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WHEN RHETORIC TRIUMPHS OVER REASON

Complain if we must, but it is now clear nothing is going to change the reality that rhetoric is triumphing over reason in Indiana — Democrat and Republican administration alike. That fact is illustrated by the dismal economic data gathered in this issue. And continuing to point out to politicians that they have become the enemy of the economy, the enemy of their own constituencies, is a waste of time. Most of them know that already, having supplanted personal and factional ambition for civic duty. It is time the rest of us got used to this new *realpolitik* at the Statehouse. Indeed, those in sympathy with the philosophy of limited government, a philosophy championed on these pages, need a plan of action rather than another excuse, *e.g.*, that our political representatives are falling short of expectations. That plan is this:

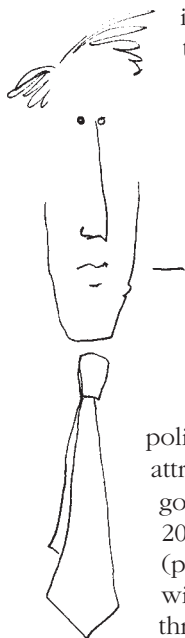
- Provide the deeper stories, logic and analysis that form the intellectual underpinnings for limited government. The membership continues to believe that there is a segment of influential persons in Indiana who benefit from a grounding in a philosophical perspective that prizes personal liberty and responsibility.
- Try in an honest and forthright way to shore up the popular prejudices that are conducive to limited government. The membership continues to believe that in the heart of the great many Hoosiers there are classical liberals dying to get out. It is the foundation's job to help them do just that.

BOHANON
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MANUFACTURING AND NON-ECONOMIC DEVELOPMENT

Total manufacturing employment and the number of production workers peaked in Indiana four decades ago. The number of manufacturing establishments increased through the mid-1990s but then experienced a substantial decline from 1997 to 2002. In sum, the state's blue-collar political core is gone. And while state and local governments have used various policies to attract and retain blue-collar jobs, massive policy interventions to protect manufacturing jobs is likely to cost more than it would be worth. The author concludes that Indiana must adopt policies that provide a business climate attractive to *all* types of businesses.

FAULK
PAGE 9



"It's not down
on any map;
true places never
are."
(Melville)

TAX RATES AND STAGNATION

The Indiana Legislature is at an economic crossroad: It can maintain the status quo and force the state into economic ruin or it can cut taxes. The important point about cutting taxes as a policy option is that it accomplishes three politically difficult things simultaneously: It attracts more people to Indiana; it pleases existing residents; and it doesn't expand government. State and local tax rate here rose from 10 percent to 10.6 percent between 2000 and 2005. This increase, if allowed to stand, will reduce the in-migration rate (persons from other states moving here to take jobs) by 0.24 percentage points. That will bring Indiana's population growth rate to a virtual halt (about 0.1 percent per year through 2030) — a political Armageddon, you can be certain.

TATOM
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EXECUTIVE SUMMARY

"Total state and local tax collections for the nation were \$1.1 trillion in 2005, or 8.5 percent higher than 2004 and 2.5 times the rate of inflation. Personal income tax collections rose 12 percent in 2005, and sales and property levies were up 6.3 percent and 5.5 percent, respectively. State and local expenditures overall rose by 4.7 percent, with health care and education outlays accounting for much of the increase."

— The Wall Street Journal, June 11, 2007

A Government Against Us

WHAT good that can be said about Indiana's economy is not in the governor's campaign literature. It is in the chart below. We have the geographic good fortune to be surrounded by some of the highest-taxing, biggest-spending, most anti-business states in the nation.

Now for the bad news: Indiana government, even during the recent Republican years, has become the enemy of economic growth, the enemy of its citizenry.

Our Cecil Bohanon's review of the most recent General Assembly makes clear to us that the leaders in both houses of the Legislature, abetted by an arrogant judiciary, protect a tax structure ruinous to the fortunes of our families, friends and neighbors.

They do so for two reasons. First, they have no concept beyond personal ambition of what they want to accomplish. Second, they lack the political courage to risk that ambition even in the interest of what they know to be right.

Hard words. We chose them carefully. Our tipping point came last session. The Legislature, instead of passing a bill to finally cap taxation of private property at constitutionally prescribed levels, raised taxes. And it raised them on the very segment of our society that is the definition of economic growth — business and industry.

Why a government becomes an enemy of its own people is a mystery that won't be solved here. We can only note that this nation's founding documents consider it a recurring challenge, that there are times when government must be . . . yes, revolutionized is the right word.

Let's begin with two findings presented in this issue:

- Indiana tax rates are moving inexorably higher. If that continues, we can expect near-zero growth through 2030.

- The Hoosier blue-collar middle class is gone. The state lost almost 37,000 production workers between 1963 and 2002.

Why does this last concern us?

For starters, the blue-collar worker kept our democratic system

honest. His practical understanding of how the world worked (an understanding often in conflict with his union rhetoric) was based on the reason of experience. Such reason was necessary to holding down a good job and managing a Judeo-Christian family.

His votes balanced out the economic idiocy of the assorted radicals in the Democrat Party as well as the perpetual scheming of Country Club Republicans.

There now is a great hole in the center of the electorate (see Dagney Faulk's analysis beginning on page nine). The loss of the blue-collar family along with the Main Street merchants earlier have left us bereft of economic sense.

Check the opinion polls of the 1970s and 1980s on what Hoosier workers thought about full-day kindergarten, precise numerical racial balance and socialized health care.

It is said there is only one set of numbers that matters in economics — how many are coming and how many are going.

That tally, analyzed here by John Tatom, says Indiana is in danger of stagnating. It is becoming a casino-financed, cigarette-smuggling third-tier state.

But they tell us Indiana is doing just fine. They point to a tax rate lower than the states around us. They note that unemployment is down.

Please.

Investors don't act on static numbers gathered from economic disaster zones like Ohio, Michigan and Illinois. Low unemployment? Sisyphus was fully employed, for all the good it did.

Investors are interested, rather, in the the dynamics of a state economy, the direction it is headed.

And Indiana's message?

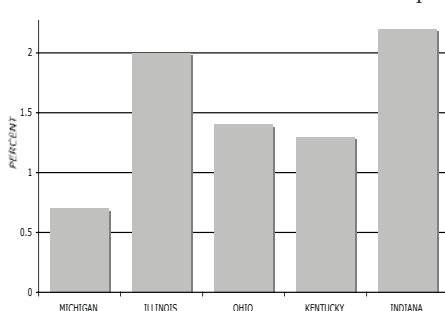
Reconsider that inexorable rise in taxes. It correlates with an equally steady decline in productive people who call themselves Hoosiers.

The message, as Dr. Bohanon warns, is dissuading: "This is not a government that is committed to a limited role."

That makes Indiana ripe not for capital investment but for electoral revolt.

— tcl

Growth in State GDP
Between 1997 and 2006



Source: Garth Brazelton, Indiana University, Indianapolis

WHEN RHETORIC TRIUMPHS OVER REASON



Let's Try Some Prejudice (the Good Kind)

by CECIL BOHANON

WELL, it's that time again: What did the Indiana Legislature do in 2007?

- Passed a \$26-billion budget that is balanced.
- Passed a limited full-day kindergarten program.
- Increased taxes on cigarettes by 44 cents a pack.
- Expanded state gambling revenues at race tracks by allowing the introduction of slot machines.
- Offered limited property tax relief and began a process that will allow local governments to use tax bases other than property to finance local public expenditures.
- Established a subsidized state health-care insurance program for the working poor.
- Failed to pass a bill constitutionally prohibiting gay marriage.
- Passed a minimum-wage bill that parallels national minimum-wage legislation.

For those who believe in limited government, this record is not an outright disaster but it is a disappointment. A litmus test: What happened to taxes? Notably, the Legislature did not enact any significant tax reform or general tax relief; there was no reduction in sales or income taxes. Quite the opposite, taxes were either increased

(on cigarettes) or new tax bases were established (slot machines). Even the proposed small reduction in the gasoline tax failed to pass muster. Nor was there any action on educational reform at any level; rather, a simple autopilot increase in educational spending.

Just as problematic is the so-called conservative leadership's support in establishing two new spending programs. History shows once a spending program is established, once a responsibility is entrenched with the public sector at a given level of government, it is almost impossible to turn this back to either lower governmental units or to the private sector. Consider, then:

- The state of Indiana is now committed to providing resources for full-day kindergarten.
- The state of Indiana is on the path of providing health-care coverage to a larger slice of the population.

This is *not* a government that views itself as "the problem, not the solution"; this is *not* a government that is committed to a limited role.

The purpose of this essay, however, is not to articulate what is wrong with expanding government but rather to ask why the government does what it does. What explains legislative outcomes? If advocates of limited government wish to

The state of Indiana is now committed to providing resources for full-day kindergarten; the state of Indiana is on the path of providing health-care coverage to a larger slice of the population. This is not a government that is committed to a limited role.



Cecil E. Bohanon, Ph.D., a founding scholar, teaches economics at Ball State University. Related work includes: "The Nov. 7 Election: Don't Get Your Hopes Up," *Indiana Writers Group column* for Oct. 25, 2007; and "What Can You Expect From This General Assembly?" *Fall 2005 issue*.

Legislators act just the way you would if you were in their shoes; no better, no worse. The real question becomes how do the institutions of democracy affect their behavior; what incentives are provided by the electoral and legislative processes?

prevail and reduce the intrusive hand of the state in society it is first necessary to establish a clear-headed understanding of the political-legislative process. This requires developing a realistic model of what we expect legislators to do. Note that “what we expect legislators to do” is not equivalent to what we want them to do. Rather it reflects “what we predict they will do” in light of their natures and the institutional processes in which they participate.

Models of Government

Let us examine two models of government in turn:

One model, the Idealistic Model, sees legislators as wise and prudent men and women, cognizant of their sacred duty to manage and direct the public weal in ways that benefit the common good and future generations. Of course, if they are not like that, they should be, and it is the job of the electorate to select politicians who are rich in the above-mentioned virtues.

Another model, the Corrupt Model, sees legislators as jackals intent on promoting their narrow financial interests and as affable stooges of those who would use the power of the state to promote their own special interests. A completely cynical view of government sees this characterization as inevitable, and all political action as futile.

However, both of these models are mere caricatures; and while there is a semblance of truth in both and there are many notable examples of both types of behavior by legislators, something in-between surely provides a more accurate insight.

A better model of legislators is to consider them to be ordinary mortals subject to flaws and foibles of the human condition but also capable of moral reasoning and action. As the late Indiana businessman Pierre Goodrich observed about human nature:

“It is self-evident that there is a conflict, or at least a composite, of attributes of man which affects what he wills to do or not to do.”

These attributes might be identified by such terms as jealousy, hate, love, compassion, attachment, arrogance, humility, etc.”¹

If legislators are no more or less virtuous or wise than the rest of us, the key to understanding legislative outcomes does not lie in developing a model of a legislator’s personal proclivities or preferences. A more fruitful approach to the question as to why legislators do what they do is to think about the incentives legislators face. Legislators act just the way you would if you were in their shoes — no better, no worse. The real question becomes how do the institutions of democracy affect their behavior; what incentives are provided by the electoral and legislative processes?

