



INNOVATIONS FOR SUCCESSFUL SOCIETIES

AN INITIATIVE OF
THE WOODROW WILSON SCHOOL OF PUBLIC AND INTERNATIONAL AFFAIRS
AND THE BOBST CENTER FOR PEACE AND JUSTICE

Series: Centers of Government

Interview no.: H2

Interviewee: Governor Mitch Daniels

Interviewers: Michael Scharff and Richard Messick

Date of Interview: 19 July 2012

Location: Office of the Governor
Indianapolis, Indiana
U.S.A.

Interviewers: Michael Scharff, senior research specialist, Innovations for Successful Societies, Princeton University.

Rick Messick, formerly of the World Bank; chief counsel and research director of the National Republican Senatorial Committee from 1983-84 when Governor Daniels was executive director.

SCHARFF: This is Michael Scharff. The date is July 19th, 2012 and I'm joined by my colleague Rick Messick and together we're speaking with Mitch Daniels, who is the Governor of Indiana. Governor, thank you very much for your time this morning.

DANIELS: *Thrilled to do it.*

MESSICK: Here are the five things I thought it would be useful to hear your views on. One is the theme of getting off to a good start. How important is the hundred days business? And moreover, what was the groundwork that was laid both in the campaign and the transition? Second, is sort of the idea of change strategy and, although I hate this term, and everyone uses it, it does seem to have some value: low-hanging fruit?

And then I thought one of the interesting things is the changes without which nothing else—you know, you pointed out in the book how you were so glad you did scrap the collective bargaining business in terms of what it allowed you to do later. Enlisting support would be number three and one of the things we're interested in would be, for example, the outreach to the career staff. And I saw, for example, on the day you took office you had a letter to every—well, as you obviously realized, if 30,000 people are against you, the staff in the governor's office is mixed.

Then, also one thing that I saw is gathering up the reins of power and creation of the Office of Management and Budget, the Executive Branch staff, getting control over agency appointments, and so forth. And then the last, which struck me, I know this never happens in Indiana politics, and, of course it's very rare in Washington politics, is sort of the ego-management business. Maybe you've got a staff in, of course, the Executive Branch, and you've got these agency heads and you've got lots of ambitious, dynamic people and how do you ensure they row the boat in the same direction?

So those are the sort of things I thought we might hit upon and how important was off to a good start?

DANIELS: *I assume it was very important. We don't know. But all the evidence is that both tactically and long-term, it makes great sense to strike while the iron is hottest. In our case, and I'll give you sometime during this conversation a crystal-clear, very large example of this, but we had captured a very fragile majority in the general assembly, which I knew could easily be reversed and it was, at least in one house. Therefore, if we hadn't done things in the first year or at least in the second, many would not have happened at all, including some of the most important things. Or wouldn't have happened for years. But just to state the obvious, someone who seeks and secures election, generally experiences a period of good will. Of course, I tell people I remember back then that I said the honeymoon will end on the day of the first change and there's that. But as a*

general principle, we assumed that we should do as much as we could as fast as we could. We always viewed, to use another cliché, political capital as renewable. Capital properly invested earns a return, which you can then invest in the next change and the next one.

You mention preparation for major change. Let me just lay one predicate here, and you'll know this Rick, but every listener wouldn't, but if there is one constant in the histories written about the State of Indiana or analyses of the culture of the state, it is that we are a conservative state and they don't mean in the modern usage. They mean it in the sense of resistance to change and slowness to change and reverence for tradition and we like it the way it is. And so our whole reason for running, if I had to reduce it to one sentence, back in 2003 and '04, was to try to challenge that and perhaps change that predisposition to suit a world in which, as I have always said, those who tread water sink.

Here, there was an even higher premium, I thought, on successful, bold, visible action that would announce to our fellow citizens, A: these people really meant what they said when they were campaigning and B: there is a new day here.

Now, one last word about the competition for office. This is a confession I have made before. I started in July of 2003 as a no-name first-time candidate. I will come and go from public life having only ever run for one job, which, of course, is not exactly the pattern, but anyway, as you mentioned there had been an unbroken 16-year regime of the other party. The state had sunk, sunk, sunk. The state was fiscally broke. The state government was a joke and a mess as it is in too many places. The economy was stagnant and worse. So I said for about a month to those who were helping us, this is a keep it simple stupid situation. We're just going to point out the obvious. State is broke. Government's broken. We can do better economically. Time for a change.

It didn't take very long before I realized, number one, that wasn't very responsible and number two, it wasn't really even smart. It was going to be a better electoral strategy and certainly a better preparation for office to go ahead and figure out and elaborate clearly a program for change. And we did, way past the point that any sane citizen wanted to study. But week after week we were making proposals of things we would do, so I was really determined to start fast and show that that wasn't just campaign rhetoric.

