



# Indiana's death knell or phoenix?

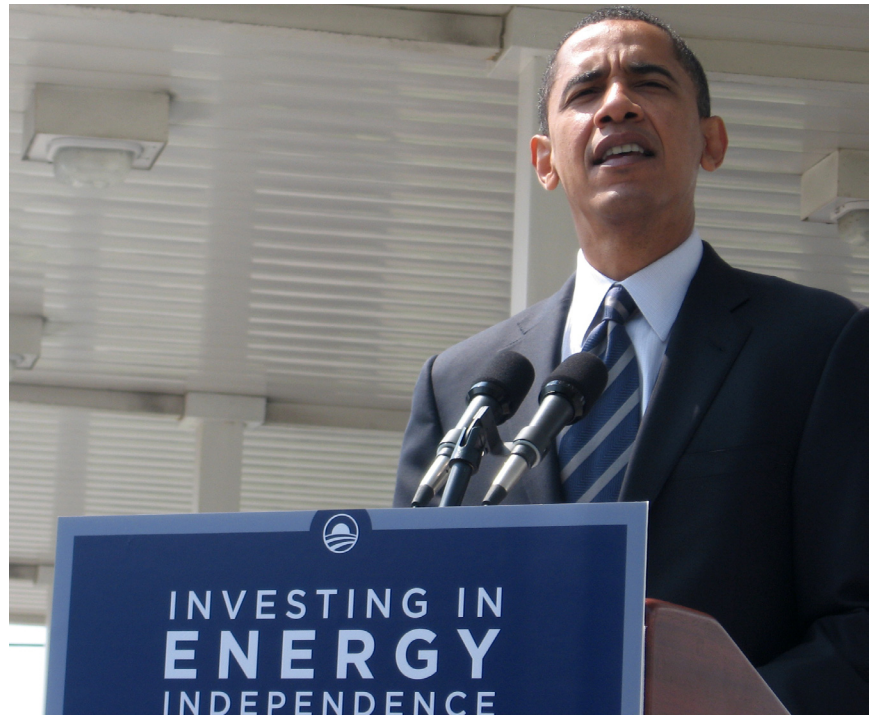
*As Hoosiers gather for Thanksgiving, our past and future at crossroads*

By **BRIAN A. HOWEY**

NASHVILLE, Ind. - After a tumultuous political year, Hoosiers will settle into their Thanksgiving holiday with somber prospects for the coming year. With new leadership about to rise, at stake could be the state's flagship industry - automobiles - and the prospects of higher unemployment for the sector that amounts to about 20 percent of our economic base. Should it ultimately survive, the prospects still exist for the economic problem to persist with lower personal income.

Late last week as the bailout for the Big 3 was unsuccessfully debated on Capitol Hill, the fear was that a power vacuum was developing. It had been a little more than two months since Lehman Brothers crashed on Wall Street, igniting the external event that ultimately brought Barack Obama to the presidency. It set the

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Barack Obama at an Indianapolis Phillips 66 station last April where he called for a \$15 billion energy investment package. He now appears to be thinking much bigger than that. (HPI Photo by Brian A. Howey)

## 2008 Turkey Awards

By **JACK COLWELL**

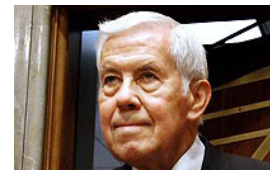
SOUTH BEND - With Thanksgiving almost here, it's time to present the annual Turkey of the Year Awards.

Recipients may cry fowl. But even if they haven't been turkeys all year, each winner has done something to merit this prestigious recognition.

The awards for 2008:

The Turkey of the Year Award for political advertising goes to Paris Hilton for making more sense than most of the real candidates in her satirical 30-second spot.

For best supporting actor on late-night comedy television, the turkey goes to John McCain for standing up David Letterman.



“I have the same feeling it isn't really clear to them or the rest of us how these programs are working.”

- Sen. Richard Lugar on Sec. Henry Paulson and the bailout



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John Edwards gets a turkey award with a fitting inscription: "Hair today, gone tomorrow."

The Turkey of the Year Award for political correctness is presented to Charles Bantz, chancellor at Indiana University Purdue University Indianapolis, for his belated and begrudging apology to a janitor admonished for reading "Notre Dame vs. the Klan" during a work break. Not correct to read about the Klan? Even in a book about Notre Dame students taking on the Klansmen?

**The south end** of a turkey headed north goes to William Shanahan, debate coach for Fort Hays State University in Kansas, who pulled down his pants, mooning over a debate dispute.

Roger Clemens wins in chemistry.

In the field of plumbing, the winner of course is Joe.

In criminal justice, Marian Hinant is honored for vanishing from the jury during deliberations in Washington on Sen. Ted Stevens' fate. She said her father died. Dad was fine. She just wanted to horse around at Santa Anita racetrack in California.

A surprising winner in economics! Alan Greenspan, long hailed as sage of economic stability, gets the bird after admitting his naivete in believing the money changers would be held in check by self-correcting power of free markets.

**For masked costuming**, the winner is Ruben Zarate, a masked and armed Chicagoan who demanded that muffler shop employees call him when the boss came back to open the safe. He left his phone number. They called. Police awaited. He was shot and wounded

and charged with attempted armed robbery and aggravated assault of a police officer.

**A stewed turkey** goes to ESPN's Dana Jacobson, who directed f-word remarks at Notre Dame, the Touchdown Jesus mural on the library and even at the figure featured in that mural.

The Turkey of the Year Award for religious understanding and awareness of the traditions of Goshen College goes to hate radio's Mike Gallagher.

Next, the coveted Annual Gobbler for Being a Squabbler. The envelope, please. The winners are those South Bend School Board members who fired a popular school superintendent and were involved in such silly decisions as not letting kids at Washington High School see a presidential candidate. After the Nov. 4 election, two of the turkeys are now lame ducks.



**In campaigning**, Jill Long Thompson (above) gets a turkey for her contributions to the re-election of Gov. Mitch Daniels.

Mitch Daniels receives an award in state politics for winning with only 58 percent of the vote while running unopposed.

In congressional politics, Congressman Joe Donnelly gets the turkey for winning with only 67 percent of the vote while running unopposed.

Pat Bauer gets a House full of turkeys.





A special turkey award for lifetime achievement is presented to Hoosier Congressman Dan Burton, whose 2008 contributions to a long and undistinguished career include skipping 19 House votes involving such trivial matters as reducing college costs and oil industry tax breaks and missing hearings on Iraq and North Korea in order to play in a Palm Springs golf tournament.

**Hillary Clinton declined** a turkey award. It was to be presented in a ceremony in Bosnia. She feared again coming under sniper fire.

A turkey with lipstick goes to Sarah Palin. Here ac-

cepting the award for the governor is Tina Fey.

**Can even the presidential** winner get a turkey? Yes, he can. Barack Obama gets it for not realizing what he said at a San Francisco fundraiser would be beamed nationally to all those bitter people who cling to guns or religion.

