massive new program to help pay tuition for families making less than \$54,000 a year. The challenge is to eliminate the inflationary effects caused by the third-party payer system.

The Weight of Debt Service

Despite the economic downturn affecting the housing market, construction continues apace on Indiana's college campuses. It's little wonder.

Public universities have little incentive to stop building.

That's because most projects are paid for through debt financing: a buy-now, pay-later approach that spreads out costs over time and thus minimizes the impact on taxpayers and students. It also masks long-term effects and contributes to the rising costs of higher education in Indiana. Since 2001, state appropriations for debt service have increased 66 percent while funding for university operating expenses has increased 22 percent.

"I think one of the hidden costs – multi-million dollar costs people aren't aware of at all – is debt servicing," said Murray Sperber, professor emeritus at Indiana University. Sperber has written extensively about college sports and how they've diverted funds away from the core academic mission of big colleges.

The same is true of debt, which consumes a hefty chunk of the budgets at Indiana universities. This year debt service will cost IU \$80.7 million, Purdue \$56.8 million, University of Southern Indiana \$13.5 million, Indiana State \$11.8 million and Ball State \$11.7 million. The public universities combined (including Ivy Tech and Vincennes) have over \$1.6 billion in outstanding debt, the equivalent to the state operating appropriation for all of higher education in fiscal 2008.

Debt financing is the primary means by which state universities pay for new construction and major remodeling. It allows institutions to raise money by selling bonds to investors. In return, the investors are paid back principal and interest on their loans. Those costs are distributed in different ways depending

Outstanding Debt at End of Fiscal 2006

Indiana University	\$662 million
Purdue University	\$562 million
Ball State University	\$70 million
Indiana State University	\$121 million
University of Southern Indiana	\$126 million

Source: Indiana Universities

on the project being funded. Taxpayers pay for academic buildings, which require legislative approval. Student fees, revenues from housing and dining systems and other university income pay for dorms, campus centers and recreational buildings.

Here's a sampling of big-ticket items recently completed or in the pipeline: an \$8.5-million

science center upgrade at Indiana State, a \$21-million communications building at Ball State, a \$52-million science building at Indiana and a \$53-million boiler project at Purdue.

Over the past decade, university officials have carried longer and longer lists to the Statehouse for approval. In 2001, they asked for \$475 million in projects; in 2003 \$618 million; and in 2005 \$829 million. The pressure to build became so intense that the Indiana Commission for Higher Education set a guideline: Debt service should not exceed 10 percent of the state's total higher-education operating appropriation. "It was kind of like drawing a line in the sand," said Commissioner Jones.

Yet in the last budget session, lawmakers blew right past the limit, committing 12 percent to debt service.

Part of the problem is the way the budget cycle works. Lawmakers approve projects a full budget cycle before they have to appropriate funds so there's no immediate consequence to the state. As a result, university capital requests have become legislators' versions of congressional earmarks. Lawmakers want to bring home the bacon for Bloomington, West Lafayette, Terre Haute, Evansville and Hoosier cities with campus branches. And while lawmakers never authorize every university building request, they sometimes come close.

"We're not suffering by having poor buildings. They're very nice compared with other states," Jones said.

His Commission for Higher Education takes a critical look at university requests before they go to the Statehouse, but

lawmakers are under no obligation to follow the commission's suggestions. In the 2007 budget session, the commission recommended only \$154 million worth of new capital projects it deemed priorities. The legislature approved \$538.6 million.

There are benefits to students of all this spending. Indiana campus facilities are first-rate with high-tech amenities. That's not the case in some states where state subsidies are lower or the approval process more rigid. In Illinois, for example, all capital debt for university facilities is issued by the state rather than the institutions themselves, as occurs here. The Illinois legislature must authorize the debt by a majority vote and the appropriation to pay the debt by a two-thirds majority. In addition, all capital projects are planned and managed by the State Capital Development Board and not the universities. Illinois has authorized no new higher-education capital projects in six years.

But debt financing is not the only way to cover capital costs. The April 18 *the Chronicle of Higher Education* reported on creative programs that have leveraged private-sector money and reduced debt loads felt by taxpayers and students.

"Student housing is now often built by for-profit companies, which pay for construction in return for charging students rent," *the Chronicle* said.

Similar collaborations can occur with academic buildings. For example, Purdue University will rely almost entirely on gifts to pay for the new \$12-million home of the Department of Hospitality and Tourism Management. Of that, \$4 million is from the Marriott Foundation. Even research facilities can be shared with the private sector.

This will happen soon at a new nanotechnology center to be housed at the University of Notre Dame and linked to Purdue and other Midwest universities. IBM and the Nanotechnology Research Initiative have given \$5 million toward the building's \$61-million price tag.

Bottom line: Indiana students and taxpayers are too deep in debt and that affects education. Said Jones, "The more that gets spent on debt service the less that gets spent on instruction."

Padding Budgets With Fees

Corey Barker, who just finished his sophomore year at Indiana University in Bloomington, has never used the campus bus system but still has to chip in \$110 a year for its operation. "I don't ride the bus. I will never ride the bus," Barker says.

Like every full-time student at IU, Barker must pay that and other mandatory charges, including \$210 for health services and a \$158 activity fee that helps fund extra-curricular programs.

As if tuition weren't high enough already, students at Indiana's four-year public colleges find themselves paying extra for services they may never use, sporting events they may never attend, meals they may never eat and dormitory renovations they may never see.

"They're multiplying," says Jones, of the Indiana Commissioner for Higher Education. "There are simply more fees. Apparently they (universities) think they need more money."

Making the situation worse is an element of mystery. Some fees are itemized on university websites or on invoices. Most are lumped together into a single "tuition and fees" sum. That's the case with intercollegiate sports subsidies, which have come under criticism because they benefit the few (athletes on scholarships) at the expense of the many (the rest of the student body).

At Ball State University, athletic subsidies total almost \$8.5 million a year, about \$474 per student. The money funds athletes' scholarships "and permits all students to attend athletic events without charge." At Indiana State, students pay \$4.7 million; at the University of Southern Indiana \$2.2 million. Indiana and Purdue, two schools with TV income and generous donors, don't run deficits in their athletic budgets so don't have to charge athletic fees.