This institutional approach to human behavior has a rich and distinguished intellectual history and is grounded in the simple notion that most humans are neither aesthetic saints nor licentious sinners, but that they do respond to incentives. Adam Smith recognized it in his analysis of a market economy.

“It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity, but to their self-love. . . .”²

It is institutions of the market (private property, free exchange, competition, etc.) and the incentives generated by those institutions that ensure a market operates to the benefit of the commonwealth. It is these institutions that give the butcher, the brewer and the baker an incentive to be other-regarding despite their natural tendency to be self-regarding.

Over the past half-century or so, economists and political scientists of the Public Choice school have analyzed the public sector through this same lens. To paraphrase Smith, such analysis begins with the assumption “it is not from benevolence of the legislator, judge or public administrator that we expect the provision of good law and government services, but from their regard to their own interest.”

1. From Liberty Fund Basic Memorandum, p.13. Liberty Fund, Indianapolis.

2. From *Wealth of Nations*, p.8. *Great Books of the Western World*, Vol. 36, Encyclopedia Britannica, 1993.

The question becomes what incentives do the institutions of democracy (periodic voting by the electorate, freedom of the press, legislative processes, powers of taxation and regulation) provide for legislators to dispense good legislation? How are they likely to respond to those incentives? And what does this imply about the likely outcome of the legislative process?

**Citizen Mark Jones, Meat Purveyor;
Rep. Mark Jones, Legislation Purveyor**

Mark Jones lives in Smalltown, Indiana. He operates a successful specialty shop providing fine meats to the residents in Smalltown. Mark is especially proud he has survived and even prospered in the presence of competition from supermarket chains and Wal-Mart. How has he done it? He has paid close attention to the desires of his customers. When Mike and Ann want a two-inch thick USDA prime T-bone with a fine trim, Mark complies with their wishes promptly and cheerfully. When the Banters want three dozen fresh-cut lamb chops for their annual outdoor grilling party, Mark makes a special effort to find the highest-quality source of fresh lamb. Other meat retailers either can't or won't accommodate these wishes. Mark is known to really work for his customers, relentlessly tracking down items that are outside the purview of the mass-market chain stores.

Why does Mark do this? Because he is a swell guy? Well, yes, he is a great guy, but a more prescient explanation is that if he does not act in such a fashion he will not stay in business. His business success depends on the goodwill and repeat business of satisfied customers. His customers always have the option to "fire" him if he fails to deliver value, quality and service. His situation is even more tenuous, for his customers have the option to "fire" him if another competitor lures them with superior value, quality and service.

Successful in business and popular in the community, let us suppose Mark is now at a stage in his life where he is passing his business on to the next generation. His daughter and son-in-law are gradually taking the business over, maintaining the good work Mark has established over a

lifetime and allowing Mark to pursue other interests. At the behest of a number of local citizens, Mark decides to run for an open legislative seat. Putting the same effort in his campaign as he did his business, paying attention to details and promising to really work for his constituents, Mark is successful and wins the election.

What assurances do the citizens of Smalltown have that Mark will do a good job as their representative to the state legislature? What recourse do they have if he does not?

At first glance, the incentives for Mark Jones, meat purveyor, and Mark Jones, legislator, look similar. If Mark does not provide good value to his customers in his business, they stop patronizing his establishment and he fails. If Mark does not provide good value to his constituents as a legislator, they stop voting for him and he fails.

There is no question that voting and electoral competition provide an important and absolutely necessary safety valve on government. Yet, further analysis of voting reveals there are also significant differences between patronizing a business and voting for an elected official; and these differences generally make the voting-as-check much less potent than its market counterpart.

A first and perhaps most obvious difference has to do with the nature of the services provided. As a purveyor of fine meats, Mark provides Ann and Mike with steaks, the Banters with lamb chops and the McIntosh's with a veal roast. The goods provided are individual and typically differ among customers. As a legislator, however, the laws passed and the programs established are by definition, uniform and equally applicable to all his constituents. The grant for the city park is a park that all three households enjoy, and the law prohibiting smoking in an automobile in the presence of children is a rule all three households must follow.

A second and perhaps more important difference is the responsibility the purveyor has for the delivery of the service provided. Mark's work as a butcher requires him to obtain the cooperation of many other individuals in the ultimate delivery of products to his customers. But it is not necessary that he garner the

It is not political personalities but rather the institutions of the market (private property, free exchange, competition, etc.) and the incentives generated by those institutions that ensure a market operates to the benefit of Indiana.

Because there really is little a disgruntled citizen can individually do about a government- induced outcome, citizens quite rationally approach their direct interface with government (voting) in a way very different from their direct interface with markets (buying).

active permission of those coworkers to approve the customers' orders. Yet, Mark's work as a legislator requires him to obtain explicit approval of his fellow legislators. Indeed, no law or program can pass unless a majority of legislators are willing to sign off on it. Blame for failure to deliver is much more plausibly placed on outside forces (the other party, special interests) in the case of a legislator than a private business. Private business can be held to higher standards of customer accountability than any legislator ever could because of the way services are delivered.

Imagine, for example, what the world would look like if each household's annual allocation of meat were determined by a legislative process. First, each household is constrained to having the same package; and second, the composition of the package is determined by the majority vote of a body over which it has little control. The provision of government goods is not like the provision of marketed goods; for there is no tight and immediate link between the product attributes and the buyer and sellers.

This leads to the third and perhaps most important difference: the efficacy of the signal of displeasure by the customer. If the Banters are displeased with Mark Jones' meats, their signal is unequivocal and effective — they no longer consume the product. However, if the Banters are unhappy with Mark Jones' performance as a legislator, their method of expressing displeasure — voting for Mark's opponent in the election — does not necessarily lead to a termination of service provision.

Our Solid Indiana Voters

So where does this lead? What does it imply? The ramifications are rather straightforward and profound. Because the benefits and costs of legislative outcomes are often difficult to surmise, because the ultimate responsibility for government activity is inherently difficult to assign, and because there really is little a disgruntled citizen can individually do about a government-induced outcome, citizens quite rationally approach their direct interface with government (voting) in a way very different from their direct interface with markets (buying).

The former (voting) is subject to less well thought-out and more poorly informed choice-making than the latter (buying).

Voters are not quite sure what they are getting, aren't quite sure who is giving it to them and have limited ability to shape what they get in any case. So why should a voter be well informed? Moreover, if voters aren't going to be well informed, but are still going to participate in the political process, then why would they not let the "attributes" of "jealousy, hate, love, compassion, attachment, arrogance and humility" rule over their decision-making?

Every political consultant knows voters have a systematic tendency to be swayed by emotionally driven rhetoric that appeals to rather primal prejudices and perceptions. Political discourse and outcomes are driven by poorly-conceived theories, superficial rhetoric and gross characterizations that appeal to voters' passions. Bumper-sticker sloganeering in politics is not an accident but a logical consequence of a process that gives voters an incentive to find "short-cuts" in political deliberations. Successful politicians, of course, know this and cater their rhetoric to these popular prejudices.

The bad news is this is a far field from the idealistic view of government proffered in high school civics classes or by the League of Women Voters. The distribution of popular prejudices and passions, however, are consistent with a variety of political philosophies. The good news is this includes prejudices and passions that favor limited government and a free society.

LEFT	RIGHT
Helping the Poor	Godliness
Fair Wages and Prices	Traditional Families
Health, Safety, Environment	Aversion to Taxes
Gender, Racial Discrimination	Personal Freedom

The table above lists some of the popular prejudices that are commonly

held by mainstream voters. The right column lists those that typically play to the conventional political right, the left column lists those that typically play to the conventional political left. The list is by no means comprehensive or exhaustive, nor do the popular prejudices always translate to the favor of the political perspective with which they are usually associated.

I call these characteristics prejudices not because they reflect views that are intrinsically evil or banal. Quite the opposite, each of the above-listed characteristics reflect noble aspirations. Two factors, however, make them more prejudices than ideals. First, it is a political reality that simple identification with the ideal is more important than effectually implementing or advancing the ideal. Although politicians are interested at some level that their legislative agenda accomplishes what it sets out to do, the more immediate issue is whether the proposed legislation is popular among the voters, whether the proposed legislation seems congruent with popular prejudices. Ill-informed voters are likely swayed by impression as much as reality.

For example, most people think government policies that help the working poor are desirable. It is fair to say that the impact of an increased minimum wage on the working poor is ambiguous at best. It is unequivocally true that a state minimum wage yoked to a binding national minimum wage has no economic efficacy. Yet we can be certain that numerous legislators will hail the Indiana legislation that “increased the minimum wage” as a great victory for the working poor and that this will be accepted as gospel among broad segments of Indiana voters.

Second, prejudices are often at odds with one another and few politicians are ever forthcoming about this in a serious way. If Mark Jones wants to get reelected he will not call for tax increases; he will undoubtedly make calls for fiscal responsibility. Yet if the state budget is in crisis, he will be well-advised not to be

specific about what program he wishes to eliminate. Even more, to be successful Mark must be open to new programs and initiatives that are consistent with his constituents’ prejudices. Yet this is clearly at odds with the most rudimentary notions of fiscal discipline.

Anatomy of Two Issues

The above-outlined dynamic is well illustrated by two issues in the 2007 Indiana legislative session: the increased tax on cigarettes and the proposed constitutional ban on same-sex marriage. The outcomes were determined by the interplay of competing prejudices.

The Legislature passed the cigarette tax increase at the last minute. Given that smokers are now around one-fourth of the Hoosier population, smokers have become social pariahs and the revenues were to be allocated for a popular program (health insurance initiative), this isn’t surprising. Interestingly, however, the tax increase on cigarettes had failed in the House earlier in the session. The reason: a prearranged “deal” to ensure that a minimum quota of both Republican and Democrats voted for the bill fell through. It seemed neither side wanted to be seen as raising taxes, even though later action revealed a clear desire to do so by both sides. The broad brush of being labeled as favoring tax increases has a political potency that strikes fear in the hearts of many legislators.³

The Legislature failed to pass a constitutional amendment prohibiting same-sex marriage. It is fair to say that if given the option to vote on the matter, most Hoosiers would favor such a constitutional restriction. Nevertheless, opponents of the bill were able to quash it because of allegations that its specific wording would undermine the ability of state entities and private corporations to offer same-sex partner benefits. Although the links were tenuous at best, the mere fear of seeming to be non-inclusive was enough to convince members of the legislative committee to quash the bill.⁴

Two issues before the Legislature — a cigarette tax and a ban on same-sex marriage — outlined the political reality that simple identification with the ideal was more important than effectually implementing or advancing the ideal.

3. See “Fifty-Two Ways to Put Out a Tax Hike,” by Mary Beth Schneider and Theodore Kim, *Indianapolis Star*, March 4, 2007, p.1

4. See “Will Ban Go Further?” by Bill Rutbbart, *Indianapolis Star*, March 19, 2007, p.1; “Lilly: No to Ban on Gay Marriage,” by Bill Rutbbart, *Indianapolis Star*, March 29, 2007, p.1; “Same-Sex Marriage Ban Stumbles,” by Bill Rutbbart, *Indianapolis Star*, April 4, 2007, p.1.