Hate to disappoint readers who are kind of down on President Bush. He gets no turkey. Heck, he could just pardon it and other turkeys before leaving office anyway. ❖

**Colwell has covered Indiana politics over five decades for the South Bend Tribune.**

## Death Knell or Phoenix?

stage for the \$700 billion bailout that U.S. Sen. Richard Lugar acknowledges is unclear as to whether it is working or will work. It's a little less than two months until Obama takes office. With economic events accelerating at an almost unfathomable clip, there are growing concerns that critical decisions would become the proverbial pop fly falling at the feet of two outfielders.

Even as the Big 3 bailout faltered and the three CEOs set off in their private jets to bring back a detailed recovery plan in December, some key signs began to emerge. The first took place in the U.S. House right after the Dow tumbled below 8,000 when Rep. Henry Waxman unseated Rep. John Dingell as chairman of the House Energy and Commerce Committee. If there was a bulwark behind the Big 3's efforts to resist heightened fuel efficiency standards, it was Dingell of Michigan who has represented a suburban Detroit district since 1955 and did the Big 3's bidding on Capitol Hill. Waxman is an unabashed liberal who will almost certainly work in tandem with the Obama administration on two priorities: energy efficiency and innovation, and global warming.

**On Sunday night**, as the Indianapolis Colts battled the San Diego Chargers in a primetime NBC telecast, it became apparent during the first three commercial breaks how off-kilter the Dingell-guarded Big 3 truly are. General Motors was pushing its H3T Hummer, the poster boy vehicle for gluttony. Another GM ad showed off the company's dinosaur lineup of hulking, gas guzzling SUVs and big pickups that even John Mellencamp was having trouble selling to Hoosiers. The fact that the Hummer is built in Mishawaka reveals the dilemma facing Indiana. It

has become the buckle on the Big 3 rust belt with assembly lines churning out Hummers, Silvarados and Tundras.

**It came just hours** after Gov. Mitch Daniels and Honda officials dedicated the new plant at Greensburg and announced that Hoosier workers there would begin pro-



**Gov. Mitch Daniels heralds a new era at Greensburg, where Honda will begin making natural gas fueled Civics. (Indiana Access Photo)**

ducing natural gas-fueled Civic GX cars. Those attending described Daniels as "emotional" as he said that economic rewards were there "if you build a great product and deliver value to your customers." He appeared to have a subtle message for domestic automakers: "Our state should take some inspiration from that. Maybe to some extent their competitors should, too," he said.

**On Friday, Obama** announced his economic team of New York Federal Reserve Chairman Timothy Geithner as Treasury secretary and Lawrence H. Summers to head the National Economic Council. The Dow response hints of certainty and stability after seeing Hoosier wealth in stocks and 401Ks vanish in the final throes of the Bush-Cheney Oil



Presidency, coupled with an erosion of regulations in the housing sector. Add to this the oil shock of '08 last summer that sent the economy careening off the cliff. Treasury Secretary Henry Paulson's remedy has been an anathema to free market Republicans at a time when they had tried to characterize the incoming president as a "socialist."

**On Saturday during** his national radio address, Obama took things further by announcing a public works proposal that could match the Wall Street bailout's \$700 billion threshold and would create 2.5 million jobs by building roads, bridges and schools. It was the Obama version of Major Moves, the \$3.8 billion road program that Gov. Daniels won with considerable controversy (and only two Democratic votes in the Indiana General Assembly). While Indiana's jobless rate rose to 6.4 percent in October, it was still the lowest in the Midwest and it certainly would have been worse without Major Moves and Honda jobs.

Throughout the campaign, like his April 4 appearance at Wayne High School in Fort Wayne, Obama repeatedly talked to Hoosier audiences about "putting people back to work, rebuilding our infrastructure."

"We have a consensus among conservative and liberal economists that we need a jolt to the economy," Obama said at noon press conference today. "If we do not act swiftly and boldly, most experts believe we will lose millions of jobs next year."

On Saturday, Obama explained, "These aren't just steps to pull ourselves out of this immediate crisis.

These are the long-term investments in our economic future that have been ignored for far too long," Obama said in the weekly Democratic radio address. "We'll put people back to work rebuilding our crumbling roads and bridges, modernizing schools that are failing our children, and building wind farms and solar panels,"

**Obama pointed to the past** - like 75 years ago when "scarce o' fat" Hoosiers burdened by 30 percent unemployment filled barracks in places like Brown County and Pokagon State Parks and began building roads, bridges and picnic pavilions as part of President Franklin Roosevelt's Civilian Conservation Corps. Obama said Americans "have acted boldly, bravely, and above all, together. That is the chance our new beginning now offers us, and that is the challenge we must rise to in the days to come. It is time to act. As the next president of the United States, I will."

But the Obama economic stimulus could find its most conspicuous crossroads here in Indiana, Michigan and Ohio, the heart of the domestic auto industry. Hoosiers this Thanksgiving are literally facing either the death knell

of an industry our forefathers invented and nurtured for a quarter of a century until the Great Depression wiped out Stutz, Dusenberg, Auburn, National, Marmon and other early automakers, or its rebirth. In this journey, we have Mishawaka's Hummers and Greensburg's Civic GXs as the outliers.

**At this point, there** is talk that some type of congressional bailout will likely occur for the Big 3, if for no other reason than the fact that the Big 3 owe \$100 million to banks and bond holders, according to the New York Times. But it will almost certainly include a mandated move toward hybrids, hydrogen and electric vehicles that Detroit spent three decades fighting since President Nixon first told us we needed to wean ourselves off foreign oil.

**This reality was reflected** in an op-ed article written by Kokomo Mayor Greg Goodnight who presides over a city with more than 8,100 Chrysler and Delphi Auto-



The Guide Plant No. 1 in Anderson, Indiana

motive jobs. "Congress must provide a bridge loan to the American automotive industry," Goodnight said. "However, this loan must come with pre-conditions that will keep the automotive industry accountable, and make it an ally in recovering our economy and improving our environment. The automotive industry can no longer expect to lobby against more efficient fuel regulations, as it has in the past. The industry's past lobbying has increased our dependence on foreign fuel, which is a huge national security issue facing our nation. In the future, the Big 3 must become partners in America's transition to sustainable energy and cleaner fuel. It's clear that if the American automotive industry collapses, the long-term economic damage would far exceed the \$25 billion bridge loan."

Obama was said to be considering a "prepackaged" Chapter 11 bankruptcy that wouldn't take years to play out. But the "sacrifices" could have enormous personal income implications for Hoosiers who have watched their share of the pie shrink from 17th in the nation in 1965 to 39th in 2007. The UAW would be under enormous pressure to give





back some of the high wages and lucrative benefits if it and the Big 3 are to survive in some type of scaled back form. There was renewed talk of a GM-Chrysler merger and the combination of the Silverado and Dodge Ram pickup lines, which might save some jobs, but could almost certainly extract a huge chunk of jobs in Kokomo where some 5,000 employees make Ram transmissions and other related products.