Increasingly, students are also hit up for recreation centers equipped as lavishly as private health clubs. These are financed through revenue bonds backed by student fees.

Indiana State students pay \$100 per year for a \$24-million recreation center that opens in 2009. The facility will house a three-court gymnasium, aquatics area,

Students at Indiana's four-year public colleges find themselves paying extra for services they may never use, sporting events they may never attend, meals they may never eat and dormitory renovations they may never see.

EDUCATION

Tuition doubles every 10 years, twice the rate of inflation. As long as demand stays high for a college degree, and it will because a diploma is deemed a necessity these days, universities aren't under pressure to hold down costs.

fitness center, climbing wall and elevated track. Ball State students will begin paying a mandatory fee in 2009-2010 for a \$39-million wellness center with a five-court gym, suspended running track, cardio-fitness area and climbing wall. The fee is tentatively set at \$90 for 2009-2010 and \$180 thereafter.

Universities defend these costs, saying today's students demand amenities and will favor campuses where they are offered. But there are critics, too. "There's a downside if you are a student who never uses the facility: probably about 50 percent or more of the student body," says Professor Emeritus Murray Sperber of Indiana University who's written extensively about hidden costs in college. "Why should you have to pay for something that is of no value to you?"

The same can be said about a portion of room and board fees. All of Indiana's public residential universities set rates high enough to cover not just operational costs and maintenance but future capital needs, like dormitory renovations. The planned surpluses range from \$600,000 per year at the University of Southern Indiana to \$12.5 million at IU.

On a per-capita basis, Ball State University has been the most aggressive, tapping students this year for \$10.6 million to fund capital projects. Thomas Kinghorn, vice president for business affairs, said the school's policy is to set aside three percent of replacement value of existing housing and dining facilities. It's not a surplus, he said, but the best way to deal with depreciation of assets.

In essence, today's students pay for tomorrow's upgrades. The policy has allowed Ball State to accumulate reserves so large that — instead of selling bonds — it's paid cash for major renovations and new buildings, which Sperber and Jones say is unusual. Such is the case with three current projects: the \$46.5-million North Residence Hall, the \$30-million renovation of DeHority Residence Halls and the \$22.9-million Pittenger Student Center renovation. The practice adds about \$1,000 a year to a student's room and board rates and leads to an ironic twist: While the college amasses money

to avoid debt financing, students borrow to pay their bills.

Also unusual: the structure of Ball State's dining plan. Though other Indiana universities have moved toward optional meal plans with varying price ranges, enabling students to save money, Ball State has stuck with a single-priced full-meal package. If students don't eat the allotted meals, the forfeited money — millions each year — goes into the renovation account.

Purdue, which generates about \$10 million a year from room and board fees for its renovation fund, has taken a different approach to long-term projects. Since 2006-2007, students have been paying a two-percent surcharge to fund improvements set out in a master plan. The fee, which will expire after 2008-2009, has paid for things like sprinkler systems, air conditioning and major building renovation. When it comes to setting fees and room and board rates, university trustees have final say. Amounts are merely reported to the Commission for Higher Education, which has no oversight role.

As fees have multiplied, students have become more vocal in opposing them. Purdue students this year rejected a proposal for an activities fee, even though it's the only Big 10 school without one. Barker, the IU student, said his beef with the activities fee he pays is that students don't really know what it funds.

To IU's credit, it has posted a long list of fees on its website so students know what they'll shell out each year. Neil Theobald, vice president and chief financial officer, said the university would have no problem itemizing bills further to show how room and board fees are allocated, for example. That would no doubt please parents, students and state policy-makers who are poised next month to recommend new accountability measures for university finances.

"The more transparent we can make fees so people know what they're paying for, the better off we are," said Theobald.

A Broken System

The higher education financing system is dysfunctional and in need of reform. So

declared the federal Commission on the Future of Higher Education in 2006.

Indiana students no doubt agree. At our public residential universities, tuition doubles every 10 years, twice the rate of inflation. As long as demand stays high for a college degree – and it will because a diploma is deemed a necessity these days — universities aren't under pressure to hold down costs.

If anything, competitive forces at work in higher education have the opposite effect. They drive up tuition rates as universities compete for faculty with higher salaries, for top-notch students with merit aid and for consumer-driven student bodies with campus amenities such as recreation centers.

It's a far different world from K-12 education, which must abide by strict funding formulas, external performance assessments and now – thanks to the 2008 Indiana legislature – public referenda before expensive school building projects can move forward.

Just ask Professor Emeritus Murray Sperber of Indiana University, who has been an outspoken critic of hidden costs in higher education. “My wife is a high school teacher. Every dime has to be accounted for at the micro level,” Sperber says. In higher education? “You better believe it's not the case.”

Change May Be on the Way

Within a year of the national warning, the State Commission for Higher Education completed a study of its own, “Reaching Higher: Strategic Directions for Higher Education in Indiana.” The document called for a system “more accountable for overall results, more responsive to state needs, more cost effective and more affordable for Indiana residents.”

Since that time, working groups have made policy recommendations in six areas including accountability, affordability and college preparation. The commission voted unanimously June 13 to approve those recommendations in the hope of influencing 2009-2011 budget discussions. Among the proposals:

- Colleges and the state commission should develop measurable standards

for productivity, cost containment and efficiency by 2009.

- Standards should be developed to measure the quality of the education and student learning that occurs on campuses; higher-quality programs should get more money.

- In an effort to bring down building costs, Indiana should follow the commission guideline that debt service not exceed 10 percent of the total higher-education operating appropriation.

No one has suggested that state lawmakers micromanage our public universities or their spending habits, just that the process become more measurable and visible to taxpayers and consumers.

In 2005, the Indiana General Assembly took small steps in that direction with a law requiring the schools to set tuition rates on a two-year cycle instead of annually. In 2007, lawmakers charged the Commission for Higher Education with setting non-binding tuition targets for each university during the budget process. The goal was to improve price visibility for students and make universities less apt to raise tuition dramatically during any single cycle.

Universities insist they are doing their part. As part of a survey by the Indiana Policy Review, the four-year residential universities were asked to list some of the ways they were dealing with college costs.