THE COVER

*Politics is the triumph
of rhetoric over reason.*

*Is this something we
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but the more important
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What Role for Us?

The message of the essay is this: Politics is the triumph of rhetoric over reason. Is this something we should decry? Perhaps, but the more important point is to understand this as the very nature of the political process. Complain if you must, but nothing is going to change the reality and anyone interested in affecting the outcome of the public sector had better get used to the reality. How should those of us in sympathy with the philosophy of limited government championed by the Indiana Policy Review Foundation proceed? What should the foundation do? I modestly propose the following:

1) It is the job of the foundation to provide the “deep” stories, logic and analysis that provide the intellectual underpinnings for limited government. These will not usually be reducible to slogans or stories, they will not even be about policy specifics, but rather will be about larger, more philosophical questions of government, human nature and moral reasoning. Such education requires effort and commitment on the part of the teachers and the students. Yet we are convinced there is a segment of the population that is potentially influential who benefit from a deeper grounding in a philosophical perspective that prizes personal liberty and responsibility.

2) It is the job of this foundation in an honest and forthright way to shore up the popular prejudices that are conducive to limited government. Of course, to our minds these prejudices are pearls of wisdom. But we must be convinced that in the heart of most Americans there is a classical liberal dying to get out. It is our job to help them do that. Like most citizens they have neither the time nor capacity to engage in the heavy intellectual lifting of the first of the above mandates. Our job is to make the ideas in which we believe accessible and understandable by the good people of Indiana. Q

Wagging the Dog for Rational Ignorance

From Barry Levinson's 1997 film, "Wag the Dog: A Comedy About Truth, Justice and Other Special Effects." The script is a fictional account of the fixers and insiders of Washington diverting attention from a presidential sex scandal by simulating a war.

Here the team of political experts discusses the futility of voting:

Stanley (Dustin Hoffman) — "I don't vote. Why don't you vote?"

Fad King (Denis Leary) — "No, No. When major league baseball started, the fans voted. I voted for Boog Powell on first base. He didn't get in, and it disappointed me. It's futile."

Stanley — "You've never voted for president?"

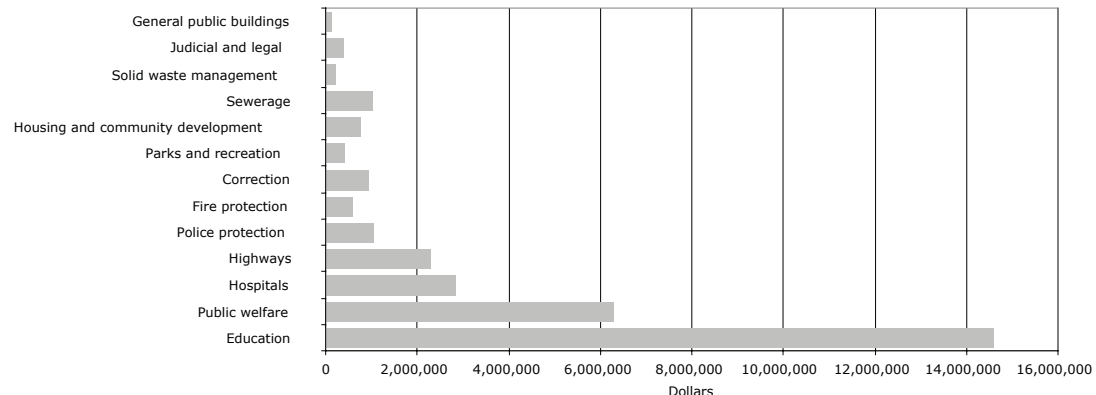
Fad King — "Do you vote?"

Stanley — "No, I always vote for the Academy Awards but I never win. Liz, do you vote?"

Liz (Andrea Martin) — "No, I don't vote. I don't like the rooms. Too claustrophobic. I can't vote in small places."

State and Local Government Finances in Indiana by Selected Level of Government: 2004-2005

Dollar amounts are in thousands. Source: U.S. Census, Governments Division; created May 14, 2007



MANUFACTURING EMPLOYMENT IN INDIANA: 1963-2002



Saving Some Jobs Costs More than They Are Worth

by DAGNEY FAULK

THE decrease in manufacturing employment has garnered much attention among the media and policy-makers in Indiana. The purpose of this article is to take a close, data-driven look at changes in the manufacturing sector in Indiana over the past four decades — particularly the number of production workers — and provide some insight as to why these changes have occurred.

For statistical purposes, the manufacturing sector¹ includes such diverse industries as food manufacturing, textile mills, apparel manufacturing, wood products, paper, printing, petroleum and coal, chemicals, plastics and rubber products, nonmetallic mineral products, primary metals, fabricated metals, machinery, computer and electronic products, electrical equipment, transportation equipment and furniture. Construction and mining are not included in the manufacturing sector. Traditionally, manufacturing jobs have

paid relatively well and did not require a college education. These “middle-class” manufacturing jobs have traditionally been viewed as a route to upward mobility for workers and their families.

Table 1 shows various indicators for the manufacturing sector in Indiana from the 1960s through 2002. The data is from the Census of Manufactures which is the most detailed compilation of statistics available on the manufacturing sector and the only one of the few sources for data on production workers. It is currently compiled at five year intervals — years ending in two and seven.² According to this data series, total manufacturing employment and the number of production workers peaked in 1967. In contrast, the number of manufacturing establishments has increased over time through the mid-1990s, and then experiences a substantial decline from 1997 to 2002. Even as the level of manufacturing employment has declined,

Total manufacturing employment in Indiana and the number of production workers peaked in 1967. The number of establishments began a decline in 1997.



Dagney Faulk, Ph.D., an adjunct scholar of the foundation, teaches urban economics and public finance at Indiana University (New Albany). Recent articles include “The Process and Practice of Downtown Revitalization” and “Do State Economic Development Incentives Create Jobs? An Analysis of State Employment Tax Credits.”

1. According to the North American Industry Classification System (NAICS) implemented in 1997. The Standard Industrial Classification System (SIC) was used previously.

2. The 2007 Census of Manufactures is currently being compiled. The Annual Survey of Manufactures is less detailed. Both are available through www.census.gov <<http://www.census.gov>>.

Table 1: Indiana Manufacturing Sector, Various Indicators, 1963-2002

	1963	1967	1972	1977	1982	1987	1992	1997	2002
Establishments (total)	6,860.00	6,920.00	7,357.00	8,061.00	7,960.00	8,641.00	9,278.00	9,303.00	9,223.00
Establishments (with 20 employees or more)	2,547.00	2,917.00	3,052.00	3,229.00	3,184.00	3,612.00	3,876.00	3,946.00	3,667.00
All employees (number in 1000)	609.8	710.2	703.5	705.9	585.1	602	620.3	625.7	565.6
All employees (payroll, million dollars)**	22,308.20	27,056.10	29,600.40	30,983.50	23,413.70	24,952.40	24,528.80	24,795.30	22,852.70
Production Workers (number in 1000)	463.1	543.6	526.5	521.9	406	426.7	434.3	478.2	426.3
Production Workers (man hours, millions)	937.2	1,087.10	1,042.20	1,024.80	759.1	858.9	885.7	981.4	854.9
Production Workers (wages, million dollars)**	15,415.50	18,601.30	19,986.50	20,918.60	14,581.00	15,636.90	14,951.20	16,764.30	15,437.90
*Production Workers (avg annual wage, dollars)**	33,287.70	34,218.80	37,961.20	40,081.60	35,913.90	36,646.10	34,426.00	35,057.10	36,213.70
*Production Workers (avg hourly wage, dollars)**	16.4	17.1	19.2	20.4	19.2	18.2	16.9	17.1	18.1
Value added by manufacture (million dollars)**	45,427.10	55,521.20	60,749.00	67,440.50	47,998.80	62,203.00	63,858.50	75,334.80	78,023.80
Cost of materials (million dollars)**	na	63,051.20	66,001.80	88,552.10	68,534.10	70,798.40	71,066.50	84,797.10	82,850.40
Value of shipments (million dollars)**	na	117,721.40	125,607.20	154,880.80	118,066.40	132,688.80	134,599.40	159,467.30	160,924.20
Capital expenditures, new (million dollars)**	3,264.10	5,409.90	3,693.10	6,168.80	4,162.30	5,327.20	5,289.70	6,219.30	5,617.90

* Calculated by author.

**All dollar values are adjusted for inflation to 2002 purchasing power using the CPI.

Source: U.S. Department of Commerce, Bureau of the Census, Census of Manufactures, Indiana, various years.

Table 2: Number of Manufacturing Production Workers by Industry (NAICs Classification)

NAICS	Industry	1997	2002	Change	% Change
	Manufacturing	478,248	426,331	-51,917	-10.90%
311	Food Manufacturing	22,865	24,215	1,350	5.90%
312	Beverage and tobacco product manufacturing	1,785	1,094	-691	-38.70%
313	Textile Mills	380	266	-114	-30.00%
314	Textile Product Mills	3,041	2,564	-477	-15.70%
315	Apparel Manufacturing	1,887	1,469	-418	-22.20%
316	Leather and allied product mfg	1,337	404	-933	-69.80%
321	Wood product mfg	17,894	16,392	-1,502	-8.40%
322	Paper mfg	9,898	9,220	-678	-6.80%
323	Printing & related support activities	16,682	13,713	-2,969	-17.80%
324	Petroleum and coal products	2,589	1,815	-774	-29.90%
325	Chemical mfg	13,277	14,902	1,625	12.20%
326	Plastics and rubber products mfg	44,857	39,826	-5,031	-11.20%
327	Nonmetallic mineral product mfg	14,673	13,870	-803	-5.50%
331	Primary metal mfg	50,063	41,285	-8,778	-17.50%
332	Fabricated metal product mfg	53,628	47,191	-6,437	-12.00%

Source: U.S. Department of Commerce, Bureau of the Census, Census of Manufactures, Indiana, various years.

the real (inflation-adjusted) value added by manufacture has continued to increase as has the value of shipments, with the exception of 1982.

By Industry

Table 2 presents data on the number of production workers by industry in 1997 and 2002 using the North American Industry Codes (NAICs).³ Both nationally and in the state of Indiana the employment of manufacturing production workers declined precipitously between 1997 and 2002 totaling almost 52,000 (10.9 percent) production-job losses. With the exception of three industry sectors — food manufacturing, chemical manufacturing and miscellaneous manufacturing other industry sectors experienced decreases.⁴ Industries experiencing the largest decreases (5,000 or more) in production workers between 1997 and 2002 include plastics and rubber, primary metals, fabricated metal products, machinery, computer and electronic products, electrical equipment, appliance and components and transportation equipment.