**Economist and Washington Post** Columnist Robert J. Samuelson said the Big 3 must write down debt (GM has \$48 billion in debt). It must readjust labor costs (at \$71 total compensation an hour at GM compared to \$47 for the Toyota worker). There are 780,000 UAW retirees and dependents (including 46,000 GM retirees in Indiana alone). "The bailout should be more than union welfare," Samuelson wrote. And it must demand greater fuel efficiency. Currently the U.S. mandates only 25 mpg vehicles which will rise to 35 mpg in 2020.



The Indiana-produced Hummer,

The Obama presidency's success is predicated on weaning the U.S. off foreign oil; out of this crisis could come the foundation needed to establish that goal.

**This is the hand that's** been dealt Indiana this Thanksgiving. Our state pioneered the auto industry and the

internal combustion engine, reveling with grease under our fingernails. We scrapped most of our interurban mass transit and spent billions of dollars on the highways that dissect our state. We will now witness the decline of the old-line auto plants that defined our 20th Century state (Indiana's quarter coin features the Indianapolis 500 open wheel race car).

Our future will likely be with new Hondas and Toyotas produced by non-union workers and plants like EnerDel pioneering lithium-ion batteries. The question remains as to whether GM's electric Volt that was scheduled to debut in 2010 will ever roll off an Indiana assembly line.

After a jittery week where even the worst case scenarios went too deep for even the wisest analyst to clearly fathom, there was some definition out of the fog. Some of it came from our governor and new players like Honda. Some emerged from the presidential transition in Chicago. Where this troubled path leads us - and how quickly we get there - is a story that will play out in countless Hoosiers cities, towns and homes in the coming weeks and months. ❖



U.S. Sen. Richard Lugar last winter checking out EnerDel's new lithium-ion battery. Indianapolis-based EnerDel is an example of a new era auto company looking to expand in Indiana. (HPI Photo by Brian A. Howey)

## Lugar discusses Big 3, Wall Street bailouts

By **BRIAN A. HOWEY**

INDIANAPOLIS - This interview with U.S. Sen. Richard Lugar took place late Thursday morning, several hours before House and Senate Democrats asked the Big 3 automakers to come back in December with a detailed plan for the future as the financial bailout faltered during the special Congressional session.

**HPI:** Can you tell me how you arrived at your decision not to support the Big 3 bailout?

**Lugar:** It came essentially from the experience of the Chrysler action we took. I recalled the notes that I took years ago and the conversations we had. There was the time factor, a six-month period from the time of President Carter's



proposal to passage in the two houses. Clearly the potential was not as good as this one. The issues are not the same. There are needs of very large changes in management and the products they offer, and changes by the UAW. There was a need for various rules that would make management and revamping expeditious and assistance from state of Indiana and other states had to be made to appropriate funds that were required. All of that led to a package that was doable by Chrysler, the union, public officials in all the states that had tremendous interest. Even then it took three or four years to pay off loan, which was



at such a huge interest rate that they were eager to get it off the books. This debate started with a block of money available through the TARP fund. After all, there was the \$25 billion investment through Department of Energy to revamp their products. Some of that money might be used to cash flow those companies. Whether that will fly in the House is dubious. There's still an earnest attempt in the Senate to see at least if there is some tapping into that already approved, that could be loaned and repaid, that would not compromise the development of energy efficient cars.

**HPI:** Do you expect the Big 3 to go bankrupt?

**Lugar:** I don't know that much about their financial condition. Only management knows. Privately, senators who have visited with these executives who have been over here, there seems to be three different stories about the status of the three different companies. There are sharply different views if one went into bankruptcy; different views with the GM-Chrysler merger. Having heard all of this in private conversations, in testimony and gossip, I don't know what their potential is to stay the course.

**HPI:** Would Chapter 11 be the best way for them to reorganize?

**Lugar:** Chapter 11 would make it difficult for them to pay their suppliers who might also be going into bankruptcy. Chapter 11 is difficult for suppliers contributing to final product. Only those who are experts in management could foretell what kind of flow of production is possible. There are also fears that if one or more emerge from Chapter 11, it might then be a striking advantage vis-a-vis the others. This is a curious predicament. Simply evolving from a Chapter 11 situation, a company that was hopelessly mired emerges as a tougher competitor.

**HPI:** Should the federal government participate in a Chapter 11 reorganization by, say, guaranteeing warranties? There's a school of thought that Americans won't buy a car from a bankrupt company.

**Lugar:** Perhaps. I don't know. I've heard companies make that claim. That's the reason why money was sought. At this stage, it would be more pragmatic how companies will have to figure out in Chapter 11 how they can make cars. There will be cars available. I would guess there would be a need to hasten the process and get on with it. I'm improvising in my own thoughts. A judge might mitigate the circumstances in various ways, providing assurance for potential buyers.

**HPI:** Have you had any discussions on this matter

with President-elect Obama?

**Lugar:** No. His general way of approaching this is to listen to a great number of people and attain expert advice. He's a good listener and this is an area where he doesn't have much experience.

**HPI:** The scale of this crisis, along with the Wall Street meltdown, is staggering. How are you processing the scale of what we're dealing with now?

**Lugar:** Well, two comments. First of all, the scale in the 1979-82 period: I can recall vividly were remarkable in terms in the Republican political comeback. In 1976 elections, I joined just 37 other Republicans. People are currently on the floor lamenting 42 or 41 or 40. It was even more of a Democratic majority and yet it didn't work well. The Democrats had their problems, perhaps, within the

party, because of the recession. Ronald Reagan ran a remarkable campaign and Republicans gained 14 seats in 1980. Yet we were in the throes of very high inflation. Paul Volker brought an interest rate increase that began to take hold. It was 12 percent. It was astonishing. Prime rates by banks were in the 12-15 percent range. This is a very different time of remarkably low interest rates. This is not a problem where the Fed is raising interest rates. That's a promising factor. The second factor is for Hoosiers, during my 1982 re-election, unemployment in Anderson, Muncie, and Kokomo exceeded 20 percent. It was simply huge. These are cities that have been historically a strong part of the auto industry. Unemployment in September 1982 was 10 percent - double digit figures. Some have said

pessimistically that 6.5 percent will go to 7 and 8 and 8.5 percent. Looking back at '79-'82, it was 10 percent in Indiana and in some Hoosier cities, 20 percent. We were hit much harder because we had very large components in steel, cars - much more than we have now. Gov. Daniels and the legislature have provided a budget surplus. and while some margins have been reduced, property taxes were reduced. I mention that the bad news swirling around the country and the world is really horrendous, but if you're asking me for a comparison, it was much darker for people in 1979. It wasn't clear how we were coming out of it. In the 1982 campaign, stock markets were turning around. As a result Ronald Reagan got ready for re-election, it was a veritable walk. I don't think there's necessarily a parallel, not in a worldwide banking and credit crisis. This is going to require, quite apart from our domestic issues, trade issues, control of our banking system with European and







Asian countries. My guess is we will be doing that. The G20 set the stage for attempted cooperation. That will be very important for auto, steel, and the pharmaceutical industries because world trade helps finance our deficit. As we are putting money out the door with the \$700 billion auto packages on the horizon, this is deficit financing. We are literally financing our stimulus package from money from the Chinese, Japan and Germany.