The University of Southern Indiana, designed from the beginning as a lower-priced alternative, remains one of the most affordable four-year colleges in the Midwest and reported, “We have done our part.” Counting tuition, room and board, fees, textbooks and other expenses, students can expect to pay under \$12,000 at USI come fall.

Purdue University, the priciest college, said it has increased revenues from private fund-raising, grants, sponsored programs and other non-student sources and is “expanding communication efforts to ensure educational costs are as transparent as possible.”

Ball State said it is “working hard to mitigate the impact of rising faculty salaries on student tuition and fees by securing more private gifts and grants to help fund the university's various operations.”

No one has suggested that Indiana lawmakers micromanage our public universities or their spending habits, just that the process become more measurable and visible to taxpayers and consumers.

EDUCATION

The real problem is that universities have not tried to spend less. As the federal commission pointed out, "Institutions are spending more money ... Next to institutional financial aid, the greatest growth has been administrative costs for improvements in student services (including state-of-the-art fitness centers and dormitories)."

Indiana University is in the first year of a five-year program to cut \$2 million per year in administrative costs and shift that money to financial aid. It's also launched a task force to monitor operating costs and to conduct an intensive analysis of administrative services.

Indiana State is looking "to determine programs that should be eliminated, revised or merged due to low enrollments. As a result, we plan to narrow our academic programs from 214 to approximately 150. We have reallocated dollars internally to align resources with strategic initiatives and have eliminated faculty and staff positions where possible."

In the past, our universities have been too quick to blame declining state subsidies for the growing tuition burden paid by students.

Yes, subsidies are declining as a percentage of the total higher education

budget. But taxpayer appropriations in Indiana have gone up steadily for the past decade: \$1.3 billion in 2000, \$1.5 billion in 2005, \$1.8 billion in 2009.

The real problem is that universities have not tried to spend less. As the federal commission pointed out, "Institutions are spending more money . . . Next to institutional financial aid, the greatest growth has been administrative costs for improvements in student services (including state-of-the-art fitness centers and dormitories)."

Making matters worse are "lack of transparency in financing," and "inadequate attention to cost measurement and cost management within institutions."

Those practices must come to an end. In coming months, Indiana universities will have a chance to step up to that challenge. Q

No Way to Run a College

by **MARILYN FLOWERS**

The National Center for Public Policy and Higher Education recently awarded a grade of "F" to Indiana for college affordability. No one can accuse the center of grade inflation. Forty-two other states also failed. The highest grade awarded, a less than sterling C-, went to only two states, California and Utah. Unlike many college professors, when the folks at the center observe abysmal performance, they aren't afraid to say so.

Higher education costs too much. However, asking taxpayers to pick up a greater share of the cost, as proposed by the center, will impede the imposition of needed fiscal discipline. Colleges and universities waste lots of money. A "habit" of waste developed over many years of high tax subsidies coupled with scant public oversight.

In recent years, the cost of higher education has been shifting away from taxpayers and to students and their parents.

The good news is that this will bring the discipline of the marketplace. Education "customers" spending their own dollars, are much more likely to evaluate the balance between cost and quality than are unpaid university trustees. This bodes well for the long term.

The bad news is that improvement will take time. The ingrained habit of waste will have to be replaced by a new habit of cost effectiveness. Many in the academy have little understanding of how markets work and see capitalism primarily as an obstacle to justice. Imagine trying to convince such a group that their institution has to become more market-oriented and — gasp — businesslike. It won't be pretty. At the end of the day, however, higher education will be better for it.

— Excerpted from an essay written for the Indiana Writers Group, Sept. 27, 2006. Marilyn Flowers, Ph.D., an adjunct scholar of the foundation, is a professor of economics at Ball State University.

CORPORATE SOCIAL RESPONSIBILITY

*An Exercise in Misology**

by PHILIP COELHO and JAMES McCLURE

Two of the richest men in the world, Warren Buffet and William Gates, Jr., have endowed the Bill & Melinda Gates Foundation with billions of dollars. A main goal of the foundation is to alleviate the burdens of some of the world's poorest peoples. The foundation is sponsoring research to treat diseases that afflict the world's poorest, but are relatively "neglected" by medical research. These diseases (malaria, hookworm, water-borne diseases and diarrheal diseases) literally kill millions each year, incapacitating millions more. The foundation spends billions of dollars on programs to reduce the impact these diseases have upon the world's poorest. Yet the foundation explicitly renounces investing its portfolio in "socially responsible" corporations: Does this make Buffet and Gates immoral and the foundation "socially irresponsible?" This is patently preposterous; but it exposes the core conundrum that confronts believers in "corporate social responsibility." Is corporate management primarily responsible for the financial interests of their owners, or do they owe allegiance to society at large and to the cause de jour in particular?

The Bill and Melinda Gates Foundation was formed to help the world's poorest; it was not formed to: endow art museums, pay workers above market salaries, save the whales, reduce logging in rain forests, preserve wetlands, reduce carbon emissions, or fund a host of other laudable (or questionable) schemes. The foundation is an eleemosynary, *i.e.*, charitable institution; it invests in profit-seeking firms because they generate rates

of return that give it additional funds to finance its mission. The foundation has the clarity of vision not to confuse how it spends its resources with how it gets its resources.

Friedman's Ethos of Corporate Social Responsibility

Almost half a century ago (in 1962) Milton Friedman stated the ethical paradigm for business eloquently and succinctly in *Capitalism and Freedom*: "There is one and only one social responsibility of business — to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud." In an article in *the New York Times Magazine*, (1970), he expounded upon his views and argued that the "responsibility (of corporate management) is to conduct the business in accordance with their (shareholders, stockholders, owners) desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom."

Corporations are legal fictions, they have no corporeal existence. Business corporations were founded to pursue profit-making opportunities using the capital of many people under a corporate charter granted by the state. The charter allows the firm to act as if it were a legal person; it can buy and sell assets, enter into contracts and sue and be sued in the courts. Regardless of all that



Philip R.P. Coelho, Ph.D., and James E. McClure, Ph.D., adjunct scholars, are professors of economics at Ball State University. This article originally appeared in the Effective Executive, a magazine published in India. It is reprinted here with permission.

