

| OPINIONS |

Budget made by rudderless Legislature

If we are lucky, by the time you read these words the Indiana General Assembly will have passed a new budget. Democrats use tarot cards and Republicans chicken innards to determine how much to spend. There are alternatives.



EYE ON THE PIE

Morton Marcus

In some states, changes in the level of the budget are driven by the percent change in personal income. Two weeks ago, the U.S. Bureau of Economic Analysis released its latest estimates of quarterly state PI. Where U.S. PI grew 0.8 percent from the first quarter of 2008 to the same quarter in 2009, Indiana advanced only 0.4 percent. There were 16 states that performed worse than we did.

If Indiana's budget were linked to PI, the Legislature would have an easier time. The budget for next year would rise 0.4 percent. The question would become, "Which functions of government should get how much of that small increase in funding?"

If we were going to hang state spending on some statistical star, PI is not the best choice. Look again at first quarter 2008 to 2009. PI in Indiana rose 0.4 percent with-

out adjustment for inflation. However, that figure doesn't tell the real story of Indiana's economic performance in the year.

When times are tough, many workers lose their jobs and collect unemployment compensation. That puts a strain on state finances. In the past year, unemployment compensation payments tripled in Indiana. If we exclude these payments, PI did not increase 0.4 percent, but declined 0.3 percent.

While thousands of Hoosiers in the private sector were losing jobs or taking pay cuts, earnings in the public sector rose 4.8 percent. (During this period, state government shrank 2.1 percent—a loss of 2,400 jobs, while local government employment increased 1.8 percent, or 5,230 jobs.) With the government and farm sectors excluded, PI in Indiana declined 0.7 percent.

Included in PI are dividends, interest and rent. This sector was down in the past year (0.2 percent). You see dividends and interest credited to your retirement account statements. But you aren't able to spend that money and you don't pay taxes on those receipts until you cash in the account. It doesn't make sense to include those funds, whether they go up or down, in any consideration of this year's income.

The same applies to contributions made

by employers to Social Security, health insurance and other benefits for their workers. They are not funds available for current spending.

What should be the guideline for government spending if we throw out all these components of PI? We could use wages and salaries paid to employees in the private sector, plus government transfers to individuals (Social Security, welfare, Medicare, Medicaid and certain pensions), plus non-farm proprietors' income (less their contributions to social insurance programs).

This nameless sum declined 0.4 percent in the 12 months we have been discussing. If we linked state spending as outlined here, there would be no foundation for increasing the state budget beyond its previous level, unless a strong case could be made that existing services will be harmed seriously by operating without additional funds. And if such harm can be substantiated, we have a rainy-day fund to help out.

I am not recommending this approach, but it would be better than seeing our representatives continue to sail without a rudder in stormy waters. •

Marcus taught economics for more than 30 years at Indiana University and is the former director of IU's Business Research Center. His column appears weekly. He can be reached at mmarcus@ibj.com.

LETTERS

WellPoint salaries are ill-gotten

Regarding your [June 22 executive compensation] article and specifically WellPoint, a large-cap company, it is interesting that you list five employees of WellPoint earning in 2008 a combined total of over \$22 million.

I own and manage a small business. WellPoint is our health insurance carrier. I have an employee, makes good money. He is in excellent health but he is diabetic. WellPoint won't insure him!

It amazes me that these five WellPoint executives can make this amount of absurd, repulsive money, while at the same time my employee per WellPoint is uninsurable under their company.

It is absolute crap!

JR Infanger

Global citizenship is our reality

[In his June 22 column, Bruce Hetrick asked,] "Is global citizenship 'intellectual nonsense and stunningly dangerous?'" This question, reflective of Newt Gingrich's recent statement declaring himself *not* "a citizen of the world" elicited personal incredulosity. How could a politician, an educated person in the 21st century, not see himself as a citizen of the world?

We are all citizens of the world. That does not preclude or minimize our national citizenship. As members of the human race, we exist in an economically, ecologically and politically interconnected society. Our geopolitical boundaries allow us to govern our nations individually.

However, our human needs know no boundaries. We are connected virtually every second of every day. Our humanness cannot decipher geopolitical boundaries. We see our fellow humans suffering from oppression and injustice on YouTube and our hearts empathize. We want to help. We are members of a global work force. We compete for jobs with people from other nations.