MESSICK: And I saw somewhere that there were 70 specific proposals by the time the campaign was over.

DANIELS: Yes, something like that. Somewhere around here there must be one, the basic campaign handout by sometime in the election year, was called the road map. On one side it had, the side people really wanted to look at, it was a map of Indiana and showed all of these places I had been in my famous RV and where it broke down and where we got lost and where we got the best tenderloin sandwich. That was the fun side.

But on the other side was the road map for Indiana's next era and each time we printed it, it had more specifics on it. In my drawer over there, I have this shredded, tattered, scorecard. When we arrived in office I had those 70-some items printed on signs and we went about checking them. There were three columns: achieved, partially achieved and not achieved. Check, check, check, check.

So yes, a big new crop of governors got elected in 2010 and a whole bunch of them called up and came around and they asked a question much like yours and I urged them all. You got big things to do. Go hard. Go early. Just for obvious reasons. One, you have momentum and two, there is time for changes to work out. Robert Kennedy said, "Change always has its enemies," and the best way to overcome that is with tangible results. So the sooner you get something in place, if it's a wise idea, the better.

Again, at least in a setting like ours, big and numerous actions begin to change the expectation. At that table over there, I remember the news conference right at the end of the first session and a veteran reporter said, "Governor, that was more than we've had to cover in 10 or 15 years put together. What's next?" The important question was—he assumed there would be more and there was. I had an answer for him but it's hard for me to imagine a situation where the better course is to ease into things. There must be environments where that is the case but ours was not one of them.

MESSICK: So you've got 70 concrete proposals the day you get elected and I assume one of them was to rescind the executive order on collective bargaining?

DANIELS: *Actually, no, it wasn't on the list. I hadn't decided. I detailed this in the book. Another confession: I tried to talk myself out of that and I think I explained why. I was worried however useful we might decide it would be, I was worried about doing it because I thought it might suddenly change the subject and subvert everything else we wanted to do.*

MESSICK: Yet, as you say in this book, a lot of the things that you accomplished, you couldn't have accomplished had you not —?

DANIELS: *That's right. Knowing what I know now. I would have done it and whatever the consequences I would have decided that they were worth it. I feel very fortunate that it didn't—I think it was probably the suddenness, I don't think people expected it, or at least expected it as a sort of lightning bolt like that and so there was no one organized to raise Cain about it.*

MESSICK: And I saw the letter, which we'll want to track down a copy of, the letter that went to every state employee. I assume there was some more follow up in terms of getting these, what was then 33,000 to 34,000, folks in the boat and at least starting to row in the right direction.

DANIELS: *Well, right. I don't even generally like to go to lunch but I went to the cafeteria a couple of times a week there at least for awhile and certainly made the rounds of agencies. I think in general public employees get a bad rap. Most of them really want to do a good job. Too many of them are in settings that don't challenge them and certainly don't reward them for doing a good job. One of the more fundamental changes that we made rather quietly—only because the news media didn't seem interested in such a thing and they should have been—but we're the only state in the country to my knowledge that pays on a performance basis, not a longevity basis. You know, grid and whatever you call it.*

MESSICK: Bell curve.

DANIELS: *We pay on a bell curve. And we pay bonuses. Spot bonuses and we have big awards, particularly for individuals or groups who —.*

MESSICK: Adam thought that was—we talked to Adam yesterday and he thought more than the money was the recognition that you gave.

DANIELS: *I agree with that. It's true. I've seen that a lot of places. And you know you can get a couple of the programs and it's fun just to read the stories. You know, the ones I always like by the way, and a very important point I try to make to others, new governors for instance, is that there is low fruit. In fact, it hangs very low in government. It was amazing how much—.*

MESSICK: Fruit there was hanging?

DANIELS: *Yes. How many improvements and how much money you could save with just the simplest things. However, to be able to do it, year on year on year, which has been our experience, you can look in the data and you will say that our compound rate of spending for eight years was 1.32 percent. It was about half inflation. You don't do that with someone sitting on Olympus making bold pronouncements. You don't even do it through very smart managerial changes at the departmental level, although there have been tons of those.*

You know in the low fruit category, an example I think is in the book, it's one I commonly use—we weren't here two weeks when the bright, bright young guy whom we found to head our corrections department —.

MESSICK: With the food business.