By County

Table 3 presents data for counties with more than 10,000 production workers in 1967, the number of production workers in 2002 and the average

number of hours worked (hours per worker). Not all counties have experienced decreases in the number of manufacturing production workers. Elkhart experienced a substantial increase in production workers over this time period. The last three rows show three additional counties that have more than 10,000 production workers in 2002. Transportation equipment and medical equipment and supplies are the largest components of manufacturing employment in Kosciusko in 2002. Detailed industry analysis is not published for Tippecanoe or Vanderburgh counties. Of Indiana's 73 (out of 92) counties reporting data on production workers,

Table 3: Counties With More Than 10,000 Manufacturing Production Workers

County	Number (1000s)			Hours per worker (annual)		
	1967	2002	% Change	1967	2002	% Change
Marion	85.2	41.8	-51.00%	1,971.80	1,978.60	0.30%
Lake	76.1	20.2	-73.40%	1,971.10	2,097.60	6.40%
Allen	29.3	21.2	-27.70%	1,993.20	1,983.90	-0.50%
Elkhart	23.8	45.8	92.60%	1,987.40	1,959.50	-1.40%
Madison	23.3	6.2	-73.40%	1,970.00	1,836.10	-6.80%
St. Joseph	22.4	13.4	-40.10%	2,049.10	1,982.60	-3.20%
Howard	17	D	..	2,029.40
Delaware	14.7	5.6	-61.90%	2,054.40	2,035.00	-0.90%
Grant	13.9	6.5	-52.90%	2,028.80	2,063.90	1.70%
La Porte	13.6	6.6	-51.80%	2,007.40	2,009.80	0.10%
Clark	12.5	D	..	1,744.00
Wayne	11.6	6	-48.20%	2,017.20	2,020.60	0.20%
Additional counties with more than 10,000 production workers in 2002						
Tippecanoe	8.3	11.7	41.00%	1,975.90	1,864.10	-5.70%
Vanderburgh	D	11.4	2,010.40	..
Kosciusko	5.9	10.5	78.00%	2,067.80	2,122.60	2.70%

Source: U.S. Department of Commerce, Bureau of the Census, Census of Manufactures, Indiana, various years.
Note: D indicates that the data is withheld (by the Census Bureau) to avoid disclosing data for individual companies.

3. Industry data for previous years use Standard Industrial Codes (SIC) which are not strictly comparable with the NAICs system and are therefore not included here.

4. Miscellaneous manufacturing includes medical equipment and supplies, jewelry, sporting and athletic goods, toys and games, office supplies (except paper), sign manufacturing, musical instruments, and burial caskets.

Indiana industries experiencing the largest decreases (5,000 or more) in production workers between 1997 and 2002 include plastics and rubber, primary metals, fabricated metal products, machinery, computer and electronic products, electrical equipment, appliance and components and transportation equipment.

Table 4: Share of Nonfarm Employment, by Major Industry, Indiana

	1972	1977	1982	1987	1992	1997	2002*
Nonfarm employment	2,245,342	2,455,310	2,420,090	2,765,958	3,057,837	3,415,625	3,511,452
Private employment	85.53%	86.12%	85.40%	86.44%	86.52%	87.93%	87.64%
Agricultural services, forestry, fishing & other	0.29%	0.37%	0.52%	0.70%	0.74%	0.86%	..
Mining	0.39%	0.43%	0.60%	0.50%	0.36%	0.29%	..
Construction	4.69%	5.00%	4.65%	5.19%	5.44%	5.85%	..
Manufacturing	31.85%	29.29%	24.69%	22.65%	20.94%	20.19%	..
Transportation and public utilities	5.12%	4.94%	5.08%	5.13%	4.97%	4.77%	..
Wholesale trade	3.91%	4.40%	4.44%	4.44%	4.48%	4.39%	..
Retail trade	16.40%	17.16%	17.81%	18.18%	18.31%	18.71%	..
Finance, insurance, and real estate	6.13%	6.53%	6.77%	6.27%	6.09%	6.35%	..
Services	16.74%	17.99%	20.84%	23.37%	25.19%	26.53%	..
Government and gov't enterprises	14.47%	13.88%	14.60%	13.56%	13.48%	12.07%	12.36%
Federal, civilian	1.93%	1.65%	1.70%	1.61%	1.45%	1.11%	1.03%
Military	1.62%	1.20%	1.25%	1.24%	1.07%	0.66%	0.61%
State and local	10.92%	11.03%	11.65%	10.71%	10.96%	10.30%	10.72%

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Employment and Earnings, including sole proprietors and author's calculations.

*For this data series, the 2002 data is classified according to the North American Industry Codes (NAICs) while data prior to 2002 is classified according to Standard Industrial Codes (SIC). The detailed employment shares are not provided for 2002, since they are not comparable with previous years.

Note: The BEA data series used to construct this table is available annually from 1969.

40 had increases in production workers between 1967 and 2002, while 30 had losses and three had essentially no change. Elkhart County led the gain over the 1967 to 2002 period with over 22,000 new production jobs, while Lake and Marion counties led the decline in production jobs with losses of 55,859 and 43,420, respectively.

The last three columns of Table 3 show average number of hours worked per year and the percent change between 1967 and 2002. While some of these counties experienced increases and others decreases in hours per worker, the magnitude of the decrease in average hours is substantially larger than the increase indicating that fewer production workers are working fewer hours on average.

Employment Shares

Finally, Table 4 illustrates the share of employment for major private and government industry categories over time. The data for Indiana mirrors the national trend. Manufacturing as a share of nonfarm employment decreased substantially from almost 32 percent in 1972 to just over 20 percent in 1997. In contrast the service sector increased substantially from 16.7 percent of nonfarm employment in 1972 to 26.5 percent in 1997. The rise in disposable income over this period underlies this trend. As income increases, demand for services such as health care, prepared food and entertainment has increased. The retail sector has also increased by a couple of percentage points. Other changes have been relatively minor in percentages terms.

Factors that are commonly used to explain the losses of manufacturing jobs are increased productivity, globalization, including the role of outsourcing and exchange rates and unionization.

Productivity of U.S. Workers

The manufacturing process involves the combination of capital inputs (machinery and equipment) and labor inputs (workers). Workers use the capital to make

products. Over time, manufacturing has become more capital intensive and thus less labor intensive in the U.S. — meaning that on average a worker has more capital to work with and produces more output, so output per worker increases.

At the national level productivity as measured by output per worker hour in manufacturing has increased each year since 1987 (the first year the statistic is available). While manufacturing productivity measures are not available at the state level, there is no reason to believe that trends in productivity would be different in Indiana.

The data in Table 1 indicates that manufacturing has become more capital intensive in Indiana — new capital expenditures have increased (adjusted for inflation) as the level of manufacturing employment has decreased. At the same time, productivity has grown at a faster rate than consumer demand for manufactured goods and the demand for services has increased. So job loss is not just a result of globalization. Changes in technology — the increased use of capital coupled with the slow growth in demand for manufactured goods — have reduced the demand for workers. Reductions in the manufacturing labor force have occurred in most industrialized countries and even some developing countries.

For example, recent statistics on China show that manufacturing employment decreased from 96.12 million to 83.07

Indiana manufacturing has become more capital intensive — new capital expenditures have increased (adjusted for inflation) as the level of manufacturing employment has decreased. At the same time, productivity has grown at a faster rate than consumer demand for manufactured goods and the demand for services has increased.

The Organization for International Investment estimates that U.S. subsidiaries of foreign companies “support” about 13 percent of total manufacturing employment in the state.

million between 1997 and 2002.⁵ With reference to the manufacturing sector, globalization often refers to the movement of manufacturing jobs from the U.S. to less-developed countries. China and Mexico are often cited as examples.

Exchange rates affect imports and exports. As the dollar appreciates against other currencies, U.S. goods exported to other countries become more expensive for foreign consumers to buy and goods imported into the U.S. from other countries become cheaper for U.S. consumers to buy. As such, the appreciation of the dollar affects the foreign demand for manufactured goods produced in the U.S. contributing to both the trade deficit and the decrease in the demand for manufactured goods and associated jobs. A depreciation of the dollar has the opposite effect: decreasing the cost of U.S. goods and services to foreigners (exports) and increasing the cost of goods and services purchased from abroad by U.S. consumers. This will decrease the trade deficit and increase the demand for U.S. manufactured goods and associated jobs. The U.S. dollar, as measured by a trade-weighted index of major currencies⁶ or a broader index, appreciated during the mid-1990s and again in the early 2000s which negatively affects manufacturing employment growth.

Outsourcing and offshoring refer to the increased use of domestic contractors (outsourcing), such as staffing services and the increased use of foreign companies (offshoring) to perform certain functions, such as call centers or certain components of research and development. In manufacturing, this trend has decreased the official number of manufacturing workers and as a result causes productivity growth in the manufacturing sector — defined as output per worker hour

— to be overstated. Outsourced and offshore workers are not included as manufacturing employment, so as output increases or remains stable and the number of workers decreases, the productivity measure will increase.⁷ While outsourcing and offshoring are associated with job losses, particularly in the manufacturing sector, like any economic transaction there are benefits as well as costs (otherwise economic agents would not be engaging in these activities). The benefit of outsourcing and offshoring is lower production costs and therefore lower prices for consumers which contribute to economic growth. Finally, while much media attention has focused on outsourcing and offshoring that has moved jobs out of the U.S., there has been less focus on foreign companies that have created jobs in the U.S., referred to as insourcing. The Organization for International Investment estimates (using data from the U.S. Department of Commerce) that U.S. subsidiaries of foreign companies “support” 80,800 manufacturing jobs in Indiana. This is about 13 percent of total manufacturing employment in the state.⁸

Unionization is often blamed for the shift of manufacturing jobs to other, particularly less-developed, countries where labor unions are not as prominent and labor laws are more lax. This movement of jobs mirrors a similar trend that occurred within the U.S. in the early 1900s as jobs moved from northern states to the south. The power of labor unions has declined over the past several decades — for example, union membership for private manufacturing workers in Indiana has declined to 22 percent in 2002 from 48.7 percent in 1983 (the first year that this data is available).⁹ Nonetheless, unions continue to play a role in determining the level of wages

5. See Banister (2005).

6. These indexes are maintained by the Board of Governors of the U.S. Federal Reserve System. The index of major currencies includes currencies of the European Union, Canada, Japan, United Kingdom, Switzerland, Australia and Sweden. The broad index includes the currencies of the countries listed above along with currencies of Russia, Saudi Arabia and several developing countries.

7. Houseman (2006) provides an analysis of the relationship between outsourcing, offshoring and productivity growth in manufacturing.

8. <http://www.ofii.org/in.btm>

9. Union membership rates are available from www.unionstats.com. The database, constructed by Barry Hirsch (Trinity University) and David Macpherson (Florida State University), is updated annually. See Hirsch and Macpherson (2003) for additional information.

and benefits that manufacturing workers earn. Traditionally, the role of labor unions has been to maximize the level of compensation (wages and benefits) accruing to its members where the level of compensation is higher than that necessary to attract and retain these workers. As such, unionization increases labor costs and will decrease employment. However, unions also play a role in increasing productivity since workers with higher pay and better benefits tend to be more productive, so fewer workers are needed to produce a given level of output. In either case, fewer workers will be hired. Again, since labor productivity has grown at a faster rate than the demand for manufactured goods, this decreases manufacturing employment.

As the data illustrates, the number of manufacturing jobs in Indiana has decreased substantially over the past four decades. Nevertheless, employment in Indiana remains heavily concentrated in the manufacturing sector. Manufacturing has the second-highest proportion (around 20 percent) of nonfarm jobs, second only to the service sector.