Our geopolitical boundaries and philosophical differences present both challenges and opportunities, all of which must be seen through the complicated and often ambiguous lens of global citizenry. To deny this state of our current human existence is not only naïve, but possibly foolhardy.

The future of our country and our world depends heavily on the recognition of global interconnectedness by our next generation. Understanding how and why we bring multiple views to the universal table of dialogue as we work to address our global challenges will be a required skill.

Thomas Paine, American revolutionary advocate, saw this opportunity for leadership as he said in 1776: "The cause of America is in a great measure the cause of all mankind . . ."

Deborah Thornburgh

Program director

The Dignity Center at The Orchard School

Discuss CEO pay in the open

Last in a three-part series on executive compensation, in conjunction with IBJ's special report on the same topic, which appeared June 22.

On June 22, IBJ printed a list of top CEOs and how much compensation they received. Although each company is owned by public shareholders, compensation was determined in secret.

While transparency is a stated goal of many corporations, deliberations regarding distribution of shareholder property to executives are not subject to light of day or to review. Instead, decision-making is camouflaged by thousands of words that appear substantial but disclose little.

For example, the 2009 proxy statement of locally based WellPoint Inc. devotes at least 35 pages to compensation of executives and directors. WellPoint mentions its compensation consultant, standards for compensation, the marketplace for talent, forms of incentive bonuses, retirement plan balances, ownership of WellPoint shares, perquisites, and options held and/or exercised. The quantity of information is enough to discourage reading, but the system fails in more important respects:

■ Information is after-the-fact. By the time shareholders receive proxies, more than one year after decisions were made, executives have received and possibly spent their compensation. No active observer or shareholder can influence decisions already taken.



VIEWPOINT

John Guy

■ Statistical references and standards are not specific. One proxy statement claims that CEO pay is "in the broad middle ground" of comparable companies, but does not document or quantify the generality. Many proxy statements mention performance targets, but do not precisely quantify. No effort is made to publicize targets for the current year so that shareholders, independently, can evaluate whether targets are challenging, and whether the CEO and his company are meeting the targets.

■ Extensive deliberations are cited, but minutes are not provided. Nowhere in proxies do we have a record of board debate, and comments and opinions of each director. Votes are recorded as unanimous, although consistent unanimity is rare inside most decision-making committees. Consultants' reports are not printed.

■ No disclosure is made regarding how directors approve their personal board fees and benefits. WellPoint directors paid themselves roughly \$300,000 each. (Warren Buffett's company, Berkshire Hathaway, pays annual board fees of \$7,000 or less.) Companies commonly purchase insurance to protect directors and officers from lawsuits. This perk further distances directors from shareholders; it makes directors personally immune from the consequences of their decisions.

■ In part, executive compensation is based on level of responsibility, but levels are not quantified, and I wonder whether a CEO has more responsibility than a pilot, ship captain, surgeon or manufacturing safety personnel. Quantifying "responsibility" is impossible.

■ While directors are required to own company stock, they appear to purchase

few shares with their own money, but instead are granted shares by the company. An assumption is made, but never proved, that owning shares improves director performance. The assumption is easily challenged because directors have little control over events. No positive correlation is known between insider share ownership and stock performance.

A strong corporate board, confident in itself and its decision-making, would publish agendas and allow shareholders to comment on pending decisions. It would defend its actions by reference to specific comparisons and performance targets, and allow shareholders to witness disagreements on the board, either by observing meetings or through detailed minutes. It would facilitate modification of decisions made in the context of shareholder or public protest.

Browbeating, shareholder protests or governmental action will not change this system. Change must come from boards, from the hearts and minds of directors who compare their societal roles to contributions made by others, such as teachers, scientists and ministers.

The public is ready to reward accomplishment. It has little reticence to pay for outstanding athletic and artistic performances. It is happy to pay researchers and inventors who make lives more comfortable, to reward entrepreneurs who take personal financial risks to fund new ventures.

However, the public does rail against individuals who determine their own compensation, behind closed doors, with other people's money. •

Guy is an Indianapolis money manager, certified financial planner and president of Wealth Planning & Management LLC.

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