DANIELS: *Okay, so you got that one. That's like falling off a log to save, I don't know, by now it's probably \$20 million a year compared to what we would have spent. For better food by the way, which is part of the story. Well, even those things, which we continue here and there to discover, aren't sufficient. What you really want to have ultimately is a culture in which everybody is looking for better ways or less expensive ways. And so when we have those recognitions and the spot bonuses, the ones I love are where somebody found a way, not to save 14 million dollars but 14 thousand dollars. You know? I don't know—some fella recently tromping around one of our parks had been asked and said we're going to have to put a fence around this area to protect from hikers walking through. It's a fragile wetlands or something. And the guy says, after thinking about it, he says there are only two trails in there, why don't we put up two signs?*

Now, it saved a few thousand dollars. I was more excited about that, honestly, than something with a lot more zeroes attached. And we made a big fuss over that fella. That's what you ultimately want.

MESSICK: Culture change.

DANIELS: *Yes. And I'm hoping that we've gotten there. You know, one of the regrets I had about the recession was that we couldn't—we had to skip a couple years of pay increases. We weren't cutting it as some states were, but we just couldn't. And what I hated about that was I wanted to deeply imbed this notion that we pay for performance in Indiana and I hated to skip a couple years. We'd had it for probably, let's see, we put it in place the first chance we got, at the end of the first year, so it had been in place maybe four years and then we had to skip a couple.*

We were on our feet pretty well fiscally in 2011 and the pay increases happen in December. And I did something that has never been done here. At the end of the fiscal year last year, when we were in really strong shape, I declared, I think I

called it an efficiency dividend, and out of the blue we gave every state employee a thousand bucks to reward them for their central role in improving Indiana state government and helping us to stay in the black when everybody else was drowning. My main point was to get back in the saddle in terms of the culture change that we had been working on. And I get one more pay raise at the end of this year and I'm going to lean as far as I responsibly can on the high side once again. By the way, the way the bell curve works is if the average pay raise is three, somebody's getting eight or something. Because somebody's getting zero down at the non-performing tail.

But yes, we have worked on that and I believe that from everything we can tell, Indiana employees, of course there is a spread, but their morale is better and that they are proud of what they're doing and I can certainly tell you departments in which they're very proud.

SCHARFF: Were there certain steps that you as Governor took to ensure that that pay-for-performance system worked correctly? For instance, in terms of the evaluation process?

DANIELS: *That's a really good question and the answer is: all we could do. We really pushed on our people because I had seen in business, too, that this can be done with a lick and a promise. You have to have a real and hopefully candid and fair evaluation of every employee. We never did quite decree—we never forced a ranking or decreed a bright line shape to the bell curve, but we were pretty firm with people. Anybody who came back and could only identify two or three or four percent non-performers, we sent them back for more work, particularly early on. And we really did—yes, I did ask every year for updates on the progress of evaluations.*

MESSICK: Having worked in a dysfunctional bureaucracy and having observed many others, where this often goes off the rails is, of course, the evaluator is from one tribe and the evaluatee is from another tribe or whatever. If your evaluatees said, "you know, I'm really a five and you're saying I'm a one," what kind of redress did they have? Because that is just a huge problem when you have a system that is pretty distorted and you're trying to move to what you're talking about.

DANIELS: *Right. Well, there are, we centralized a lot of things, which may sound counter-intuitive to you —.*

MESSICK: No the next question I have is taking the reins of power.

DANIELS: *Well, yeah, that's right. And so personnel was one. They can appeal. I don't hear about a lot of it happening.*

MESSICK: Well, we'll find out.

DANIELS: *What I hear much more is—by the way, our management, well they did ask—now that I think of it, we started with three options. Acceptable. Superb. Excellent. Management asked for a fourth so they could be a little more differentiating and particularly since then I have not heard about lots and lots of grousing. I'm not saying it doesn't happen, I don't think so. But yes, there is that possibility.*

MESSICK: See that's why unionization is often so important to them. It's the only protection against the arbitrary manager.

DANIELS: *Yes. On that point, first of all we didn't ban unions. The union is still around. All we said is you don't have to pay them to have a job. Ninety-odd percent opted out without any. By the way, we didn't even require them to re-up. We didn't do anything. We didn't put anything out. It was purely word of mouth and voluntary but, you know, a few percent still belong to the union and whether you belong or not, if you want to take a union person to the meeting you can just as before.*

Now we did pass civil service reform in the last general assembly with surprisingly little attention. Seventy years since Indiana had changed its law in any respect. There is still an appeals process if you feel, in any respect, evaluation, dismissal, discipline, whatever. It's more streamlined and now every employee is an at-will employee except those who are paid with federal funds where it's not permitted. I don't know, there may be other states like that, but I am unaware of any state that has anything like that and pays for performance. So I'm hoping that, after a generation or maybe eight years is a good start, this will be accepted as the way we do business and a fairer way. The world is moving this way. Look at public education. Young teachers have been penalized forever because they didn't have enough time and grade and that's coming to an end in a lot of places including here.