** misology Pronunciation: \m - sã-l -j \ Function: noun Etymology: Greek misologia, from misein + -logia -logy Date: 1833 : a hatred of argument, reasoning or enlightenment.*

Corporations, as legal fictions, are no more real than the parental fictions of the sandman and tooth fairies. Do tooth fairies have social responsibilities? The idea is surreal and absurd; fictions cannot have ethical obligations, and to contend that they do is reification run amok.

can be accomplished in the name of a corporation, we must remember that it is an abstraction, not a flesh-and-bones person. While corporations may enter into some contracts, they are precluded from entering contracts that are reserved for real persons. A corporation may neither enter into marriage nor adoption contracts, nor may it vote in legislative elections. Similarly a corporation may not be incarcerated nor deprived of certain rights that are proscribed to ex-felons. Corporations are not people, only people have ethical, moral duties; only people can suffer shame and punishment.

Corporations, as legal fictions, are no more real than the parental fictions of the sandman and tooth fairies. Do tooth fairies have social responsibilities? The idea is surreal and absurd; fictions cannot have ethical obligations, and to contend that they do is reification run amok. Only real, living, human beings can have ethical duties and responsibilities; consequently, it is perfectly sensible to ask corporate managers to adhere to Friedman's ethos: to meet their fiduciary duties to husband and increase the wealth that shareholders have invested, to compete freely and openly in the marketplace, and to do so within the legal strictures of society and with neither fraud nor deception.

Management's fiduciary duties to the owners of the firm are the only coherent core objectives that exist. Management is to act transparently in enhancing and preserving the owners' capital within the bounds of law and culture in open competition. We emphasize that this is not a low moral standard, but a high one. An ethical manager must always act as if he is being observed and be willing to publicly defend all actions. The phrase in Friedman's dictum, "without fraud or deception" sets a high bar for managerial ethics. Acting transparently avoids situations that may cost the firm money, adversely affect its reputation, and, in retrospect, be downright stupid. The recent contretemps of Sony's BMG Music Entertainment division immediately come to mind.

In 2005, it was discovered that BMG had covertly inserted software into the music compact disks (CDs) that it sold consumers. When the CDs were played on computers

the program covertly inserted itself into the operating system. The BMG program made computers more vulnerable to computer viruses, and when it was removed from the Windows operating system the CD drives of the computers were rendered inoperable. Undoubtedly at one time the logic behind the strategy of inserting a "Trojan horse" into customers' computers was persuasive to management at BMG Entertainment; it would not have been as persuasive if they had been required to label all their CDs as sold with "an un-removable tracking device." When purchasers of Sony CDs discovered that the computers were vulnerable to infection and that an unwanted program had been inserted into their computers, they were not amused. Lawsuits for damages and penalties are not yet settled, Sony has spent millions of dollars rectifying its actions and the total bill for this deception will probably run to or over nine digits (in U.S. dollars).

The strategy that the managers of BMG Entertainment followed depended explicitly upon deceiving their consumers. The lawsuits against Sony and its BMG division are ongoing; they are not likely to be settled during the current decade; aside from the direct expenditures and penalties paid by the Sony Corporation. The damage done to Sony's reputation with consumers has been immense. The actions of BMG Entertainment's management were unethical and they were also vastly unprofitable. Sony's shareholders suffered because of unethical or incompetent management who were acting, at a minimum, deceptively and possibly fraudulently. We emphasize that it was the shareholders who were affected, not Sony; like all business corporations Sony has no corporeal existence and can feel neither pain, nor embarrassment, nor loss. When we say that "Sony suffered" it is shorthand for saying that the owners of equity in Sony suffered; care is warranted so that this type of shorthand does not obscure understanding in discussions on corporate social responsibility.

Other examples of corporate wrongdoing illustrating the practical benefits of Friedman's approach to corporate ethics are those of Martha Stewart and Enron. Popular misinterpretations of these

cases notwithstanding, at each of these corporations the problems arose because management did not focus on increasing shareholder wealth within the strictures of law with neither deceit nor deception. Martha Stewart attempted to deceive federal investigators who sentenced her to incarceration. Her jail term adversely affected the share price of her eponymous firm. The effect upon shareholders' wealth was palpable: at the times of her arrest and conviction the share prices of Martha Stewart, Inc., plummeted. Had she been guided by Friedman's ethic she would have focused upon the interests of the shareholders other than herself, she may have been less adventuresome in her financial dealings and certainly truthful to federal investigators. Her direct violation of Friedman's stipulation against "deception or fraud" caused the company's chief executive (her) to divert time and effort to hearings, a trial and incarceration which had a severe impact upon the company's reputation and brand name.

In 2006, Kenneth Lay and Jeffrey Skilling, the chief officers of Enron Corporation, were found guilty of defrauding employees and external shareholders about the financial status of the firm; Lay died prior to sentencing while his case was under appeal. Because his case was under appeal, his death voided his conviction; in the vernacular, "he beat the rap," but, although he is not present to savor the fruits of his victory, his estate is unencumbered by the lawsuits that a guilty verdict would have ensured. Skilling was not so lucky (or luckier depending on your views on the importance of wealth maximization); he is currently serving a prison sentence of 24 years and four months. In 2001, after Enron's true financial position was revealed and bankruptcy proceedings commenced, the shares became virtually worthless. Enron's management did not act truthfully and transparently, nor did they increase shareholder wealth. If management had followed Friedman's ethos, transparently seeking to maintain and augment shareholder wealth within the bounds of law and culture, Enron would have been a less-exciting company that may have avoided bankruptcy.

These examples show that not only is Friedman's statement on corporate social responsibility ethical, but it provides practical guidance to management as well. Truthfulness is a virtue, and is valued for its own sake, but beyond that, as a practical matter lies are often uncovered; "Truth will out" is both an exhortation and a (fairly accurate) prediction. Again acting neither deceptively nor fraudulently is an integral and inseparable aspect of the Friedman ethic.

Yet there may be issues with implementing Friedman's ethic because corporate executives are not automatons, but human beings who may or may not act in the interest of shareholders. There is substantial literature on principal-agent problems that suggests a variety of straightforward methods for motivating corporate executives to act consistently with Friedman's ethos in the interest of shareholders.