Research has shown that technological progress — increased productivity resulting from workers using better capital — is the driving force behind the decline in manufacturing employment in the U.S.¹⁰ and abroad.¹¹ Other factors such as the exchange rate have a relatively minor impact. Over time technological progress benefits society leading to higher incomes and more employment opportunities. However, these benefits are not equally distributed. Displaced workers from the manufacturing sector are negatively affected. Some of these workers take

lower-paying jobs in the growing service sector.

The Role of the State

State and local governments have used various policies to attract and retain manufacturing jobs. Massive policy interventions to protect manufacturing jobs are probably not warranted because it would cost more to protect these jobs than the benefits to society. In the automotive sector, for example, estimates abound of state and local incentives that cost more per job than the income and taxes generated. A broader perspective is to adopt policies that provide a favorable business climate and high quality of life so that Indiana is attractive to all types of businesses and to encourage an educated workforce with transferable skills.

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Estimates abound of state and local incentives in the automobile industry that have cost more per job than the income and taxes generated.

10. See Fisher (2004).

11. This is the same factor that has led to the massive decline in agricultural employment during the 20th century.

The Realignment of America

THE coastal Megalopolises of New York, Los Angeles, San Francisco, San Diego, Chicago (on the coast of Lake Michigan), Miami, Washington and Boston fit a pattern you don't find in other big cities: Americans moving out and immigrants moving in, in very large numbers, with low overall population growth. Los Angeles, defined by the Census Bureau as Los Angeles and Orange Counties, had a domestic outflow of six percent of 2000 population in six years — balanced by an immigrant inflow of six percent. The numbers are the same for these eight metro areas as a whole. . . . The result is that these Coastal Megalopolises are increasingly a two-tiered society, with large affluent populations happily contemplating (at least until recently) their rapidly rising housing values, and a large, mostly immigrant working class working at low wages and struggling to move up the economic ladder.

— Michael Barone in the May 8, 2007, *Wall Street Journal*

ARE HIGH TAXES RESTRICTING INDIANA GROWTH?



One Index Gives the Governor a 'D'

Consumers vote with their feet, sorting themselves into political jurisdictions based on their preferences for public-sector goods and services. Indiana governments that either raise taxes or reduce government programs discourage residency and economic activity in their jurisdictions.

by JOHN TATOM

A “Hoosier Comeback” program, sponsored by the Indiana Economic Development Corporation, is part of a strategy to boost economic growth, in this case through increasing the quantity and quality of available human resources. The plan envisions subsidies to encourage the return of former residents. Indiana’s population growth has been weak relative to the rest of the country, though not as weak as in the 1970s and 1980s. It is set to return to a much weaker pace, however, according to the U.S. Census Bureau. From 1972-1987, Indiana’s population growth rate was only 0.2 percent per year, well below the U.S. pace of one percent per year. In some years, population even fell (1980-83 and 1986). Subsequently, Indiana’s population grew at a 0.8 percent average annual rate from 1987 to 2005, closer to, but still below, the national pace of 1.2 percent per year. Over the next 25 years U.S. population growth is expected to slow (to 0.8 percent per year), and Indiana’s is expected to fall back more sharply (to 0.3 percent per year). Such slow growth in population and the workforce will curtail the pace of expansion of overall output

and income in the U.S. and all the more so in Indiana.¹

A broader effort could usefully focus on recruiting others to migrate to Indiana or on inducing existing residents to stay. Charles Tiebout, in a famous paper published a half-century ago, explained that consumers vote with their feet, sorting themselves into political jurisdictions based on their preferences for public-sector goods and services. This “Tiebout hypothesis” has found strong statistical support in a variety of contexts ever since and has become a critical feature of local government expenditure and tax analysis.

If people vote with their feet, then governments that reduce government programs or raise taxes would discourage residency and economic activity in their jurisdictions. Indiana could attract back more former residents, or keep those it has, by lowering the tax burden, if people vote with their feet. In the reverse direction, Smith Conway and Houtenville (2001) provide evidence that the elderly are attracted to move to states with sales-tax exempt food, low personal income tax rates, low death taxes and low welfare



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1. See U.S. Census Bureau, Population Division, *Interim State Population Projections*, 2005.

spending. LaFaive (2006) cites evidence of large net out-migration in Michigan recently due to the large and rising tax burden.

Rates of in-migration (moving into a different region of the same country or territory) are strongly affected by state and local tax rates. Chart 1 below shows the tax rate prepared by the Tax Foundation for the 50 states for 2005 and in-migration rates prepared by the U.S. Bureau of the Census for 2005.² The in-migration rate is measured by the number of residents over one year of age who did not live in a state in the prior year divided by the current population. The tax rate includes all state and local taxes as a percent of net state product. Evidence supporting consumers voting with their feet can be seen in Chart 1. While there are many other factors that affect in-migration, the negative relation between the state and local tax rate and in-migration is apparent.

The in-migration rate is sensitive to the tax rate.³ In the linear formulation of the data captured by the trend line shown in the figure, each one percentage point rise in the tax rate will reduce the in-migration rate by 0.41 percentage points. This effect is statistically significant at a conventional level of significance (t-ratio equals -3.62, which implies that the effect is significantly different from zero at a 99.9 percent confidence level). This means that there is less than one chance in a thousand that such a value (0.41) could occur randomly when the true value is zero, or that there is no relationship between tax rates and in-migration whatsoever.

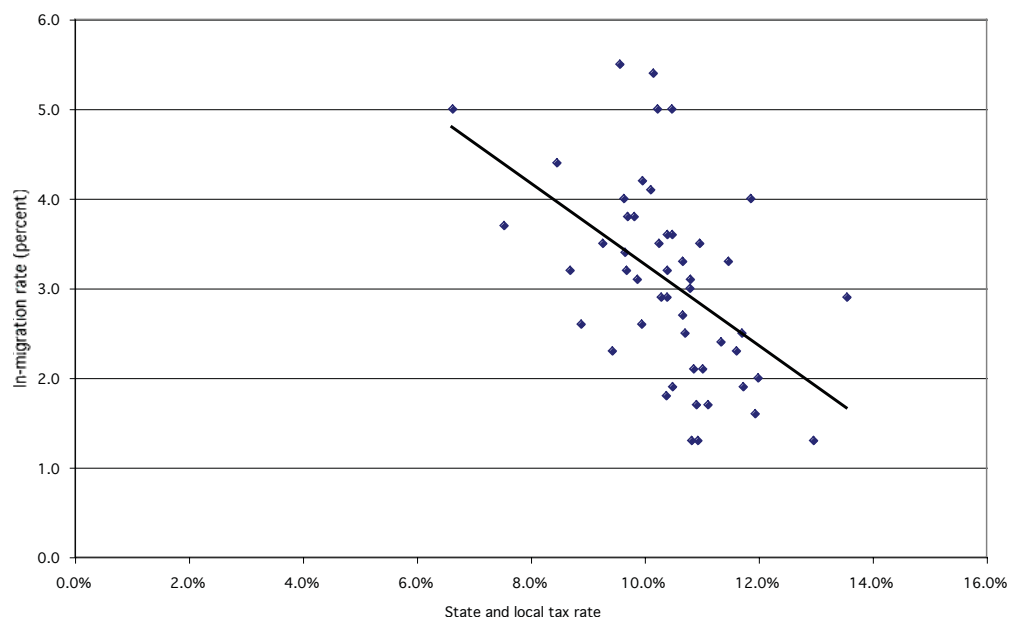
There are other factors that could affect the in-migration rate besides the

tax rate and some of those could be correlated with the tax rate so that the simple linear relationship is really just due to those other non-tax factors. Two such factors were added to the statistical relationship to check the robustness of the tax rate effect, the growth rate of employment in the previous year and the level of per capita personal income. Including either measure does not have an effect on the statistical significance of the tax effect. Per capita income does not affect in-migration in these tests. This is a potentially useful measure to capture non-tax effects on in-migration because it is uncorrelated with, or not statistically related to, the tax rate measure (the "correlation coefficient" which measures such a relationship is only 0.04; this measure has a value of one if there is a perfect correlation and zero if there is no relationship). One might expect that out-of-state residents are attracted to states with higher per capita income. Per capita personal income has no effect on in-migration (its coefficient has the wrong sign and its t-ratio equals 0.55), however. Its inclusion has essentially no effect on the size (0.40) or significance (t-ratio is -3.53) of the tax rate effect.

Including past employment growth in the analysis of in-migration along with the other two measures has a systematic positive effect, as would be expected. People are influenced to move into a state where employment growth has

In Indiana, the state and local tax rate rose from 10 percent to 10.6 percent between 2000 and 2005. This would reduce the in-migration rate by 0.24 percentage points and bring the population growth rate here to about 0.1 percent per year from 2005 to 2030.

Chart 1: A Higher Tax Rate Lowers the In-Migration Rate



2. The tax rate data are from Dubay (2007).

3. The elasticity of the in-migration rate with respect to the tax rate is -1.39, which means that a doubling of the tax rate will cut the in-migration rate by more than one-half. When past employment growth and per capita income are included in this estimate, the elasticity drops to -0.95 (t-ratio equals -3.48), which is still quite large and highly significant.

Indiana's state and local tax burden rose from 35th in the nation in 2000 to 25th in 2005.

been relatively more rapid. The coefficient on employment growth is 0.75 and it is statistically significant (t-ratio equals 6.81), strongly supporting this view. The absolute size of the tax effect drops to -0.27 (t-ratio equals -3.24) in this estimate. The implication of this result is that high past employment growth that attracts in-migration is highly correlated with low tax rates, which is not surprising. The correlation coefficient, which indicates this negative correlation, -0.32, is relatively high for the number of observations (50 states) here. Arguably, the expectation of low tax rates accounts for both effects.

In Indiana, the state and local tax rate rose from 10.0 percent to 10.6 percent between 2000 and 2005. According to the linear relationship in the data, this tax hike would reduce the in-migration rate by 0.24 percentage points. This is half the decline in population growth for the 2005-30

period projected by the Census Bureau. Placed on top of the decline already projected, this would bring the population growth rate to about 0.1 percent per year from 2005 to 2030. On the other hand, pushing taxes back down by a similar amount could raise the in-migration rate enough to boost the population growth rate closer to the U.S. average rate and keep the state's share of population and income from declining as much. Accounting for out-migration would reinforce these effects on population growth.

The recent increase in the tax rate is large. According to Tax Foundation data, Indiana's state and local tax burden rose from 35th in the nation in 2000 to 25th in 2005. In 2000, Indiana had a lower tax rate than all

of its neighbors. Since then, all of these states had rising tax rates, but Indiana's tax-rate increase was sufficiently large to put it above the rate in Kentucky. Ohio had the highest tax rate of neighboring states in 2005; at 11.8 percent, 0.8 percentage points higher than in 2000. Ohio's tax rate put the state at the 10th-highest level in the nation. Ohio's in-migration rate was only 1.6 percent in 2005, below Indiana's 2.1 percent and lower than the rate in all states except New York, California and Michigan, which tied for the lowest in-migration rate in the country at 1.3 percent. All three are high-tax states, especially New York where the tax rate was highest in 2005 at 14 percent.