MESSICK: Gathering up the reins of power?

DANIELS: *That's a good question, too.*

MESSICK: Because that's the—

DANIELS: *I'm remembering now some anecdotes. Again, I had never worked in state government so I didn't know much of anything. While I was running, I was invited to a meeting with leaders of, let me just say, one of the heavily regulated businesses. I guess it had dawned on them that, you know, we might actually break through and they thought—*

MESSICK: Better know these guys.

DANIELS: *And so someone asked a question about some matter of policy. Well, let me just say it was in the energy industry. So I said, "Listen, Indiana ought to be producing more of its own energy. We've got to find clean, environmentally sensitive ways to use the coal we're sitting on. We're not lucky enough to have oil or natural gas in any real quantities any more, but we do have coal and maybe bio-fuels, and so I'll appoint members to the commission who understand that that's our policy." I started down this track and I thought I said something wrong because I noticed that people sat forward. And finally one of them said, "You'll give guidance to the people..."*

I said, "Yes. I'll never go near an individual case, of course, but in terms of broad policy, this will be our policy and it will be reflected in everything we do." But, you know, I thought, gosh, this obviously hadn't been the case.

As an even better example, I was talking to somebody who said that he had sought and sought and sought and sought a meeting with my predecessor, not my immediate predecessor but his. He felt he was really being bullied around and abused by a given agency. And he finally got in here and my predecessor said, "That makes a lot of sense, I'm sorry that's happened, I had no idea but thanks for coming in." Then he went back to the agency and the agency said, "We never hear from the Governor's office, we don't care what they told you in there, this is what we're going to do."

And I said, well, we're not going to operate that way. So obviously it is very important and it's easier in state government. I know how difficult this would be in an incredibly encrusted federal government and I have no idea how hard it would be in Africa or some of the places where you guys work. But in a typical, state government, it ought to be doable because you can make at least enough personnel changes if you have to to make the policy stick. You can certainly try to influence the way in which your agencies treat people and make their own decisions.

Now in terms of the reins that you're asking about, yes, having a very empowered budget office was important. Now there was always a budget office, but we wanted to really add to that. We built a little platoon of people there and they've been written about and it's pretty interesting. They still operate today and they have a roving portfolio. It's not all that often that there are things that they see that no one saw before. It's that they find somebody in an agency who has been trying to get something fixed or has a good idea and they come as an ally to say, "Oh, good idea, Rick, let's go talk to your boss about that."

The other three areas that I always encourage people and I say in most of life I'm a libertarian, but when it comes to IT in particular I believe in dictatorship. So we pulled information technology, personnel, and procurement together centrally and with really positive effects. I mean, information technology, you not only had incredible amounts of money wasted but it was wasted in ways to customize things everywhere in a way so that they couldn't work with each other and you had to hire an integrator to try to make them work with each other. It was nonsense. So there has been one central IT here. You can't order a new anything without their clearance and everything harmonizes and that's been a positive thing.

Likewise for Personnel, we've been able to really manage headcount down where it's not necessary. I forget where we are now. Seventy-five, I think. We've got the fewest state employees Indiana's had since 1975. It keeps backing up. And procurement in particular—I was part for a long, long time, of what I considered a very well run corporation but in the late-'90s, we realized we were really careless about procurement and I saw huge improvements there. When I got here, I thought it can't be any better and it was worse. And so, yes, we called in all the credit cards and drew up master contracts for the things we spent the most on. We've got some great prices for everything. We're sharing them with local governments and schools, if they're wise enough to tell their cronies no and join us. So a degree of that is really useful.

MESSICK: On the other hand, one of the dilemmas of procurement is that you want procurement officers that have the flexibility to choose best value over lowest price.

DANIELS: *That's right. That's right.*

MESSICK: And I'll just tell you an anecdote. The European Union went to that several years ago and they just did a study and 99 percent of the decisions are the lowest price because they're afraid of being second guessed.

DANIELS: *Well, it can be a risk and I hope we've had the balance about right but procurement is just dangerous because it's too much fun. When everybody, and I mean the way it was here, every little office had at least some authority to go buy stuff. Well, office is always filled with smiling, friendly sales people and your jokes*

are all hilarious and you go out to lunch and it's just fun. And it's not your money. So there's got to be a better way than that.

MESSICK: When you came in and you had these 70-odd agencies of which 15 or so are sort of central to the guts of the government, did you know on Day One who you were going to appoint? Had you, by the end of transition, identified –.