Most fundamentally, accurate and extensive information about corporate finances and activities must be publicly available to the public. Whether management is doing an acceptable job can be more easily assessed with better information. Competitive and free markets for equity and for corporate takeovers will ensure that resources (eventually) reach their highest valued uses. Being human, managers will always be tempted away from their fiduciary duty to shareholders. Only constant monitoring of executive decision-making will create an environment where ethical managers (those committed to their fiduciary duties to shareholders) can thrive. Corporate social responsibility is antithetical to this type of ethical management because it condones managerial diversions of wealth and attention away from the owners of the company. Capital markets appear to be responding to management's neglect of its fiduciary duties. Through corporate takeovers and highly leveraged (geared) companies, markets impel management to husband corporate resources economically. Taking firms private and then public again, with much greater debt levels, makes management either "sink or swim." Capital markets, financial and economic theory all support the ethic of shareholder primacy, but at

Had Martha Stewart been guided by Friedman's ethic she would have focused upon the interests of the shareholders other than herself, she may have been less adventuresome in her financial dealings and certainly truthful to federal investigators.

The “stakeholder doctrine,” which refers to stakeholders as groups of people, things, abstractions that are presumed to be worthy of largesse from the firm, is incoherent and impossible to implement.

the cost of giving up what alternative? In particular, what does the alternative ethic of a social responsibility and stakeholder theory offer to replace the Friedman ethic on the paramount obligation to act in behalf of the owners of the firm?

The Stakeholder Doctrine

Academic discussions of corporate social responsibility date at least back to the 1930s, but since the 1980s the majority of these discussions argue that corporate owners are merely one of many “stakeholders” of a corporation. Today corporate social responsibility beyond those recommended by Friedman has become synonymous with that of “stakeholder” doctrine. Stakeholders are groups of people, things, abstractions that are presumed to be worthy of largesse from the firm

It is not a simple task to analyze the stakeholder doctrine of corporate social responsibility because there is so little agreement among their supporters as to what the doctrine exactly means and entails, and how to implement it in practice. One source of disagreement regards the list of stakeholders. Proponents of stakeholder theory have enormously different and expansive lists; these range widely, in addition to shareholders, the lists frequently include: workers, management, customers, input suppliers, competitors, the local community, governments, non-human species and the environment.

Even with a particular, less-expansive list, there are insurmountable problems in implementing the stakeholder doctrine of corporate social responsibility in an objective fashion because within categories membership is undefined and the relative importance of each category is unstipulated. Suppose we concentrate on “stakeholder responsibility” to workers, managers, consumers, the community and input suppliers. We have to ask: should we include solely people who are presently members of these categories or should we count previous members (or their heirs?); and should we include potential future members of the categories? If we extend categories beyond the present, then in implementing the stakeholder doctrine we would have to ask: what weights should be given to past, present

and future members? Even if we limit ourselves to members presently in the categories, should all members of a given category be given equal weights? Should an employee/manager/supplier who has had a one-week association with the firm be given the same consideration as one who has had a 20-year association? If we consider “the community” as a stakeholder we have to ask: what are the bounds of the community? Are its bounds to be determined geographically, electronically, professionally, philosophically, or by some other means? Is there to be more than one community? If so, who will decide this? Once we define the membership of each stakeholder category and the weights of the members within each category, we would have to then ask: how should each category be ordered relative to the others and relative to shareholders and is this ordering absolute? If profits from the firm unexpectedly decline do all stakeholders share in equal proportion to their benefits or what? If profits rise unexpectedly do all workers benefit equally, or are rewards to be allocated Marxian-like to those of greatest “need”? These questions are innumerable and the answers unfathomable; we cease them here because we are certainly taxing our patience and, most likely, the reader’s.

Although the stakeholder doctrine is incoherent and impossible to implement, its open-endedness has been a boon (and a boondoggle) to academics, particularly in management, which seems to have a proprietary interest in propagating the stakeholder doctrine of corporate social responsibility. We have taken a light-hearted view of this doctrine because it is impossible to contemplate all of the proposals and proponents seriously. In 1995 for example, in an article in *the Journal of Business Ethics* (a widely recognized academic publication), Mark Starik argued that stakeholder status be extended to “non-human nature.” We are serious here; the title of Starik’s article is “Should Trees Have Managerial Standing?” This raises some interesting questions for stakeholder doctrine; for example, if chickens are to be raised to produce eggs and corn is fed to the chickens, then how should we measure the welfare of chickens, corn and eggs (in

alphabetical order) in order to determine their stakeholder weights?

This is a farce; people who argue that we should consider the preferences of non-human things (real or abstract) are either fools or charlatans. Fools if they do not recognize that people are trying to impose their values on the way they think these issues should be decided; or charlatans if they recognize that they are imposing their values on non-human things, but are pretending that they are not. Consider bears in the wild; in some areas of the United States bears are a nuisance because they frequent garbage dumps to obtain food. Nature enthusiasts argue that we have “degraded” or “spoiled” bears into scavengers, yet the bears have a marked preference for garbage dumps. Bears that have been removed and transported over 100 miles from these dumps have returned in less than a week; the bears have demonstrated a marked affinity for “degradation.”

This illustrates the basic question: How does any human know what bears want or what is “good” for them? If we decide that bears are incapable of deciding what is good for them, then who is capable? We (the authors) do not want bears in our garbage dumps because they threaten us, our children and pets, and they do damage to our property. We treat bears very differently than people; as an illustration, back in the 1970s when the American dollar was strong and the world poor, Americans were frequently criticized for ruining the “unspoiled” people of various (relatively poor) counties by tipping too generously. The criticism was easily recognized as self-serving greed, the non-American tourists simply wanted the same services at a lower price than the Americans were establishing.

The notion of “spoiling” people by expanding their opportunities to acquire more resources strikes most people as bizarre, if not downright misanthropic; contrast this with allowing bears open access to our garbage. In many jurisdictions, any person who distributes food or garbage to bears, or disposes of it in a manner that allows bears to consume it, is subject to civil penalties. Bears are not people and are not given the same rights and consideration as people. If bears are

deemed as a nuisance, then we remove or kill the problem bears.