The Tax Foundation also prepares a State Business Tax Index, which assesses the attractiveness of a state based on its tax system.⁴ Their index is based on five subcomponents of the tax system: individual income taxes, corporate income taxes, sales taxes, unemployment insurance taxes and property taxes. Somewhat ironically, their index shows Indiana as a very attractive state. How can a state have the 25th-highest taxes in the land and yet have the 12th-best tax climate?⁵ The answer is that the Tax Foundation ranks low individual income taxes with an especially large weight compared with other taxes and Indiana has one of the lowest individual tax rates in the country, ranking 11th lowest.⁶

Indiana relies more heavily on corporate income taxes and property taxes than other states and, while sales taxes are relatively low, these tax rates have increased most rapidly since 2000. It is arguable whether a given tax burden arising from an income tax is substantially less onerous than one arising from taxes on corporate capital income or property taxes, but this is not reflected in the Tax Foundation's State Business Climate Index. Even the climate index shows

The Michigan Model?

Poor growth (in Michigan) causes lower revenues, so they raise taxes, which leads to even poorer growth, so they raise taxes again. The state has lost some 362,000 jobs since 2000 and the jobless rate in December was 7.1 percent, second-highest in the country after Katrina-ravaged Mississippi's 7.5 percent. The national rate is 4.6 percent.

A new analysis by economist David Littman of the Mackinac Center reveals that the per capita income in the state fell to its lowest level in 75 years in 2005, relative to the national average. All of this is in contrast to the growth Michigan experienced in the 1990s, under former Governor John Engler, who succeeded in cutting income-tax rates and the welfare rolls. . . .

Public-employee unions are especially powerful in the state, and Gov. Jennifer Granholm bows to their every wish. One result is that, according to the governor's own financial advisory panel, the state has amassed a \$35 billion unfunded liability in its public-school health and retirement benefits. The state spends a whopping \$1,200 per student per year on teacher and administrator benefits.

4. See Dubay and Atkins (2006) for a description of the index and its latest rankings.

5. In addition, there are other features of the tax system that are ranked; indeed, there are 113 variables that factor into the five subcomponents of the tax climate index.

6. The Cato Institute assigned a "D" to the Indiana Governor's tax policy in 2006 based on proposals, and the capping of property tax relief. They failed to point out the rise in local sales taxes in several counties, although this may not be properly attributed to the governor. See Slivinski (2006). Local income taxes approved in the latest and previous legislative sessions and property tax increases and other new taxes, will sharply raise tax rates in this and coming years, well beyond items currently in the Tax Foundation estimates.

Chart 2: Lower State and Local Tax Rates Can Boost Population Growth

deterioration, however. In the first two estimates of the index for 2003 and 2004, Indiana ranked 10th in the country. Some of the deterioration, at least judged by the climb in the tax rate, occurred between 2000 and 2003.⁶

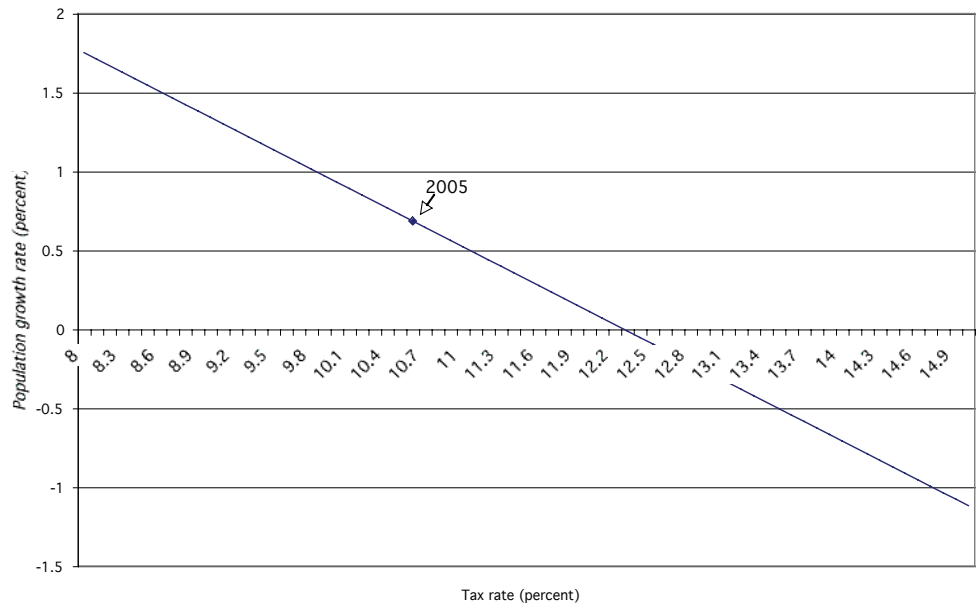
The Tax Foundation's State Business Climate Index suggests that more bang would come from cutting the individual income tax than other taxes. A lower income tax rate directly affects take-home pay and may be more transparent than assessing other taxes for an interstate move.

On the other hand, the taxes that have risen most in recent years have been sales and property taxes. Indiana is already relatively lower on the income-tax ranking. The important point is that cutting taxes of any type will attract more people to Indiana and please existing residents; it also does not expand government programs.

Chart 2 shows the effects of the Indiana state and local tax rate on population growth as tax rates are varied from eight percent, the 2005 low rate in New Hampshire, to 14 percent, the 2005 maximum rate in New York around the 2005 point for Indiana, where the tax rate was 10.6 percent and the population growth rate was about 0.7 percent. Raising the tax rate further, to 12.3 percent would bring population growth to a halt or raising it to New York's level would bring on a rate of population decline in Indiana of -0.7 percent.

Conversely, lowering the overall rate to 10 percent could bring the population growth rate up to 0.9 percent, higher than the U.S. Census Department estimate for the 2005-30 population growth rate. Matching New Hampshire's eight percent rate could boost population growth to 1.8 percent, more than twice the prospective national rate.

These estimates account for only the effects of the tax rate on in-migration and do not include the reinforcing effects on out-migration.



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Raising taxes past the 2005 point (see chart above), where the tax rate for Indiana was 10.6 percent and the population growth rate was about 0.7 percent, risks stagnation.

It is not surprising that milk prices would vary more than gasoline — price-checking requires much more effort. In addition, milk is typically bought a few gallons at a time and is usually one of many things bought on a trip to the store. So, consumers don't register as much concern about its price.

Don't Drink (Milk) and Drive; It's Too Expensive

by ERIC SCHANSBERG

(June 20) — After a bike ride with our boys two weeks ago, my wife and I went to a local grocer and were surprised to find milk at \$3.35 per gallon. High gas prices have received a lot of attention in recent months. And the price of gas is much more important to the economy as a whole. But at least in our family, high milk prices are just as troubling. We don't drive that much and with four growing boys, we drink a lot of milk. Putting it another way: A drive to the store to buy milk has become doubly painful.

The reasons for high gas prices are well-documented: High oil prices (connected to OPEC and problems in the Middle East — although a bit lower recently with the perception of increased political stability in Nigeria), increasing demand (here and abroad), domestic supply restrictions (limits on drilling for oil and constructing refineries), environmental regulations that increase costs and fragment the market and disruptions to refinery capacity (most recently, in Venezuela, Louisiana and Delaware).

The reasons for high milk prices are more obvious and, ironically, are connected to our problems with energy. Higher grain prices (connected to the push for biofuels like ethanol) make it more costly to feed the cows. And higher fuel costs make milk more costly to transport.

Comparing the two goods, consumers are far more flexible with respect to milk. We have few close substitutes for gas (carpool, walk, stay at home), but many substitutes for milk (water, soda, juice). As a result, there is less upward pressure on the price of milk than on gas.

But the market structure for gasoline is much more competitive. It is available at more locations and the prices are prominently posted outside. So, deviations from the "market price" can be punished by

customers as they simply travel to the next gas station. In contrast, it is not surprising that milk prices would vary more, since price checking requires much more effort. In addition, milk is typically bought a few gallons at a time and is usually one of many things bought on a trip to the store. So, consumers don't register as much concern about its price. As an example, the day I wrote this essay the price for two-percent milk ranged from \$3.51 to \$2.79 in my area of the state (New Albany).

What can the government do about this sad state of affairs? Nothing has been proposed in the market for milk yet. But for gasoline, legislators in the U.S. Congress have been busy pushing a law on "price-gouging." What are the effects of such price regulations?

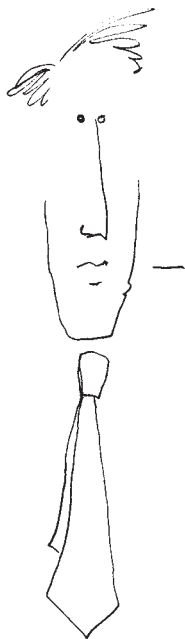
In the context of significant monopoly power (as with electricity), a price ceiling prevents the monopolist from exploiting his market power. As long as the ceiling is set at a reasonable level above "costs," then the producer will earn an adequate rate of return and the consumer will be protected.

But in the context of competitive markets, price regulations distort a well-functioning market and cause problems for consumers, producers and society as a whole.

An artificially low price will decrease short-term rationing and long-term conservation by consumers — exactly the sort of behavior we should encourage if we're concerned about "dependence" on energy. Low prices also diminish the incentives to produce and to innovate.

The net result is a "shortage" — quantity demanded will exceed quantity supplied at the regulated price. We saw this in the 1970s with long gas lines, odd rationing schemes (in Virginia, odd-numbered license plates could only buy gas on Monday, Wednesday or Friday), and gas stations routinely running out of gas.

High prices are painful but poor policy is worse. As with most other government interventions, price restrictions are economically problematic but politically attractive — when the public doesn't understand their consequences.



"Greenland Sees Good in Global Warming"
(Headline in June 10
Fort Wayne Journal
Gazette)



Refiner Profits and Indiana Gasoline Prices

by CECIL BOHANON

(June 13) — It is inevitable. As soon as Indiana gasoline prices rise the protest begins: “Big oil interests are ripping us off.” This time it is the gasoline refiners who are the villains. Refiner mark-ups are currently around \$25 per barrel of oil. Two years ago they were around \$10 a barrel. The difference is showing up in the price Hoosiers pay at the pump.

What accounts for this run-up in refiner margins? The usual story says that corporate greed is driving the price hikes. But this is a curious theory. If higher gasoline prices are a by-product of business greed, are lower gas prices a by-product of business generosity?

A more plausible theory is that greed is a more or less constant motivation in business pricing decisions, but a business’ ability to garner any price is shaped and constrained by the impersonal forces of supply and demand. In this view, market fundamentals have allowed refiners to reap higher margins.

No new refineries have been built in the United States for over 30 years. A refinery, like most any manufacturing facility, requires extensive maintenance for both routine and unexpected causes. It isn’t surprising that 30-plus-year-old refineries, subject to increasingly exacting environmental mandates, have to shut down more often than they did in the past. The March fire at the BP plant in Whiting, Indiana, cut its refining capacity by half according to press reports. This disruption puts a rather obvious crimp in gasoline supplies and thereby places upward pressure on gasoline prices.