DANIELS: *We were pretty close, but it's a scary thing. It was a boon but also a worry that we had been in the wilderness for 16 years. There were no veterans. Long-term that was good. Nobody brought bad habits with them or too constrained a view of what should be possible. But, yes, I have reminisced often that after a long day out rattling around, you know, usually there would be some evening speech somewhere I'd get all fired up and I'd say, "I just know if the people of change can break through that citizens of unprecedented idealism and talent will step forward and help us grab this state by the lapels and shake it." That sort of thing. Then I would walk out in the dark to that RV, thinking, "Loud mouth, who are you talking about? How do you know that? What if nobody wants these jobs?" In the end, we were very, very fortunate and yes—I don't remember, I certainly hadn't spoken to anybody about it, it wouldn't have been appropriate, but I don't remember having anybody really firmly in mind on Election Night. But we went right to it after that and we were very fortunate because a lot of really first-class people—I raided my old employer. There were some people taking early retirement in various places. We found a couple of people—a guy who was running a major sporting goods company and it got sold and he was in-between, he was off doing religious mission work most of his time now, but he was willing to give a little of his time.*

SCHARFF: And when you say, "We," who comprised your sort of core team during this transition period that helped you?

DANIELS: *Well, I formed a little transition team but it was a handful of my most trusted friends and advisors, I guess. But we had a lot of folks who were really eager to help. With transition teams, you have to be careful because a lot of people want to be in them because they have a motive beyond that so we tried to factor for that. And if people had a profession that related to this or that corner of the government, we said we'd love to have you and you work over here in a different quarter. We didn't want somebody designing and picking.*

But anyway, we had some really good people. Again, we didn't know too much. We hadn't exactly had information shared with us by our opponents and we had no idea, really nobody did, how deep the fiscal hole was. Within about a month, so well ahead of inauguration, I had some really good insights and briefings about the kinds of problems, which helped us to figure out the kind of people that we would want in this job or that job. It's hard to remember this far removed, but I remember it basically being a matter of identifying people. First find the 11 best athletes and then we'll figure out who is a linebacker and who is a corner back. And really, really good people said, "I am at a moment or I feel called or something; for some reason I am willing to do this." In almost every case, it was for less money and more stress, which is just what you want. I had people say, "I'll work for nothing for two years." There was a real sense—if you could wind the tape back—there was a real sense of excitement. I remember how often that word came up. People said everyone I talk to says they're excited. And I think it's because there was a very pervasive sense that the state should be doing much better and, hey, here is something new.

My best recollection is that people just began popping up and I would recruit people first. "Rick, darn it, you've been complaining about these things for a long time, this is your chance. I know it may not be the most convenient thing." So I was recruiting people and as people fell for it, then we were going, "Okay, how would Messick fit in that slot or maybe that's not it, maybe Messick ought to run --," it would be like that.

MESSICK: Now, the one thing though is, you bring people from non-government experience backgrounds and, of course, what you often see in this country and other countries, is that the career bureaucracy and often, it's not that they deliberately undermine you but, oh that banana peel he's about to step on, well, we'll just let him step on it. And how did they avoid that?

DANIELS: *Well, sometimes they didn't.*

MESSICK: Sometimes they stepped on something.

DANIELS: *Sometimes they did. But, you're going to be able to interview some of these people, right? Those are great questions to ask them. They'll have specific examples that I either never heard or forgot. But I think most of our people, the people we picked, had been successful leaders of organizations of some kind, sometimes non-profit and they were, as a rule, humble enough to know what they didn't know, savvy enough to know that they better win over some people or if they couldn't, then find a way to replace them. But again, I would say, and I don't think I'm putting a gloss on things, that in many, many places, state employees were interested in doing better. I mean, if you worked at our Bureau of Motor Vehicles, you were probably a little tired of those jokes and worse than jokes, with the hostility of people who sat around for two or three hours. And so it was with many other places.*

SCHARFF: Something that everyone from heads of state to local mayors to people in the private sector face is just the daily challenge of how do you manage your schedule? Particularly in a situation where you come to office early on and you have a long list of priorities. It's at once prioritizing but then deciding in a limited number of hours in the day, how do you get done what you need to get done and not have the phone constantly ringing off the hook and not be running to every agency when there is a fire? This is something we see. I was recently in Liberia and the President of Liberia has about six cellphones and she is constantly working to try to clear up every issue. And granted it's a much, much different context but was there a strategy? Is there a way that you thought about how you on a day-to-day basis set up your calendar?