**HPI:** Are you satisfied with the Wall Street rescue?

**Lugar:** I've listened carefully to Secretary Paulson who revisited (the bailout) for our leadership, program by program, decision by decision. While I have respect, I have the same feeling it isn't really clear to them or the rest of us how these programs are working. The initial idea of buying up mortgages was not very good and was abandoned and probably for good reason. It became only a drop in the bucket due to the amount of time to evaluate mortgages one by one that would have delayed any injections. Then there was the idea of putting money in the strongest banks, but the largest banks have not increased materially the loans they are making. There's no flow to the rest of the country. They are husbanding their funds. Watching the stock market going down 390 points below 8,000. As I drove to work this morning there generally is fright that the bottom hasn't been reached. Where is the bottom? At what point do stocks and values go so low that people open their vaults?

**HPI:** This appears to be a nightmare scenario playing out. Is it for you?

**Lugar:** It is anticipated by some and the answer is we'll attempt some more ideas. This is probably not the end of the trail. The \$700 billion is an expenditure that will be repaid. Most of it is being crafted that within a 3-5 year period the treasury would recover from repayment. If there is no possibility of that, this really weakens our prospect for borrowing anything from abroad. The U.S. economy, despite all the shocks going on, is still a bulwark.

**HPI:** Have you written a new set of letters to the next president?

**Lugar:** I will. I have not started drafting the book. I'm not certain of the course of certain things. There will be a moment to do that. I'm learning a lot.

**HPI:** What would you like to say to Hoosiers about what is happening?

**Lugar:** I believe we've had a strong performance by Gov. Daniels and the legislature and they could not have anticipated all we have seen. Indiana does have a cash flow, infrastructure building (program). Despite all the dispute of leasing of the highway, he put money in the bank. Most of it is still there and it supports the building and roads and bridges -- now, not in the hereafter. Indiana is the only place in U.S. where there is such prospects. Government isn't anticipating a worldwide crisis. I think the action of the governor and the legislature to bring back a balanced budget, a surplus and prospects to have some options is especially commendable. Most state governments are far out of balance, despite their constitutions, which is simply adding

to the predicament as opposed to being a source of stability. We've got a lot going for us. As I came through Indiana, I visited all the labs at Purdue University, Notre Dame and Purdue Calumet and I saw an extraordinary number of young people experimenting in breakthroughs and that is occurring now. You move from the labs out to Benton County and there are 300 windmills. In Benton County there were 50 promised, with hopes 100 might come along. We're ahead of the curve as having people who make the difference. This is exciting. I saw all this at the micro level. In Pike Township, the owner of a printing plant wanted to put up a windmill to provide energy. Despite objections by his neighbors, he went to the council and got a ruling and it's up and operating, right in Indianapolis. When I went out to visit, students from another township were there who wanted me to write their principal and superintendent to do the same thing. These are people who have caught the gleam as to what the future is about and a lot of them are in Indiana. We do have a lot going for us and the strength to buttress this situation. ❖



Sen. Lugar will be writing a new chapter in his "Letters to the Next President" series - this time to his good friend Barack Obama. (Google Image)



## Goodnight says Big 3 ‘must’ get bridge loan

By **GREG GOODNIGHT**

KOKOMO - To keep our nation’s economy strong, Congress must provide a bridge loan to the American automotive industry. However, this loan must come with pre-conditions that will keep the automotive industry accountable, and make it an ally in recovering our economy and improving our environment.

As most everyone knows, the Big 3 American automotive companies - General Motors, Ford and Chrysler - are asking for a \$25 billion loan package, to stay afloat during these difficult economic times.



This issue is particularly important to our community. The automotive industry has been a part of Kokomo for more than a century, and the daily lives of all our citizens is directly linked to the success of the industry, and of Chrysler in particular. So naturally, the bridge loan would be good for Kokomo . But it would also be good for the entire nation.

When considering job loss, we can not only consider the hundreds of thousands who are directly employed by the auto industry. We must also consider the many more who work for automotive suppliers and vendors, and the many, many more who work for commercial, retail and food businesses that are only possible because of the presence of a large automotive factory in their community. In economic development, this is known as the “multiplier effect.” According to the University of Michigan’s Center for Automotive Research, the multiplier effect for the automotive industry is higher than nearly

any other industry. So it’s clear that if the American automotive industry collapses, the long-term economic damage would far exceed the \$25 billion bridge loan.

**And yet, the proposed loan** is getting far more scrutiny than October’s financial bailout bill, which earmarked \$700 billion in federal funds -- 28 times larger than what the automotive industry is requesting -- to America’s banking industry. I agree that the financial industry should have had to jump through a lot more hoops, but don’t take that out on the automotive industry.

At the same time, the Big 3 should not be simply handed a blank check, either. Lawmakers made the right move last week, when they asked auto executives to bring them a concrete plan for the use of their bridge loan. Senator Dick Lugar wrote recently that the bridge loan should include “substantial compromise by all parties.” I would prefer that it be “reasonable compromise,” but other than that, I agree. In particular, the automotive industry can no longer expect to lobby against more efficient fuel regulations, as it has in the past. The industry’s past lobbying has increased our dependence on foreign fuel, which is a huge national security issue facing our nation. In the future, the Big 3 must become partners in America ’s transition to sustainable energy and cleaner fuel.

**By making this loan,** the government will help secure hundreds of thousands of American jobs, and create an ally in environmental sustainability and national security. I encourage all of you to contact your congressman and senators, and let them know you support this loan. ❖

**Goodnight is the mayor of Kokomo, Ind.**



A portion of the Chrysler complex in Kokomo where 5,000 Hoosiers are employed.





## Rainy days coming to the Indiana Legislature

By **BRIAN A. HOWEY**

INDIANAPOLIS - Appearing on an Indianapolis Chamber panel with State Sen. Jim Merritt and State Rep. Greg Porter earlier this month, the two talked about government reform and the necessary funding for health care and education. Then it was my turn: "The world in which we live in today and the one you'll find next April will be unfathomable."



The 2009 Indiana General Assembly will be dealing with crisis. Twenty percent of the Indiana economy is automotive-related and at this writing, there is no guarantee that the Big 3 automakers will survive in a recognizable fashion. There is also a federal power vacuum as the Bush administration exits in two long months and Barack Obama assumes power. But the financial calamity is accelerating so quickly that in the two months between now and Jan. 20, any number of disasters could unfold. It was only a little more than two months ago that Lehman Brothers collapsed.

In the next two months, Detroit could go bankrupt. Falling fuel prices - while good for the pocketbook today - could mean further erosion in the fragile ethanol industry as calls for a gas tax to keep oil above \$60 a barrel have fallen on deaf ears in the Bush-Cheney oil presidency. The big oil producers will begin to cut back on exploration that industry analysts say will almost guarantee future oil price shocks that we experienced last June and July.

**So into this walks** the Indiana General Assembly. The revived Indiana Fiscal Policy Institute in its report "Economic Hurricane Coming: Is Indiana Ready?" explains, "The world's worst financial crisis in the post-World War II period could lead to significant problems for the state of Indiana budget. Policymakers have watched as the gathering economic storm clouds have turned into a full-blown fiscal hurricane."