High gasoline prices generating high refinery profits may seem unfair to us gasoline consumers. It is important to remember, however, the role of prices and profits in a free-market economy. High refinery margins in the U.S. send a signal to capital owners throughout the world that there is gold in our market if they can provide additional refinery capacity.

Although the U.S. regulatory environment ironically limits the ability of greedy capitalist to cash in by expanding refinery capacity here, one can be sure that someone somewhere will take advantage of the opportunity by expanding or redirecting refining capacity. This will inevitably increase available gasoline supplies, put downward pressure on gasoline prices and reduce refiner margins.

When will this occur? I wish I knew, for I could make a fortune speculating on gasoline price futures. Gasoline prices are notoriously volatile because supply and demand fundamentals are notoriously unpredictable. Yet, it is precisely the ability of prices to rise and fall that ultimately balances the market.

There really is no other alternative to letting the price mechanism take its course.

Senator Lugar and Friends Owe Us An Accounting on Immigration

by CRAIG LADWIG

(June 28) — The problem seemed simple — or at least when we were young and callow fellows.

A few of us staffers met in a Senate cafeteria to hear representatives of a group, now forgotten, express their concern about the U.S.-Mexican border. The group had statistical projections of what the situation would be in 10, 20 and 30 years if nothing were done.

An aide to Sen. Richard Lugar was there. Members of the Senate Committee on Foreign Relations were being asked to help make a relatively easy fix in federal law. It would have minimized the economic incentives driving a spurt in immigration, *i.e.*, citizenship at birth, familial chain migration, three-to-one benefits ratio.

The group’s suggestions were reasonable. The projections were believable. And when we left Washington several months later we expected to be reading that the problem was solved, that order was restored along the border. That was 1981. The spurt is now a flood, the

High refinery margins in the U.S. send a signal to capital owners throughout the world that there is gold in our market if they can provide additional refinery capacity.



Cecil Bohanon, Ph.D. (at left), an adjunct scholar of the foundation, teaches economics at Ball State University. T. Craig Ladwig, editor of the journal, was an aide to Sen. Nancy L. Kassebaum during initial discussions of immigration reform.



How did the situation on our southern border, a situation that could have been resolved 26 years ago by Sen. Lugar or any other Washington power broker, come to threaten our very national identity?

problem a catastrophe. The predictable economic, political and social chaos resulting from a confused national border is by now obvious to all. More important, we are suffering a crisis of confidence in our government's ability to ensure that most basic thing a government ensures — justice.

Nations failing to do that don't do well. Read Arnold Toynbee's "A Study of History." Read the Old Testament. Read the 380-page bill introduced in the Senate (more words than the Bible). You will not be encouraged.

The egalitarian elements of the proposed "reform" would have required an Albert Einstein to stand in line behind the extended family of a Yemeni laborer, to use columnist Charles Krauthammer's example. And the trumpeted promise that immigrants without papers would have had to pay back-taxes ignored that it would have cost more to collect those taxes than they were worth.

How did a situation that could have been resolved 26 years ago with a few signatures on some bureaucratic scrap come to threaten our very national identity?

It's because the problem was never the problem. The senators knew how to solve it back in 1981. Any staff lawyer could define a border and assign citizenship. The problem was that nobody knew how to solve it without affecting the surety of reelection.

That still is the problem, as witnessed by the dramatic battle this morning on the Senate floor. Only it is bigger now, much bigger.

You can tell how big the problem has become by how carefully politicians treated it as if it were a new problem. It seemed to have just dropped out of the sky — like a tornado or some other atmospheric disaster. Politicians seem to like atmospheric disasters; easier to manage than questions of justice and more conducive to spending other people's money.

The Senate bill in fact treated the border as a demographic disaster zone with its own set of laws, special considerations,

accommodations and privileges, all of which must be arbitrated — you guessed it — by those who failed to solve the problem in the first place.

But a problem can get so big that Washington has no choice but to solve it, regardless of politics.

Or not. The ability of ensconced power to ignore change, however profound, may be infinite. Four successive presidents held the power to solve this particular problem with a pen stroke. The one now in office, surprisingly, took to blaming us. He said that citizens who rejected the Rube Goldberg contraption that was his immigration policy "(didn't) want what's right for America."

Stark division produces muddy compromise.

Senator Lugar and the others decided long before the vote that it was better for all involved if the problem is solved by our grandchildren.

And it is especially better, please know, for those who otherwise would be held accountable for not solving it.

'Civic Education' Scores Remain Stagnant

by ANDREA NEAL

(May 30) — In 1998, right after tests revealed what one expert called "gross deficiencies" in civics knowledge of students, political leaders and educators called for immediate reform of K-12 civics education.

The latest test results are in, and nobody's cheering. "Civics scores have remained essentially unchanged since 1998 for eighth and 12th graders," the National Assessment of Educational Progress (NAEP) reported May 16.

Modest gains occurred in fourth grade among lower-performing students, but overall results were dismal. "America's school children are woefully unprepared to take their place as informed, engaged citizens," said Charles N. Quigley, executive director of the Center for Civic Education.

Despite the call for improvements after the 1998 NAEP, few states beefed up civics



requirements. In fact, says the Center, civics learning has diminished. Until the 1960s, U.S. high schools commonly provided three courses in civics and government; two of them (“Civics” and “Problems of Democracy”) explored the role of citizens and encouraged students to discuss current issues. “Today those courses are very rare. What remains is a course on ‘American government’ that usually spends little time on how people can — and why they should — participate as citizens.”

That one government course is typically offered in the 12th grade and is “both too little and too late,” the Center adds. “And, it completely misses the large number of students who drop out before their senior year and who are arguably in the greatest need of understanding their rights and responsibilities as citizens.”

So just how poorly did the students do on last year’s NAEP? Only 24 percent achieved a rating of “proficient,” a fact Quigley blamed on the narrowing of curriculum that has occurred to make room for more mathematics and language arts. Those are the two subjects in which students must demonstrate mastery to comply with state and federal standards.

On the 12th-grade test, for example, students were asked to explain federalism, or power-sharing between state and federal governments. Fifty-seven percent could not. Only five percent could explain checks on the president’s power, such as Congress’s ability to override vetoes. On the eighth-grade test, only 26 percent were able to accurately explain a passage from the Declaration of Independence. On the fourth-grade test, students were asked to identify one of the basic purposes of our government. Fifty percent answered the question correctly; 48 percent did not.

After the 1998 NAEP scores came out, experts issued a set of recommendations, including infusing civics in the social studies curriculum in the primary grades and requiring of all students a civics course in middle school as well as high school. It didn’t happen, so it’s little surprise test scores stayed stagnant. Civics education is not easy material. It requires thoughtful

teaching and opportunities for students to practice what they have learned. One model program is the Center for Civic Education’s We the People, which provides schools with textbooks, lesson plans and the chance to compete against other schools in simulated congressional hearings. These hearings probe student knowledge of constitutional issues ranging from federalism to checks and balances to separation of powers. The program is available for fifth and eighth grades and high school government classes. Almost 6,000 Indiana students took part in the program during 2005-2006, one of the bigger programs in the nation.

Even before the NAEP scores came out, Indiana leaders were planning to address the topic of civics education. The Indiana Bar Foundation will host a State Summit on Civic Engagement on Sept. 11 at the Indiana Historical Society in an effort to boost the profile of civics education here. The idea was hatched after a McCormick Tribune Freedom Museum survey found that more Americans (52 percent) could name two members of the Simpsons cartoon family than could name one of the freedoms listed in the First Amendment (28 percent).

Our students cannot absorb civics knowledge by osmosis. It must be taught systematically and sequentially, just like language arts and math. Unless we’re satisfied with the latest NAEP scores, we have to pay more than lip service to improving civics education.

Outlawing Tornadoes and Other Governmental Folly

by **ANDY HORNING**

(May 9) — Tornadoes kill about 50 people nationwide every year, around 40 percent of them in mobile homes. So legislation known as “CJ’s Law” and other “making a statement” laws are passed with noble intent. But let’s think beyond good intentions for a moment.

The law doesn’t offer assistance of any kind. It simply makes it illegal to live in a new or relocated trailer that’s not equipped with an NOAA weather-alert

Only five percent of the students taking the test could explain checks on the president’s power, such as Congress’s ability to override vetoes. On the eighth - grade test, only 26 percent were able to accurately explain a passage from the Declaration of Independence.



Andrew Horning, an adjunct scholar of the foundation, was the Republican candidate for the 7th District congressional seat in 2004, losing to the incumbent, Julia Carson, with 44 percent of the vote.

A law requiring that mobile homes be equipped with weather radios seems like yet another example of the literally thousands of laws that cannot be sanely enforced and will do no good at all. Our politicians may as well have outlawed tornadoes for all the good this will do.

radio. The law doesn't hold trailer builders or park owners liable for anything. The law targets only trailer dwellers; a demographic already burdened by food and medical bills. And since inexpensive "weather-alert" radios do not distinguish between storm warnings and Amber Alerts or other, even nationwide alarms, most people shut these radios off as useless annoyances.

Nor did lawmakers fund existing technology that could selectively ring telephones or sirens in the path of a tornado. No, tax money goes to professional sports, illegal immigrant benefits and foreign corporations; not to people living in trailers. And since the law doesn't apply to the hundreds of thousands living in older trailers, and since it's highly unlikely they'll ever hear about this law, there's little instructive or moral value.

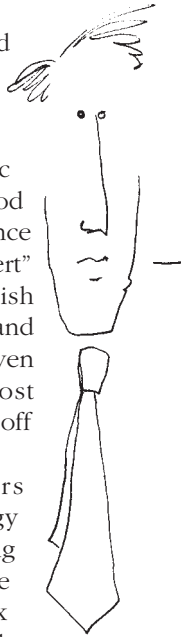
So under just a bit of scrutiny, CJ's Law seems like yet another example of the literally thousands of laws that cannot be sanely enforced and will do no good at all. Our politicians may as well have outlawed tornadoes for all the good this will do.

But let's think even further: Is it harmless when political actions do no good? Isn't it fundamentally wrong to criminalize those who won't buy an annoying radio? Couldn't CJ's Law be used to harass people, as is often alleged of seat belt and zoning laws? Couldn't insurance companies use this as a basis to deny claims?

Or, could this be symptomatic of a problem much bigger than all the above?

In the 1950 case, *American Communications Association vs. Douds*, the U.S. Supreme Court concluded, "It is not the function of our government to keep the citizen from falling into error; it is the function of the citizen to keep the government from falling into error."

The study, "Politics and Indianapolis's War on Crime" in last quarter's *Indiana*



Policy Review focuses on crime but suggests that our biggest threats are not from criminals, tornadoes or even terrorists. Our government has fallen into error; and in the words of Voltaire, "It is dangerous to be right when the government is wrong."

Have we not noticed the increasingly brazen corruption in our government? Has it slipped our minds that our numerous and flak-jacketed police forces now have military equipment like Boone County's armored amphibious personnel carrier? Are we certain that our government's sins (like medical experimentation on citizens and the debacles of Waco and Ruby Ridge) are all safely behind us? Or do we forgive all of this because we perceive some benefits to political shenanigans that outweigh the risk of theft, oppression, slavery, murder, genocide and war?