DANIELS: *Well, let's see. First of all, I did maintain direct reporting relationships to a fairly wide span of people, probably in the 15 to 18 range—you know, the key department heads—and I still do. And they rotate through. I want them to feel a direct sense. We finally put in place a system that every Governor had had. There are some assistants who each look over certain departments but I don't let them monopolize our contacts. And every cabinet officer and agency head, I hope feels—they should—that if they need to, and a lot of them do, to just check in. Basically, we want them to be empowered in their area and we make a big deal out of metrics and measurements and so they know what performance they're supposed to be achieving. I think they know what the priorities of the administration are.*

I tell this story all the time. Before anybody was sworn in, the first group I told them, our basic objective is to raise the net income over time of the people in this

state. Disposable income. And wherever you are, there is something you can do or do better or stop doing to make that outcome more likely. And so I hope some clarity of purpose, some degree of real empowerment, some degree of accountability, more tools—meaning the ability now, which is pretty much complete—to reward the best and promote the best and vice versa, gathering the reins where that’s appropriate centrally, which we talked about—somewhere in there I think has been our M.O.

So I’ve never carried more than one cellphone. In this job, particularly as I have chosen to do it, a big question of time is simply the division of time between being here and being somewhere else, principally out in the state. I established such a pattern of going everywhere, of going to places that “nobody ever comes here.” And I was very intent on preserving that brand, if you will.

There is a seasonality, of course. We don’t have a year-round legislature, which is helpful. It meets roughly five months in the odd year and about two to two-and-a-half in the so-called short term.

That was also an interesting thing. You know, we got done with the first term, the first session, and some of the legislators said, “My Gosh, well we got a year to catch our breath.” What are you talking about? “Well, we don’t do much in the short session. The budget’s done and we don’t really have to do anything.” I said, “What do you mean? We don’t have a week to waste let alone a session.” So every one of our short sessions, some of the biggest things we’ve done happened in the short session, when historically sometimes they really did almost nothing. Our transportation breakthrough happened in the –.

MESSICK: Oh, in the short session?

DANIELS: *Yes. That was my answer to that question I mentioned. What’s next? And I said it has to be infrastructure. Don’t ask me how we’re going to do this but I think we’ve just put the state on a path to cure its operational deficit and pay back its debts. It’s going to take two or three years to get there. Meanwhile, we’ve got this, think of it as a capital deficit, like every state basically, that they say is maybe \$3 billion, but frankly it was probably more than that. And so that was a 2006 item and 2008 was property tax reform, our biggest tax reform.*

MESSICK: Short session?

DANIELS: *Short session. 2012 was “Right to Work.”*

MESSICK: You made a point that, gee, you guys hadn’t run on this and now you come out of nowhere with this.

DANIELS: *I wouldn’t say nowhere, but that’s a fair point. I had not run on it. When asked I had said, “I think Indiana can advance economically with the labor laws we have. Let’s just not have that argument.” But I was very open and I started saying a year ahead of time, you remember in ’11—maybe this is what you meant—in 2011, there were a lot of newly elected legislators who wanted to bring it up and I said, “Wait a minute.”*

MESSICK: Oh, yes. Yes. Yes, that’s what I’m thinking.

DANIELS: *We didn’t run on it. I didn’t but you just got elected but you didn’t run on it and that’s not the way we ought to do this and besides it could jeopardize other things. In ’11 it was education reform and another big budget and so forth. But*

we did use '11 to explore it in great detail and the case was becoming more and more compelling to me that we were just missing too many opportunities. We had seven years of experience by then and we were missing a lot of opportunities for lack of that law that otherwise were jobs that would come to this state. Not to mention, we had a roaring recession still going on and we just needed every edge we could get. So by the time 2012 got here, I didn't think it was fair anymore for people to say, "Oh, it's a sudden surprise," or something. But that's the short session thing.

Back to the whole idea of moving fast. My whole bias, the bias I have tried to inculcate in all our people was always fast, fast, fast. One of my many little, by now clichés, is let's operate at the speed of business, not the speed of government. That just spills over into everything. Moving targets are harder to hit. We have always tried to define the agenda and have people respond to our suggestions and often they approve them, but in any event force the action. Now a good example where I think that intuition served us well was the major moves toll release. After we really looked at this hard, it was clear to me that there was no way—I remember they had racked up 30-plus options. I said I'm aware of this, this, and this, anyway that somebody has tried to gather up additional infrastructure dollars, raise the gas tax, index the gas tax, special fees for this, special fees for that—all kinds of things. You do the numbers and you add up the first 30 and you're not in the ball park. Oh, you could in your imagination quadruple the gas tax. The only thing that might work was what we finally did. We had no idea we would get a bid as big as we got. It was really three times a reasonable valuation of the road in state hands, and an optimistic valuation of the road in state hands. But still the culture of the place, a lot of people would say, "Oh very interesting but let's have a study committee, let's wait a year," First of all, my business instincts said this deal is never getting any better. Either the bidder is going to get cold feet or the market's going to change, both of which were about to happen. And second, 2010 is an election year and the fragile majority could go away, which it did. If we had waited, it wouldn't have mattered if they bid \$40 billion, our partisan opposition would not have permitted it. They wanted to continue a patronage operation. They certainly didn't want us building roads and doing all this stuff. Public be damned, they didn't like the partisan implications of that. So thank goodness we pressed ahead and it was, oh man, it was a mess but we made it.