The December revenue forecast will almost certainly show reductions in sales and income tax revenues as well as capital gains and gaming. If the Big 3 collapse,

think of how that will impact Indiana's already shaky personal income. A Bureau of Economic Analysis 2007 report reveals that Indiana has fallen from 17th in the nation in 1965 to 39th in 2007. "As personal income growth lags, state leaders will find it more difficult to continue to provide the level of state services and assistance to which we have been accustomed," the IFPI report states.

**Senate Minority Leader** Vi Simpson correctly says that the April revenue forecast will be critical. That could send the entire budget process into a panic in the final stages of the session.

The IFPI report written by David Bennett and John Stafford observes that Indiana is in much better shape than most states. It has "significant" cash reserves of \$1.4 billion, more than 10 percent of the state's general fund. Its payment liabilities to schools and municipalities have been reduced to nearly zero. They note that the December 2007 revenue forecast cast a wary eye on the health of the economy. Now, with more than a \$1 trillion in federal bailouts and the Big 3 teetering, "The financial collapse they predicted is here," Bennett and Stafford wrote. "Add to this an ominous expansion of the state's fiscal responsibilities. In recent years, the state of Indiana has assumed full

responsibility for significant budget items such as school general funds and welfare costs. Now, state government picks up the full tab and in a recession, costs for programs such as welfare, Medicaid and the newly created Healthy Indiana Plan are likely to take an increasing slice of the budget pie."

But there are problems with the Unemployment Compensation Fund that "has fallen to extremely low levels as Indiana's jobless rate has increased from 4.2 percent to 6.2 percent." Again, a collapse of the Big 3 or even bankruptcy will likely fuel that trend. Indiana will face new burdens as HB 1001 brought 100 percent of school operating funds to the state while Indiana has assumed local police and fire pensions.

**Another ominous** development could be the erosion of state pensions. In 1996, voters approved an amendment allowing for equity investments. By June 30, 2007, Indiana pension funds had combined assets of \$25 billion, with over 75 percent invested in domestic or international equities, the IFPI reported. "This year's dramatic decline in stock



**Speaker B. Patrick Bauer and Minority Leader Brian Bosma will likely clash over property tax caps, but they will have to work together as a tanking economy will create a tough biennial budget. (HPI Photo by Brian A. Howey)**



values has likely caused a decline in invested assets that could exceed \$5 to \$7 billion," IFPI reports. During the gubernatorial race, Democrat Jill Long Thompson questioned Treasurer Richard Mourdock's investments into what she called "junk bonds." Mourdock was able to show in October that the state's investments would be the envy of anyone holding a 401K account. But his next report this week will likely show an erosion there.

**"This is a rainy day,"** House Speaker B. Patrick Bauer said on Organization Day last Tuesday. "I really believe this could be the most dramatic recession we've had." Certainly the most dramatic since the last oil-shock induced downturn that occurred between 1979 and 1982 when Indiana was forced into a December special session and a record tax sales and income tax hike. Gov. Mitch Daniels has already taken the notion of a tax hike off the table. "We're not raising taxes," Daniels emphatically stated. "Raising taxes is almost always a bad idea. Raising taxes when people are strapped and having trouble meeting their bills in an economic downturn is a terrible idea." While it isn't officially a hiring freeze, the administration is weighing unfilled state positions.

That line in the sand means that increased education funding (55 percent of the state budget) will be extremely elusive and that element was expected to be the core of the second Daniels administration's priorities. With a federal recommendation taking privatization of part of the Hoosier Lottery off the table, the administration is not only scrambling to find ways to send more people to college, but it will be hard pressed to increase K-12 and higher education. Due to the absorption of school general funds, K-12 will see the state spending 28 percent more. That doesn't include the cost of fully implementing full-day kindergarten by 2010, which would require between \$135 million and \$285 million when the program is fully implemented, according to the Legislative Services Agency.

**Simpson reminded attendees** at the Indiana Chamber of Commerce's legislative preview that a 2 percent increase will be needed just to keep up with "inflation." However, in the immediate days after that comment, the news was filled of reports of potential rampant "deflation." While that might be good short-term news for consumers, it is another sign of a destabilizing economy.

IFPI also noted that "Health and Human Services" category (9 percent of the state budget) costs are expected to increase over 30 percent. Medicaid expenditures (11 percent of the budget) from state and federal sources are expected to be \$5.5 billion. IFPI observed that the Daniels administration "took a variety of steps to cap the growth" around 5 percent annually. "While there was considerable speculation that this would be virtually impossible, indications are that it was indeed an achievable objective - at least to date."

## Showdown over caps

Besides the budget, the biggest point of contention will be the 1-2-3 property tax caps. The caps passed a vote in 2007 to be placed on the 2010 ballot for inclusion in the Indiana Constitution. But House Minority Leader Brian Bosma doubts it will pass in 2009 due to Democratic control there. There is an unlikely alliance between the Indiana Chamber and House and Senate Democrats opposing the caps. Simpson said rushing the caps into the constitution could become a "permanent mistake." Senate President Pro Tempore David Long said it would be "irresponsible" not to pass the caps since it would leave the current tax system subject to a judicial ruling.

The Chamber believes that the 1 percent cap for residences is unfair when agriculture and business face 2 and 3 percent caps. Carter said that homes will be taxed on the first \$35,000 while the business threshold would be at 100 percent. "If you want job creation, you can't do it over the backs of job creators," Chamber Vice President Cam Carter said.

If there was a shiver in the prospects for caps passage, it occurred last week in Muncie - where Mayor Sharon McShurley declaring an "economic emergency" - announced it would plow snow only during business hours Mondays through Fridays. If that stance remains, Muncie becomes the early poster child against the caps. Imagine what traffic fatalities due to unmanaged streets during a Sunday snowstorm could do to that effort.

## Government reform

A second point of contention will be the Kernan-Shepard reforms, of which 24 of 27 remain. The reform movement got a boost when 31 of the remaining 43 township assessor offices were abolished. Had that gone the other way, many reactionary legislators probably would have been reluctant to go further. Now townships themselves may be under the gun. However, President Long indicated only two - creating a single county executive and a legislative county council - will likely be on the agenda.

We would be stunned if Gov. Daniels doesn't move beyond those two. About 10 of the recommendations appear to require legislative approval. Speaker B. Patrick Bauer told the Indianapolis Star that in a budget year, he would be reluctant to move on government reforms. "That, to me, is not the number one issue before us. It's sort of an academic exercise of somebody's idea of perfection," he said. "There are certainly ways of rearranging certain government situations, but why would you do that when you've got this crisis, budget crisis?" However, that's the whole point of Daniels' tax caps: to get financially strapped municipalities and school corporations to consolidation or pool functions. There has been some sporadic movement in that direction with Mishawaka announcing it wants to





consolidate weights and measures with St. Joseph County and Zionsville merging with two adjoining townships.

Instead of municipalities heading in that direction, many seem to be waiting to see if the caps pass this session. If they don't, many will continue to live within the status quo believing the caps will disappear, letting them off the hook. We don't think Daniels will allow that comfort zone to continue. It provided perhaps the best quote to the legislative ramp up, saying legislators should be able to forge an "honestly balanced budget" and deal with government reforms. "They can walk and chew gum," he said.