Protagoras said that man is the measure of all things; this means that if someone is assessing anything, we have to use human values because we do not know the values of the gods, animals or nature. We may pretend that our values are those of the gods, *et cetera*, but the pretense does not lessen the fact that we are assessing the world through the eyes of humanity. Thus when someone advocates “corporate social responsibility” toward some aspect of nature or the environment all they are doing is asking management to take resources away from pursuits that enhance shareholders’ value in favor of pursuits that please the advocate. Nature is reified and animals anthropomorphized to obscure the basic fact that the advocates want shareholders to subsidize their tastes and preferences. Stakeholder doctrines of corporate social responsibility provide fig-leaf coverings for those who wish to divert firms’ resources away from owners; these schemes appear to have received validation in textbooks and in peer-reviewed academic publications.

When taken seriously, the stakeholder doctrine attenuates the fiduciary duty that corporate managers owe to firms’ owners (shareholders in publicly held firms) to husband and increase owner/shareholder wealth. The focus on stakeholders increases the likelihood that representatives of groups or causes deemed socially worthy will be able to divert shareholder wealth to themselves by currying favor with management. In academic institutions where the stakeholder doctrine plays a prominent role in business schools’ curricula on “business ethics,” deans and presidents actively solicit corporate executives to obtain financial assistance from their firms. The intellectual dissonance of emphasizing a curriculum of business ethics on one hand, and suborning unethical behavior on the other hand does not appear to trouble them in the least. In an egregious example: 1) a private school attended by the daughter of then-president of the Tyco Corporation, Dennis Kozlowski, received \$1.7 million from Tyco to fund the Kozlowski Athletic Center; and 2) Kozlowski was also generous with the

It is argued that stakeholder status be extended to “non-human nature,” i.e., “Should Trees Have Managerial Standing?” That raises interesting questions for stakeholder doctrine; for example, if chickens are to be raised to produce eggs and corn is fed to the chickens, then how should we measure the welfare of chickens, corn and eggs (in alphabetical order) in order to determine their stakeholder weights?

The reification of corporations with the corresponding claim that they have moral, ethical and social responsibilities is an exercise in misology. Only people have moral, ethical, social responsibilities and only people have moral status.

shareholders of Tyco's money by endowing his alma mater, Seaton Hall University, with \$5 million to fund Kozlowski Hall. Despite Kozlowski's abject obeisance to the stakeholder doctrine, despite his disbursements of shareholder wealth to worthy educational establishments, on Sept. 19, 2005, he was convicted for misappropriating shareholder wealth (unfortunately not for actions involving giving shareholder wealth to universities, more the pity). Judge Michael Obus (apparently an unenlightened chap) of the Supreme Court of New York (Manhattan bench) sentenced Kozlowski to serve from eight years and four months to 25 years in prison for fraud against Tyco's shareholders.

Taken seriously, the stakeholder doctrine not only weakens managerial fidelity toward shareholders, but it also, perhaps less obviously, obscures managerial clarity about day-to-day operations. For example, if workers and shareholders are both stakeholders, then how should management assess their competing interests in the everyday business of wage negotiations and the hiring and firing of workers? Saying that we should be "fair" to both workers and shareholders is not a solution because it gives no practical advice on how to make decisions among claims from these distinct stakeholder groups. If layoffs are to be made, should "need" be a consideration? Should a worker without dependent children be laid off rather than workers with dependent children and what weight should fertility be given *vis-à-vis* productivity? Should workers with more dependents be paid more than equally productive workers with fewer dependents? Should recovering "down-on-their-luck" addicts, paroled felons, physically handicapped or mentally handicapped be given preference over equally productive applicants who are not in these categories? If the wealth of shareholders does not drive hiring, layoffs, firing and rates of compensation, then what does? If amorphous "social responsibilities" as opposed to market forces are made paramount, the personnel decisions that management makes are less likely to increase the wealth that shareholders have entrusted to corporations. This explains

the hostility of the Bill and Melinda Gates Foundation (and by extension that of Messrs. Gates and Buffet) to the concept of social responsibility: it is their money and they know better how they want to be "socially responsible" than any self-appointed guardian of corporate social responsibility.

Summary and Conclusions

The reification of corporations with the corresponding claim that they have moral, ethical and social responsibilities is an exercise in misology. Only people have moral, ethical and social responsibilities, and only people have moral status. The only intellectually defensible statement of corporate social responsibility is that of Milton Friedman: the duty of business is "to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."

We demonstrated that Friedman's ethos is both practical and profitable. Additionally, we explained that its implementation depends upon the public availability of information about corporate activities that is extensive and accurate enough to foster a vigorous corporate takeover market. Increasing the likelihood that managers who are not fulfilling their fiduciary duties to shareholders will be discharged obliges management to pay greater attention to their duties.

The alternative ethic of corporate social responsibility and the stakeholder doctrine is incoherent. The corporation has no physical existence, let alone moral responsibilities. We do not believe that anyone argues that a privately owned firm has any social responsibilities beyond that of its owner; how does dividing ownership among many people create corporate responsibilities? Purveyors of the doctrine of corporate social responsibility are misled by legal fictions, or they are simply unethical and believe that because each individual shareholder has such a minute fraction of ownership that they can deceive, co-opt or coerce management by reifying the corporation and successfully divert resources from shareholders. There is no logic behind

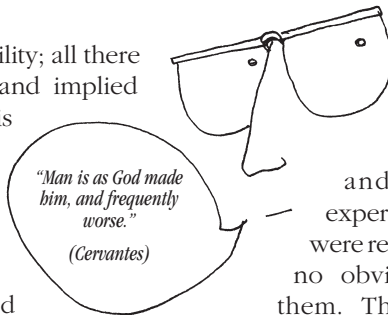
corporate social responsibility; all there is is rhetoric, reification and implied or explicit threats. This is Machiavellian, not ethical behavior.