There are things you worry about. This culture we have tried to build could be undone. Easily. A better business climate, we're now right there at the top of everybody's list; it wouldn't be too hard to tear that down. A couple years of tax increases and hostility to business, a different regime could turn that around very fast. Our education reforms: all we've done is pass the best laws in the country; they've got to be implemented. Things are moving in the right direction but that's a very durable establishment. But there are certain things, like property taxes, that we constitutionalized. It would be hard to undo that. The roads we built are going to be there for generations. The park land and the wet lands and other things we are conserving; I don't think anybody's going to undo that. But some of the most important stuff, you just have to hope it can be culturally embedded in a way that makes it hard to reverse.

MESSICK: The thing we try to build in –.

DANIELS: *Oh, let me just say one more thing. You probably noticed this because you've obviously done the homework, but in the civil service reform I mentioned we passed, we prohibited forced collective bargaining.*

MESSICK: Yes. Yes. Yes.

DANIELS: *So it would take a statute. You couldn't do it again the way it was done.*

MESSICK: With buys. But we try to advise people is, implementation of things like education reform etcetera, things that are multi-year, so let's find an outside interest group with a continuing interest in monitoring and jumping up and down and making sure that, you know, the I's remain dotted and the T's crossed. Do you have anything like that in education?

DANIELS: *No. Eventually we got some. But it's a very good idea and it's something we have never been very good at here. We always were working for—I always talk about third-party authority, and that is certainly about allied groups. We did pretty well, as close as we came, was in the education area where we helped people raise a lot of money and we were able to carry the message to people without filtration by the resisters of change or the media.*

Let me think. Well, "Right to Work" we did the same. I was the face of both of those. Well, not entirely. Young teachers were prominent in our advocacy of tenure reform. Young teachers said, "I got the Best in Town award and I'm the one they're going to fire."

MESSICK: Fire first.

DANIELS: *But, no, it's a really good suggestion. It's something I wish we had been more successful at. We had a pretty good outside group for property-tax reform. But you're really talking about a watchdog group after.*

MESSICK: Yes, because the problem we face in the United States, I mean, the best watchdog I always say is the opposition party.

DANIELS: *Right. Right.*

MESSICK: Of course, if you have weak opposition, you try to create these civic action groups etcetera and the skills, the interest, the time available is always –.

DANIELS: *It's an issue of the staying power.*

MESSICK: Exactly.

DANIELS: *It's easy to organize a group to go get something. To organize a group to keep people from getting that which they should not have – .*

MESSICK: Or watching people build a road and making sure that the gravel is up to specs as we tried to do in the Philippines.

DANIELS: *Oh interesting.*

MESSICK: And have somebody come out and take a picture when the dump truck dumps and then send it to somebody whose knowledgeable enough to say that gravel does or doesn't meet the spec. It's a hope. We'll see if it implements.

DANIELS: *Well, you know, that's not just a third world problem.*

MESSICK: I believe I've written about this myself. One last question and then we should let you go. Okay, you've been a business executive and now you've been a

government executive and we always, of course, hear, "well, we'll bring the skills of business to government," but where do those fall short? Where is it different?

DANIELS: Yeah. Well, obviously you have to first, understand, and second, accept, the shared governance. The rightful role of the legislature, first and foremost. And early on somebody said something about, it wasn't relationship management, you asked something in that area and that's a very important one. Some of our people just didn't understand.

The best example was Joel Silverman. He was the sporting goods executive. So he was, from a business standpoint, he was really pretty ideal for the Bureau of Motor Vehicles. He'd been in the retail business. That's what that was. It was a customer service. One of our transition guys said, "That's a 174 Dairy Queens." Cash transactions. Walk-in business. Customer service. Well, so things that were perfectly obvious to Joel, and correct, needed to be done with some care, like closing a bunch of branches. And he came to grief just because, he's a very nice person, I don't think anybody ever said he wasn't, but eventually he would get blunt at these meetings. Some legislator is posturing and showing off for his constituents, you have to understand that that's what they do and let them. But Joel, if somebody said something really idiotic, Joel would tell him that doesn't make any sense at all, right in front of his constituents. So there's a sort of example where rationality can't be the only objective or criterion.