All one has to do is listen to Daniels' victory speech on Nov. 4. "Change just won and won big in Indiana," Daniels declared. "This is less an endorsement than an instruction. This is less a victory than an assignment. And what the people of Indiana have said is they want us to press forward with change and improvement and reform."

Daniels then said something that seems prophetic today given the news coming out of Washington and Detroit. He told Hoosier lawmakers, "Make sure your seat belts are securely fastened." ❖

## Recession questions

By **MORTON J. MARCUS**

INDIANAPOLIS - How much is too much? When do we start to worry? When can we relax and say, "Thank goodness, it's over,?"

These are questions racing through our minds as we swim against the flood of economic news now testing our courage. Each day seems to bring new evidence of a serious downturn in the American and Hoosier economy. Stock prices are falling and unemployment is rising. Companies are closing and our local governments are cutting services.



Morton Marcus  
Column

For tens of millions of Americans, these are new experiences. They do not remember the last great recession in 1982. Let's look at Indiana's unemployment experiences then and now:

The unemployment rate for Indiana in October 2008 was 6.0%. This means that of the 3.2 million Hoosiers in the labor force, three million have jobs and 200,000 are looking for work. If people do not have jobs and are not looking for work, they are defined (by the federal government) as not unemployed; they're out of the labor force.

**Is 6.0% unemployment** an important level?

The U.S. figure is 6.1%; we can rightfully claim that we are below the rate for the nation, but does that matter? In economics there are no magic numbers. But, if we had 5% unemployment, there would be approximately 32,000 more Hoosiers at work.

(These data have not benefitted from seasonal adjustment to decrease the effect of normal variations over the course of the year. The seasonally adjusted unemployment rate in October for Indiana was 6.4% and 6.5% for the nation. Whichever set of data is used, the issues

remain the same.)

Yes, our unemployment rate is lower than those of our five neighboring states. Is this supposed to indicate some inherent superiority on our part?

Relative to our neighbors, our position has deteriorated over the past year. In October 2007, Indiana's unemployment rate was 28th in the nation at 4.1% while Kentucky (the best of our neighbors) ranked 39th at 4.8%. This year in October, Indiana ranked 32nd and Kentucky (still the best of our neighbors) ranked 36th. Our margin of "regional excellence" is shrinking.

**But these are small differences** of little significance compared to what we experienced in 1982. In November of that year, Indiana's unemployment rate was (a seasonally adjusted) 12.8% and we had 334,000 persons unemployed. This was part of a 26-month-long stretch from October 1981 to November 1983 where the unemployment rate in Indiana was 10% or worse. We had last seen 6% in June 1979 and would not be back down to that level until July 1987.

The drama of the current recession is that it is, thus far, deeper and swifter than the 1982 collapse. In the past year, Indiana's labor force has grown by 39,700 persons (1.2%) compared to a decline of 30,500 (-1.2%) in 1982. Back then the Indiana economy had seen double digit unemployment rates for over a year. We have yet to see 7%.

The number of persons employed dropped by 24,800 (-0.8%) in the past year while the loss was 54,500 (-2.3%) in 1982. Finally, the number of unemployed Hoosiers grew by 23,900 (8.7%) in 1982 while it boomed by 64,600 (45.2%) in the past year.

This recession looks like more of a shock, but may be of shorter duration and severity than the 1982 decline.

❖

**Mr. Marcus is an independent economist, speaker, and writer formerly with IU's Kelley School of Business. Contact him for speaking engagements at [mortonjmarcus@yahoo.com](mailto:mortonjmarcus@yahoo.com) or 317-626-8853**



## Statehouse gender shift continues in the Senate

By **BRIAN A. HOWEY**

INDIANAPOLIS - The unmistakable trend in the Indiana Senate is the rapid rise to power of females, a trend that began in 2006. In what used to be the ultimate boy's club, there are now seven female senators in leadership positions, topped off by Lt. Gov. Beck Skillman (upper left) who presides over the Senate during session days. She also has the constitutional ability to break ties.

Senate Minority Leader Vi Simpson (upper right with Senate President Pro Tempore David Long on Monday) became the first female caucus head in Indiana General

Assembly history. Earlier this month, Simpson appointed Sen. Earline Rogers (from lower left) as whip, Sen. Connie Sipes as caucus chair, and Jean Breaux as assistant caucus chair. They join Republican Majority Floor Leader Connie Lawson, Assistant President Pro Tempore Sue Landske and Assistant Majority Floor Leader Teresa Lubbers who joined the leadership team of President Long in 2006.

After President Robert Garton was defeated in the May 2006 Republican primary, it was a block of Republican women who threw their support behind Long and essentially clinched the top Senate job for the Fort Wayne Republican. He subsequently opened the gates to leadership for women. Simpson was able to wrest the Senate Minority Leader post away from Sen. Richard Young last month. ❖





## It's 3 a.m., Sec. Clinton

By **DAVE KITCHELL**

LOGANSPORT - There is some irony in the supposed leaked rumor that Sen. Hillary Rodham Clinton is President-elect Barack Obama's choice to become the next secretary of state.



After all, it was Clinton who last spring was running campaign commercials asking voters who they would want to answer a phone at 3 a.m. in the White House. A year later, the tables have turned. Clinton may be making the 3 a.m. calls to Obama if pirates commandeer more oil tankers as they have this week near the Suez Canal. She may be calling if Fidel Castro dies in Cuba, if China invades Taiwan or if Russia invades another former Soviet republic.

So far, there has been surprisingly little response to coverage of the secretary of state appointment. Few would probably argue she's eminently qualified, and having a husband who is a former president can't hurt - or at least it shouldn't, even if it does. The fact Bill Clinton will have to pass up work at his own foundation is a minor point. At his age, he can afford to take a passive role in that foundation and save fund-raising for it to his real retirement years.

But the real issue to think about in the secretary of state appointment is how the United States is going to be perceived on a world stage. We've come through an era of firsts. Madeleine Albright was the first female Secretary of State. Colin Powell was the first African-American secretary of state. Condoleezza Rice was the first African-American woman to be Secretary of State.

**This job is one** that is as out of sight and out of mind to the rest of the world as any in a presidential cabinet. Still, it's an important one. History has shown that strong personalities or authority figures tend to do well. Others who are less than that seem to be non-threatening to foreign enemies, but do they really take them seriously?

Carol Burnett rocketed to fame in the 1950s when she performed the comedic song, "I Lost My Heart to John Foster Dulles." Maybe it was the "dull" syllable in that secretary of state's name that gave him a subordinate status in the Eisenhower Administration, but his significance during the Cold War could not be taken for granted. That's why there's an airport named for him and not any one of dozens

of presidents in D.C. today.

George Schultz and Warren Christopher are not exactly name-droppers, but both were respected as Republican and Democrat secretaries of state.