Corporate capitalism has been the handmaiden of economic growth; together they have lifted more people out of poverty and misery than all other forms of organizing resources. The institutions that support property rights and individual freedom provide incentives to husband and increase their wealth via exchange and specialization. The spillovers and feedback that stem from exchange and specialization advance the public interest; this is an unintended and unforeseen consequence of market exchange. As Adam Smith famously stated in 1776:

Every individual . . . generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. . . . (in a society with individual freedom, a business owner) by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.*

People exchange specialized goods and services on a voluntarily basis, all parties perceive themselves to be better off by trading. Exchange and market processes are positive sum games (not zero or negative sum games) as long as the parties act ethically; that is with neither deceit, nor fraud and acting in open markets within the strictures of law and custom. The present institutional environment that allows the modern corporation to exist, market exchange and the Friedman ethic may not create the best of all possible worlds. However, historically speaking, there is an excellent argument to be made that they provide us with the best of all probable worlds.

Conversely, corporate cultures that degrade managerial fiduciary obligations by emphasizing stakeholder doctrines of corporate social responsibility make worst-case scenarios more likely. In a famous experiment conducted at Stanford University in 1977, Professor



Philip Zimbardo, a psychologist, randomly divided students into prisoners and guards. Before the experiments began the students were relatively homogenous with no obvious psychotics among them. The students who were (arbitrarily) assigned the role of guards were given wide-ranging and somewhat arbitrary powers to inflict punishments on the student "prisoners." The experiment was designed to run for two weeks, but was terminated after six days because of the brutal behavior of the "guards." The point is that culture and rules matter; someone who would have been perfectly respectable, if not completely honorable, under one set of circumstances becomes an uncivilized brute in another. Bad people will do bad things, and a rotten apple is rotten, but if you put a good apple in a bad barrel it is likely that the good apple will turn rotten. Similarly good people in an environment where the moral atmosphere is at best opaque may become entirely unethical. The 20th century witnessed some of the most horrific crimes committed against humanity, and these crimes were not all done by people who were inherently evil. Many of the crimes were committed by ordinary people placed in an environment where the norms of civilized society had been replaced by perversions.

We do not mean to imply that corporate social responsibility is a perversion or evil, it is merely morally vacuous. It provides no coherent practical advice on what individuals should do except that they should do the "right" thing. What that is and what it entails is entirely up to the individual; importantly, it leaves open the choice of failing in the employees' fiduciary duty to shareholders. If others follow this path, then the result may be a culture like Enron's where managerial aggrandizement superseded all. In contrast, the ethic of the primacy of ownership provides a clear path for all corporate decision-making: to maximize shareholder wealth in open markets according to the legal and ethical strictures of society with neither fraud nor deceit.

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*Adam Smith (*An Inquiry into the Nature and Causes of the Wealth of Nations*).

Policy-makers have reduced teachers and school leaders to compliance officers, their main duty being to enforce the thousands of laws and regulations that govern public education.

Yes, Indy Schools Are Broken, But They're Not the Only Ones

by **JEFF ABBOTT, J.D., Ph.D.**

The hard-hitting series in *the Indianapolis Star* exposing the problems of the Indianapolis Public Schools (IPS) was thoughtful and poignant. This writer has known the IPS superintendent for over 20 years on a professional and personal basis. He has achieved national distinction and is widely hailed for his many professional accomplishments. He is a man of great vision, courage, integrity and dedication to children's learning. He has an excellent intellect and outstanding leadership skills. He is surely one of the best leaders of schools in the country.

Despite all these accolades, though, *the Star* is right not to expect Dr. White to be the savior of IPS.

Why not? Because the system is broken and in need of repair — not just IPS but the system of public schooling throughout Indiana. It is designed more for adult interests than children's interests. This writer has represented over 60 Indiana public school districts and has seen them from the inside. The same types of problems exposed by *the Star* could be exposed at nearly every school in Indiana. Our school districts are full of politics, self-dealing and self-interest groups with their own agendas. Some even have corruption.

W. Edward Deming, one of the founders of the Quality Movement, once observed that about 94 percent of an organization's problems are due to the design of the system rather than the fault of the workers. Despite this, policy-makers continue to denigrate teachers and school building-level leaders by heaping more and more laws and bureaucratic regulations upon them. With this has come the near destruction of teacher and school-leader accountability, responsibility, creativeness and innovation. Policy-makers have reduced teachers and school leaders to compliance officers, their main duty being to enforce compliance with the thousands of laws and regulations that govern public education. It is time that state and federal legislators recognize that teachers and school leaders cannot be regulated into excellence.

Courageous school leaders are all too often quickly devoured by the domineering political system and the interest groups. Even if they succeed in reforming a school district here or there, the changes may be short-lived as interest groups elect new school board members to dismantle the reforms and return the district to *status quo ante*.

A redesigned Indiana public school system should have these building blocks as its foundation:

- Deregulation of public schools and the dismantling of the educational bureaucracy.
- Creation of an environment where teachers and school leaders are free to practice their profession by focusing on the needs of their clients (the children) and not on politics.
- Personal and group responsibility and accountability for all school staff.
- A compensation system for all school staff that rewards performance excellence rather than mediocrity.
- Free choice of schools for parents.
- A weighted student-funding formula where state revenue follows the child.

The Freedom Schools model described in the spring issue of *The Indiana Policy Review* meets that criteria. Such a model, if adopted by the Indiana General Assembly, could save more than \$50 million. How can that be? As with any bureaucracy, the state education bureaucracy can be substantially reduced by moving from a system that is highly regulated and political to one that is profession-centered. Conversely, as long as the system remains highly regulated by the Legislature and the bureaucracy it has put in place, even the most bureaucratic jobs are necessary. Someone, you see, has to fill out all the paperwork and assure compliance with the plethora of laws and regulations now governing Indiana schools.

This writer has faith in the many dedicated and caring professional educators who toil daily in this broken system. These same professionals, freed from excessive regulation and politics, would be able to improve student academic achievement. Let's give them the opportunity to do so. — *April 23*

*Consolidation Is No Way
To Streamline Government*

by SAM STALEY, Ph.D.

Suppose Indiana government convened a commission on improving the state's economic competitiveness. And suppose one of their recommendations was to consolidate all of the state's 659 machine shops into one big company, let's call it Indiana General Tool. The Indiana Chamber of Commerce, the Indiana Manufacturer's Association and each of the 659 company owners would rightly protest, perhaps toppling the current administration and upending the General Assembly.