But most of our people adapted pretty well. As we talked about earlier, the best of them understood that you're not going to fix things by ordering people around. You're going to enlist them in a change that's going to make us all look better and going to make us all operationally perform better. There are good and bad managers in business. If you get a good business leader, most of it comes naturally. Somebody who was going to fail eventually would run into trouble trying to make another enterprise work well. Just loosely speaking.

You'll get a better sense when you talk to some of them but they just had to find those people in their organizations who were prepared to be results oriented and not process oriented. Not play it safe.

I outlined a book and it sort of gets into a lot of these things we're talking about here and I don't think I'm ever going to have time to do it. I asked a couple of guys to go get a bunch of examples, and interview some people and they both let me down so I don't have those, but the working title was "The Last Monopoly." The point was that—the working title would have been something like "The Last Monopoly: Why Government Can't Shoot Straight and How to Improve It's Aim." And what I ought to do is go—it was months and months and months ago and I haven't really looked at it but if there is anything in there we haven't covered I'll send you a message.

MESSICK: University presidents have lots of time on their hands to write books.

DANIELS: *We'll see. One thing I got to do, I got to get somebody to help figure out, I don't know how exactly to get organized to teach a class. I think I want to teach a class.*

MESSICK: That's was going to be my one suggestion.

DANIELS: *What am I going to teach anybody? But it might be in this area we're discussing.*

MESSICK: Oh, exactly what we talked about. I assume there is some sort of management.

- DANIELS:** *Yeah, they have the Business School of Management. Yeah, I was sort of thinking of that.*
- SCHARFF:** Oh, you should definitely do that. Because then you'll know the kind of job. You're going to oversee a bunch of people who do this for a living and have a sense of what they do.
- DANIELS:** *Yeah, I just haven't figured out what you assign somebody to read.*
- MESSICK:** I'll send you some suggestions if you want because I taught a course where I had a lot of stuff like this.
- DANIELS:** *And what you're working on here, no, that would be real helpful. Sure, I could bring in some of the people you're going to interview and a little of that is probably a good idea because it gives it that real world character. But that's the lazy man's way of doing it. I don't really want to do that.*
- MESSICK:** Jim Wilson has a book on bureaucracy. If you have not read it, you will read it and you realize how much you absorbed or intuited or discovered.
- DANIELS:** *I read a lot of his stuff but I don't think I've read that.*
- MESSICK:** That book is unbelievable.
- SCHARFF:** And with our case studies, one of the uses is not only for reform leaders to be able to read it but to be able to put them into the hands of lecturers and practitioners to be able to say, "Hey, here's how."
- DANIELS:** *I was just going to say that. Some of your case studies would be perfect reading assignments. Yeah, would you do that? Sort of cook up a little bibliography, a possibility of the sorts of things. A year from this fall would be the soonest. I have so much to learn. But it is something I think I ought to do and I would probably like doing. I could make up all kinds of course ideas but that's the one I think would be the most value added. That's why your center is important because as I preach all the time, the world is full of people who are prepared to argue for this size government or this size government. The philosophy and fiscal reality, fine, but at some point a given polity decides and now the question that nobody seems to want to talk about is how the hell do you make it work right? Our conservative brethren, too often they just stop at, "Okay, we cut it back." Well, bully for you but you've got just as important a duty to spend it well as you did to not spend more gross dollars than you should. That's the hard thing. That's why your work is important.*
- And then, by my lights at least, we want people to have more confidence in the governments. Skepticism yes; contempt, no. My little slide show I sometimes show, I was up here in Boone County yesterday showing it, toward the end there is a survey that was commissioned by the Manhattan Institute last year. Seventy-seven percent, 77 to 16, when they surveyed Indiana citizens, said their state government was efficient. It was the highest in the country.*
- MESSICK:** Seventy-seven?
- DANIELS:** *Seventy-seven. Illinois was 29, for instance. The national average was forty-something.*

MESSICK: Twenty-nine percent of Illinois citizens are on the state payroll.

DANIELS: *That's it.*

MESSICK: That's how they got that high.

DANIELS: *Seventy-seven percent. The only state that was higher was Montana. I don't even know what a governor does in Montana. So I consider that one of the most important data points of all those that we've accumulated in these eight years. Not just so much as an affirmation of what we have done, but it's a good thing if people believe that government is operating on their behalf and is doing a halfway good job of it. And I always said to our people, results matter and we have to deliver them. And if we do and people will listen, in a change-resistant state, will listen a little more openly to the next new idea.*

SCHARFF: Governor, thank you very much for your time.

DANIELS: *Yes, of course.*