Since Henry Kissinger however, being a secretary of state has been a hard act to follow. It's the foreign policy equivalent of succeeding John Wooden as UCLA basketball coach. Eventually, someone did lead UCLA to another national championship, before being dismissed. I'm not sure we've yet to see the caliber of a Kissinger since the 1970s. Kissinger's work in Vietnam, China and the Soviet Union at a time when it counted laid groundwork for the peace that most of the Baby Boomer generation has enjoyed since then.

**In times of war, a secretary** of defense who's good at what he does is imperative. During war and peace, a secretary of state can prevent a war, end a war and expand America's influence into the places it needs to be.

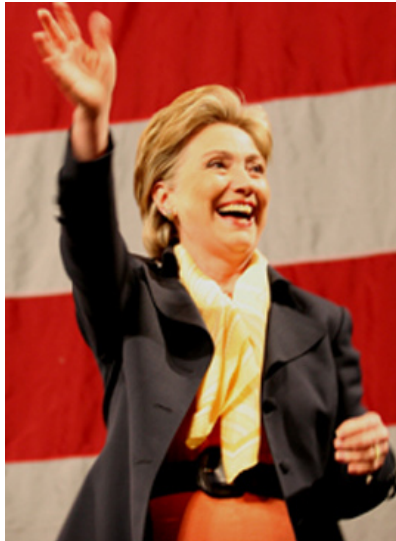
Not that I'm a doomsayer, but the danger we collectively face as Americans is that our domestic troubles have become so burdensome that it's easy to forget dozens of nations who look to us as a leader and as the key player in the economic, political and security issues they face as well.

Had someone asked me a week ago to name my top 100 candidates for secretary of state, I wouldn't have picked Clinton because I couldn't fathom that Obama would. But if he is indeed considering her, I can't think of many stronger personalities with previous international experience who qualify for the job.

Sure, maybe she didn't come under gunfire in Bosnia as she claimed in the campaign. But on many fronts, the country is under fire and it is important to have a secretary of state "ready to lead from day one" as Clinton described herself during the campaign.

**The best secretaries** of state serve as the president's alter ego and conscience on all foreign policy matters. The best examples have had some vision for not only America's role during a specific administration, but the course of world history and the role America has in it.

No secretary of state should be sending out S.O.S. signals, but the signal Obama has apparently sent is that he wants someone who won't hesitate to call a president at 3 a.m., even if she'd prefer to be taking it instead of making it. ❖



**Kitchell teaches journalism at Ball State University.**



## **2009 HPI Power 50**

In January 2009, Howey Politics Indiana will publish its 10th **HPI Power 50**.

Our annual list is made up of people we believe will play a significant role in shaping events. Last year's list was heavy on those running for office and campaigns.

In 2009, the **Power 50** will change significantly to reflect the biennial budget, government reform and the new realities in Washington.

As we have every year, we invite Howey Politics Indiana subscribers to either complete their own lists, or nominate individuals. **Please send along your suggestions to: [bhowey2@gmail.com](mailto:bhowey2@gmail.com).**

In a new feature, we will include short lists on:

- HPI Power Lobbyists
- HPI Power Staffers
- HPI Power Women
- HPI Power Press

The 2009 HPI Power 50 will be published in early January and will be featured in Brian Howey's weekly newspaper column that reaches more than 250,000 Hoosier readers in 25 publications around the state.

Below is our 2008 Power List.

- 1.) Gov. Mitch Daniels
- 2.) U.S. Sen. Evan Bayh
- 3.) House Speaker B. Patrick Bauer
- 4.) Senate President Pro Tempore David Long
- 5.) State Sen. Luke Kenley
- 6.) U.S. Rep. Baron Hill and Mike Sodrel
- 7.) U.S. Sen. Richard Lugar
- 8.) Eric Miller, Advance America
- 9.) Indianapolis Mayor Greg Ballard
- 10.) Councilman Andre Carson and State Rep. Jon Elrod
- 11.) Gary Mayor Rudy Clay
- 12.) Jill Long Thompson/Jim Schellinger
- 13.) Budget Director Ryan Kitchell
- 14.) Evansville Mayor Jonathan Weinzapfel
- 15.) House Minority Leader Brian Bosma
- 16.) State Sens. Brent Waltz and Mike Young
- 17.) Betsy Burdick
- 18.) Bob Grand
- 19.) U.S. Rep. Mike Pence
- 20.) Lee Hamilton
- 21.) Chief Justice John Roberts
- 22.) U.S. Rep. Pete Visclosky
- 23.) U.S. Rep. Brad Ellsworth
- 24.) U.S. Rep. Joe Donnelly
- 25.) U.S. Rep. Mark Souder
- 26.) U.S. Rep. Steve Buyer
- 27.) U.S. Rep. Dan Burton
- 28.) Lt. Gov. Becky Skillman
- 29.) Chief Justice Randall T. Shepard and former Gov. Joe Kernan
- 30.) Democratic Chairman Dan Parker
- 31.) Ways & Means Chairman William Crawford
- 32.) Chamber President Kevin Brinegar and IMA President Pat Kiely
- 33.) John Hammond III
- 34.) Paul Mannweiler
- 35.) Republican Chairman Murray Clark
- 36.) Eric Holcomb
- 37.) Farm Bureau President Don Villwock
- 38.) FSSA Commissioner Mitch Roob
- 39.) State Rep. Jeff Espich
- 40.) State Sen. James Merritt
- 41.) Fort Wayne Mayor Tom Henry
- 42.) South Bend Mayor Stephen Luecke
- 43.) Marty Morris
- 44.) Tom Sugar
- 45.) State Sens. Teresa Lubbers and Connie Lawson
- 46.) IEDC Director Nathan Feltman
- 47.) Rod Ratcliff
- 48.) Marion County Prosecutor Carl Brizzi
- 49.) Secretary of State Todd Rokita
- 50.) Indiana Chamber Political Director Michael Davis





**Spence Abraham, New York Times:**

Spencer Abraham, New York Times: Just as financial institutions depend on the confidence of those with whom they do business (as Bear Stearns and Lehman Brothers discovered), automakers depend on the confidence of car buyers. To purchase a car is to make a multiyear commitment: the buyer must have confidence that the manufacturer will survive to provide parts and service under warranty. With a declaration of bankruptcy, that confidence evaporates. Eighty percent of consumers would not even consider buying a car or truck from a bankrupt manufacturer, one recent survey indicates. So once a bankruptcy proceeding got started, the company's revenue would plummet, leading it to hemorrhage cash to cover its high fixed costs. That would thwart any attempt at reorganization, and the case would likely move inexorably toward liquidation under Chapter 7 of the federal bankruptcy code. Debtor-in-possession financing — which is what the bankrupt need in order to pay for the continued operation of their business — would not be available in the vast amounts required, given the plunge in revenue. A bankruptcy filing by even one of the Big Three would probably set in motion a cascade of smaller bankruptcies by suppliers of car parts, as the money the company owed them (which would be classified as an unsecured claim) could not be paid until it exited bankruptcy. And this loss of suppliers would almost certainly overwhelm the other two carmakers. There would also be a severe contraction in the availability of trade credit from suppliers, which amounts to tens of billions of dollars. And as surely as day leads to night, bankruptcy proceedings would be followed by liquidation. In a flash, the American carmaking business, representing about 10 percent of the nation's retail sales, would begin to disappear. For those concerned about the potential price of a federal bailout for Detroit — and I'm one of them — the reality is that this cost would be dwarfed by the long-term spillover costs of bankruptcy and liquidation. Nearly three million jobs would be lost in the first year if all three car companies closed and their suppliers absorbed the shock, according to the Center for Automotive Research. That would mean tens of billions of dollars in pension liabilities would be transferred to the Pension Benefit Guaranty Corporation, the federal insurance fund that protects the pensions of nearly 44 million American workers but already has a \$10.7 billion deficit. We'd also see an influx of Americans who have lost their health insurance onto the rolls of Medicare and Medicaid, costing billions of dollars more. And the budgets of the so-called "auto states," mainly in the Midwest, that depend heavily on the domestic car manufacturing industry would be wrecked, and that would likely lead to both higher taxes and depressed economic growth. ❖