But doesn't such consolidation make sense? After all, only 100 of these firms employ more than 20 people. Surely they could achieve efficiencies by combining their operations into one big organization. They could eliminate all those company presidents and treasurers and coordinate all the marketing and sales functions for their products under one central marketing office. A strategic planning division could decide what products should be produced and marketed, eliminating the duplication of small research-and-development programs scattered across the state.

That idea, of course, is absurd. Yet this is what the Indiana Commission on Local Government Reform proposed last fall when it issued its report, "Streamlining Local Government." Townships would be eliminated. Police, fire protection and emergency medical services would be consolidated under one county government. School districts would be consolidated to ensure a minimum district-wide student population of 2,000.

Why? Efficiency, they say. "Our job was to recommend ways to improve the effectiveness and efficiency of local government," the commission members wrote. "We believe that our recommendations will do that and, as a result, lower the cost of local government and, by extension, property taxes."

Too bad it's not true. Making such a statement, in fact, shows a remarkable lack of familiarity with the real world of local government consolidation. Even the experts who research this area question the inevitability of improved efficiency.

For example, *The Indiana Policy Review* in the fall of 2005 surveyed researchers with direct knowledge of the effects of local government consolidation. Ninety percent of those responding believed that consolidation would not reduce taxes. Only about half with direct knowledge of Indianapolis believed UNIGOV had reduced overall costs while more than half believed it was harder for citizens to access government services after the consolidation.

The reasons for such results are complex and reflect the practical difficulties of implementing consolidation. In many cases, the consolidation process simply "negotiates up." That is, employees in local governments who are paid less (townships) are brought up to the pay scales of the best-paid government workers. Moreover, the "transition costs" of consolidation — renegotiating collective-bargaining agreements, developing and adopting common standards, restructuring and realigning public services — are routinely underestimated by consolidation promoters.

For example, the most rigorous statistical studies of police and fire department consolidations find little or no impact on service levels, productivity or efficiencies. (These studies are reviewed and summarized in a report to the Marion County Consolidation Study Commission available here.)

Notably, *The Indiana Policy Review* survey found consensus among the experts that consolidation could improve the technical efficiency of providing services and provide more uniform service delivery, two important goals of the Indiana Commission on Local Government Reform. Yet, even this begs a question: Is uniform service delivery desirable?

Surprisingly, probably not. Citizens don't necessarily want uniform service delivery. That's why they move to new neighborhoods and towns.

Consolidated county government with a mandate to provide uniform service delivery will be hard-pressed to accommodate the diverse interests and desires of Indiana citizens. — *April 16*

The most rigorous statistical studies of police and fire department consolidations find little or no impact on service levels, productivity or efficiencies.

DIM BULBS & BRIGHT

“Do you people (at the Indianapolis Star) have no shame? Or do you really not recognize the difference between reporting news and editorial support of a specific situation?”

— Fred McCarthy

THE BRIGHT: McCarthy

Do you really consider that headline, “Drillers Get OK to Annoy Polar Bears,” to be either accurate or appropriate?

The last sentence of a half-page of outright advocacy gives the lie to the whole story:

Since 1960, when the hunt for oil and gas began in Alaska, only two fatalities of polar bears have been linked to oil and gas activities in the state, the (Fish and Wildlife) service said.

Do you people have no shame? Or do you really not recognize the difference between reporting news and editorial support of a specific situation?

Fred McCarthy

www.indytaxdollars.typepad.com

June 17 email to the Star

THE DIM: Ryerson

The Fish and Wildlife Service specifically said the the oil companies could operate even if small numbers of polar bears are incidentally harmed, so the headline was accurate. There is no question that the numbers of these animals are on the decline, which is why the administration declared them an endangered species.

The story, as well as a bold-faced “break-out” quote, clearly gave the Fish and Wildlife’s and oil company’s positions. I’m comfortable with our presentation of the issue.

Dennis Ryerson

Editor, the Indianapolis Star

June 17 email reply

THE BRIGHT: Limbaugh

I think there’s a battle going on in the Republican Party to push conservatives out of it or to diminish their role and influence. The latest bit of evidence — and I’ve chronicled much of it for you during the course of the recent months — the latest bit of evidence is this story about Mitch Daniels. The Indiana governor “elicited several hushed gasps and raised eyebrows late last week as he lectured a conservative crowd that it was ‘time to let Ronald Reagan go.’” The governor delivered his remarks to a room full of fellow red-staters at the Fund for American Studies’ annual conference and donor retreat at the Newseum in

Washington. “Nostalgia is fine and Reagan’s economic plan was good,” Daniels said. “But we need to look toward the future rather than staying in the past.” Daniels added that the GOP needed to work on uniting behind Sen. John McCain instead of constantly comparing the Arizona senator with the Gipper.

While he prefaced his remarks with the disclaimer that his thoughts were “somewhat controversial,” he hoped that he “would not be misunderstood.” Incidentally, applause was somewhat less enthusiastic as he left the stage than when he began by poking fun at Barack Obama.

Now, this, sadly, is a symptom of what is happening in the Republican Party at large. The country club, blue-blood Rockefeller Republicans — and there are lots of them in the Republican Party, they were not happy with Reagan when he was in office. They didn’t like Reagan. They were embarrassed because they thought he was a dunce and an idiot and he didn’t come from their stock, and even when he was winning with two landslides.

He brought with them these Reagan Democrats, conservative evangelicals — and that brought abortion, and that really embarrassed them.

Rush Limbaugh

Excerpted from his

April 21 broadcast

THE DIM: Tully

Gov. Mitch Daniels’ latest political headache started with an obscure blogger’s failure to take precise notes, and then worsened when a more influential blogger spread the initial report across the Internet.

It turned into a painful migraine when the nation’s premier blowhard — the blathering Rush Limbaugh — took the report, failed to fact-check it, and then used it to bash Daniels to millions of radio listeners.

All this because Daniels had the audacity to tell fellow Republicans they should look to the future, be the party of new ideas and not be seen by voters as a party focused on the past.

Matthew Tully

Excerpted from his column

in the April 25 Star

“This is a symptom of what is happening in the Republican Party at large. The country club, blue-blood Rockefeller Republicans — and there are lots of them in the Republican Party, they were not happy with Reagan when he was in office.”

— Rush Limbaugh