**Kevin Leininger, Fort Wayne News-Sentinel:**

If the rest of America was just like solidly "red" northeast Indiana, no one would even be asking. But with Democrats about to control the White House and even larger majorities in Congress, a lot of people are wondering: Whatever happened to Ronald Reagan's "conservative revolution"? How did his once-dominant Grand Old Party become so irrelevant at the federal level, and what must it do to reverse that trend? The area's two Republican representatives believe the solution depends upon the realization that the second question answers the first: The party's renaissance will in large part depend upon a return to conservative economic, political and social principles - and the willingness and ability to convince traditionally Democratic voters that those principles can work for them, too. "Right now, we're the party of 'greed and corruption,'" said Mark Souder, R-3rd District, who believes the perception is a combination of partisan hype and all-too-real deviations from the supposed pillars of conservatism, including fiscal responsibility and strong moral values. "Almost anything we do would be better, but more restraint on the budget is just the easiest answer. Are socially conservative issues (such as opposition to abortion and gay marriage) in the mix, too?" If they're not, Souder and Mike Pence, R-6th District, agree, the party risks alienating its most reliable and energetic supporters - many of whom were far more enthusiastic about vice-presidential candidate Sarah Palin than they were about the man at the top of their ticket, Sen. John McCain. According to conventional wisdom, the GOP can't appeal to "social conservatives" without alienating moderates, minorities and other groups. Pence, the new chairman of the House Republican conference, doesn't buy it. ❖



**Sylvia Smith, Fort Wayne Journal Gazette:**

If the Democratic-led Congress couldn't assert its authority during a Republican administration — principally by performing solid oversight of the executive branch — what chance is there of that when the D's are in charge of everything? "A timid Congress is bad for the health of our democracy," said Lee Hamilton, who represented southern Indiana for 34 years in the House. He was an Obama supporter during the presidential campaign and wishes the new president well, but that doesn't mean Hamilton thinks Congress ought to abrogate its responsibilities. "I don't favor a weak president," he said last week, "but I also favor a strong Congress, and I think you get better public policy if you have genuine tension between the president and the Congress." ❖



## UAW workers upset over bailout

FORT WAYNE - Don't tell workers at General Motors Corp.'s Allen County assembly plant that their company is asking the federal government for a bailout. They're adamant the company is asking only for a loan to get it through a crisis it didn't create (Fort Wayne Journal Gazette). Even so, they watched with worry last week as GM CEO Rick Wagoner said the company would soon run out of money if Congress didn't lend it between \$10 billion and \$12 billion. The pleas of Wagoner and the chiefs of Ford Motor Co. and Chrysler LLC so far have gone unheeded. Many at the plant also are irritated at what they consider an unfair image of underworked, overpaid autoworkers. The jobs are tough, they say, and even longtime workers don't take home anything near the oft-quoted \$70 an hour. That figure is an estimate that includes benefits from before last September, when the company renegotiated pay and benefits with the United Auto Workers, the hourly employees' union. "We're not the bad guys," said Cassandra Calvert, a relief operator in the body shop, who makes in the "high 20s" an hour. "We don't make the kind of money the media thinks we make. We're the middle class."



## Espich sees 'toughest budget'

INDIANAPOLIS - It's easy for legislators to say education is the first priority in crafting a new state budget. But it's a lot harder when the pot of money is small and comes at the expense of other services – such

as health care, food stamps to the poor, locking up criminals or giving incentives to businesses bringing new jobs to Indiana (Fort Wayne Journal Gazette). These are the kinds of decisions legislators have to make when they return Jan. 7 for the 2009 legislative session. Their only constitutional duty – pass a balanced budget by April 29. "I think it has to be the toughest (budget) that we have faced in decades," said Rep. Jeff Espich, R-Uniondale, who has been a direct part of the budget process in both the minority and majority capacity since 1995. "In the past, some legislators didn't mind spending more than we had. Payments were delayed and gimmickry was involved and borrowing was done. That made it easier to put a budget together at that moment," he said. "We aren't going to do that. I won't, so it won't be tried, but I think there will be a more honest effort to balance the budget." "I am determined that we don't grow Medicaid spending and cut education spending," Espich said. "I am not going to be a party to that." Every 1 percent increase in base education funding costs the state budget \$63 million. Plus, there are many outside line-item appropriations supporting remediation, testing, full-day kindergarten and gifted and talented programs. [private]

## Schools under the budget gun

INDIANAPOLIS - Lawmakers often say schools are the top priority when it comes to creating the state's budget (Guinane, Times of Northwest Indiana). But in the legislative session beginning in January, legislators have a challenge on their hands as they attempt to come up with an education-friendly, balanced two-year budget despite the slumping economy. Schools worry that flat or declining state tax revenues could lead to consequences such as teacher layoffs and larger class sizes. School districts across Indiana are facing increased

costs for salaries, and many are also paying more for health insurance. With increasing costs, even a budget equal to last year could mean some tough choices. "When we get the same amount of money, that's like a cut for schools," said Dennis Costerison, executive director of the Indiana Association of School Business Officials. "And if that happens, we're talking about much higher class sizes." The state's revenue growth in the first quarter of the current fiscal year, which began July 1, has been flat. Some fear that a Dec. 11 revenue forecast will predict declines in state sales and income tax revenues. Lawmakers can cut spending in other areas to funnel more money into schools, or could tap into state reserve funds in hopes that the economy will rebound. Or lawmakers can keep education funding flat and let schools figure out how to deal with the problem. "Boy, I just don't have good answers," said state Sen. Luke Kenley, the Noblesville Republican who chairs the Senate Appropriations Committee.

## Lake Council red-flags cities in trouble

CROWN POINT - The Lake County Council will send warning letters to nine cities and towns whose 2009 public budgets appear to be on the brink of financial trouble (Times of Northwest Indiana). Council members declared East Chicago, Gary, New Chicago and Whiting to be fiscally unsound, which is no surprise to those community leaders, who already know they face the loss of more than \$55 million in revenue because of state-mandated property tax cuts beginning in 2009. However, the council also said the suburbs of Lowell, Munster, Schererville, St. John and Winfield may face similar problems because their projected spending exceeds their apparent income.