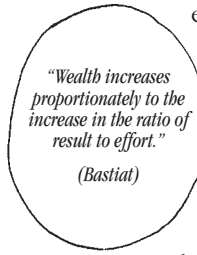
What are these benefits?

The United States of America, the most powerful nation of all time, has proven defenseless against a mere handful of zealots armed with only box cutters. A whole college campus was defenseless against a single man already diagnosed as mentally disturbed. More Americans are killed each year by illegal immigrants than the total number of Americans killed in the war in Iraq so far. Per capita crime rates are many times higher now than in 1950; and those crime rates were many times higher than in 1900, when citizens were free to own cannons, water-cooled machine guns, hand grenades and belt-buckle Derringers.

Now, Indianapolis Mayor Peterson wants to nearly double Marion County income taxes to do more of what politicians always do in their war on . . . (fill in the blank).

The 1964 "War on Poverty" has increased the gap between rich and poor. The ongoing "War on Crime" has increased crime. And how have the "War on Drugs" and "War to End All Wars" worked out?

Isn't it time we govern our government? It already kills far more citizens than tornadoes do.



THE BRIGHT: Government Schools

Jeff Abbott, Ph.D., J.D.
Indiana Policy Review Foundation
March 20, 2007

AT the Feb. 26 public hearing of Fort Wayne Community Schools (FWCS), this writer presented numerous questions to the school board for their consideration. These questions were available at the foundation's web site: www.inpolicy.org.

The only response received was a brief telephone conversation from one of the board's consultants assuring that there will be no increased cost of the FWCS bond issue due to interest penalties charged by investors for excessive outstanding debt.

That conversation was helpful and reassuring. However, this does not mean that there will not be a devastating financial impact on retirees and the working poor who are desperately trying to hold onto their homes as they face ever-increasing energy costs, health-care costs and property taxes. Nor does it ensure that economic development will not be negatively affected from the bond issue and subsequent bond issues.

What was even less reassuring or helpful to the Fort Wayne community's debate on the issue of whether taxpayers should be asked to pay for a \$500-million bond issue, plus another \$350 million in interest costs, was the board stonewalling as to these issues presented. Ideas such as partnering with community churches to avoid constructing new kindergarten additions to numerous elementary schools, sponsoring charter schools, closing a secondary school, partnering with Ivy Tech for courses in science and technology for FWCS students to avoid constructing a \$35-million building, and reducing the racial balance fund to lower the property-tax impact of the bond issue, have all apparently been rejected by the FWCS school board. This begs the question—just what exactly is the school board doing to reduce the amount of property taxes needed for its building program?

(Citizens were asked to sign either a yellow petition in support of the building program and approve spending \$850 million of their money on new property taxes, or to sign a blue petition in

\$850 Million Here, \$850 Million There . . .

by JOHN POPP

THE defeated building program that would have cost Fort Wayne taxpayers \$850 million was far beyond anything ever dreamed of. It would have placed a terrible burden on the community and, most importantly, it was far beyond what was reasonable and necessary to maintain the school facilities in good condition.

When we talk about \$850 million, it is hard to conceive its magnitude. Eight and one-half million dollars is a lot; \$85 million is a lot more, and \$850 million is almost \$1 billion — a hard number to fathom. I don't think the proponents of this plan fully comprehended the magnitude of this amount of money.

For example, \$850 million dollars is:

- The value of 8,500 homes worth \$100,000 each, or more residences than in the entire city of Huntington.
- Three times the assessed value of all Allen County farm land.
- Slightly less than all of the industrial land and manufacturing plants in Allen County, including General Motors, Dana, General Electric, Harvester, ITT and all other factories.
- Eighteen times more than the assessed value of all privately owned utilities in Allen County — electric, gas, water, sewer, phone, cable and railroad.

Any one of the above examples gives you an idea of the amount of money that would have been drained from the community over the course of the years that the bonds were outstanding for this one project. Those funds would not have been available for charitable contributions or churches, and our bonding ability would have been substantially restricted. It would have hampered our ability to do anything else, such as replacing the sewer system that is polluting our rivers 100 days each year.

And, of course, we also know that brick and mortar, although important, are not as important as what goes on inside the classroom, as well as parental involvement with the student. The quality of education has a lot more to do with who and how it is being conducted than where it is being conducted.

The author, a founding member, formerly sat on the board of the Southwest Allen County Schools

opposition to the building program and bond issue as proposed. Because more blue than yellow petitions were signed, FWCS must wait one year before proposing a "substantially different" plan.)

It was unfortunate that citizens did not have a third choice, perhaps a green petition indicating that the signer supported a significant FWCS school board building program, just not the one proposed, on the condition that the FWCS school board present clear and compelling evidence that it has done everything possible to reduce the property tax impact and that the proposed issue will take care of all the facility needs during the length of the bond issue.

The Fort Wayne school district's patrons needed a third choice, something short of \$850 million.

—Abbott

DIM BULBS & BRIGHT

*The Fort Wayne
school board's lack of
transparency contributed
to the uncertainty.*

—Abbott

There were a few who argued that ISTEP+ scores must be improved before the building program proceeded. Such an argument was specious at best. A parent would not tell his child he won't fix the leaky roof over his bedroom until he gets straight A's. Further, ISTEP+ scores alone are an inadequate measure of total student learning. The FWCS community owes its children and its teachers the best facilities it can afford.

There will be some building program supporters who will attempt to characterize those who signed a blue petition as not caring about children, and as not willing to support public education. It may be true that there were a few residents who held this attitude, but there appeared to be far more citizens who did want to support some type of remodeling program for

FWCS. They were just not convinced that the citizenry could afford the proposed cost of \$850 million.

The school board's lack of transparency contributed to this uncertainty. The board's own facility consultants identified the FWCS facility needs and calculated the cost to be \$1 billion for the building program. Some school board members and administrators quickly agreed that these were the needs, and represented to the community that the full billion-dollar building program was needed.

This presented a credibility problem for FWCS. What was the real number? Is it one-half billion dollars, or was the full one-billion dollars needed? Or was it some yet unrevealed number? Are FWCS taxpayers going to be asked in the near future to pay more property taxes for even

Public Education and the Zimbabwean Connection

OBSERVERS of a Fort Wayne school board meeting were struck by the degree of unquestioning support for a plan that took the breath of even the public-school faithful — \$1 billion in building improvements, later reduced to \$850 million (including interest). And this for a system spinning its wheels in scholastic mire.

The local newspaper reported that four out of five of the speakers at the board meeting that night supported the plan, three of them district employees. The crowd of 700 was packed with the most vocal friends of public education. Clearly, the consulting firm hired to “provide political cover” (in the words of the superintendent) had done its job well. The argument that prevailed was this: Teachers and students, regardless of academic performance, have a right to a comfortable place to spend the day. A district teacher, quoted by *the Fort Wayne Journal Gazette*, summarized the position: “I am disgusted that only high-achieving kids that (sic) pass government-created tests deserve a safe and comfortable learning environment.”

As the votes were read, an observer pulled from his coat pocket a clipping from the Feb. 7 *New York Times*. The article reported that schools in faraway Zimbabwe are in need of repair, too. And teachers there are staying home not only because of the physical condition of the schools but because salaries don't cover bus fare to and from work.

Yet another community's stingy failure to support its schools?

No, the administration of Zimbabwean President Robert Mugabe has placed public-school teachers and school buildings at the very top of its priority since taking office 27 years ago. In fact, the teachers were instrumental in Mugabe's rise to power. They not only had the ear of the establishment, they *were* the establishment. Throughout those years, Zimbabwean teachers and schools received relatively lavish funding, not only from the local government but in money that Mugabe funneled to them from the U.S. and other international-aid sources. In fact, just this year Zimbabwean teachers were given a 300-percent raise.

The problem is that there is nobody left in Zimbabwe — democratic though it may be — to pay the taxes necessary to support its teachers and schools. Those citizens with the means and ability began to flee when the Zimbabwean legislature made clear that the right of property was qualified, if valid at all.

OK, back to Fort Wayne. “We've got some work to do, folks,” the board president was quoted as saying with regard to the eventual remonstrance against his multi-million dollar bond. “I'm confident we can withstand any fight that comes before us.” “You could be asking for 10 times that amount, and I would say my kids (sic) are worth it,” a teacher told the local newspaper.

Does all this mean Indiana is Zimbabwe? Of course not. Indiana is richer. Our school systems will take longer to fall apart. — *tcl*

more remodeling and new construction? What about all those other schools not included in the current proposal? Will not they soon need remodeling?

The FWCS school board, and the entire community, would have been better served if the school board had revealed its long-range facility plans and fully disclosed to the citizenry the financial impact of such plans.

When the FWCS school board decided to reduce its capital projects fund over 25 years ago to offset the additional costs of its bussing program, and when the school board in recent years elected to spend some of its capital projects fund for other than school building repair, renovation and construction, it caused a long-term shortage in its capital projects fund. This has resulted in decades of neglect of FWCS facility needs. Now it is time for the taxpayers to pay the piper. This lack of long-range facility and financial planning does not generate a lot of confidence in the FWCS school board as a public institution.

However, regardless of the causes of the current plight, it is clear that some significant building renovation is needed by FWCS. Now is the time for the FWCS school board to be forthcoming and transparent as to its future building renovation plans. The community just might support and be willing to pay for a building program if citizens are promised that it would take care of the FWCS facility needs for the life of the proposed bond issue.

Dr. Abbott, an adjunct scholar of the foundation, formerly an Indiana school superintendent, teaches at Indiana University-Purdue University at Fort Wayne.

THE DIM: Government Schools
Chief Financial Consultant
FWCS Board
March 30, 2007

THE scope of the (FWCS) capital improvement program will cause no increased cost due to interest penalties charged by investors for excessive outstanding debt. The debt ratio will peak around 6.7 percent, lower than about 30 percent of Indiana schools, and the district can expect to maintain its current AA rating, which together will permit lower interest rates.

Debt capacity is the amount of indebtedness which a community may incur before the market extracts a premium in the interest rate for the additional debt. It is measured by determining the level of potential debt and subtracting the already outstanding debt (payable from property taxes) from the potential amount. The potential maximum debt capacity for debt repaid from property taxes is usually determined as a percentage of the market value of taxable property, in other words, the ratio of debt divided by tax base, or "debt ratio."

A recent article (Abbott's) suggests the capital improvements project for FWCS is too expensive in part because a \$1 billion program threatens the community's debt capacity. It is appropriate to re-examine this issue as the FWCS board has settled on a much smaller program expected to be completed over a shorter period of time.

A smaller issue was proposed by the Yellow Ribbon Task Force in order to review the community's position and needs after the \$500 million is used, to rest for a year, and to evaluate the completed program and the balance of work remaining. Debt capacity is one of a number of financial statistics that investors use to gauge the likelihood of prompt repayment of debt, in order to determine the appropriate interest rate.

The debt capacity was reexamined when the size of the project was initially proposed, partially in response to questions from Yellow Ribbon Task Force members. It was determined, using rather conservative growth assumptions, that the \$995 million program could be financed between 2007 and 2017, and that modest other local improvements could be made as well, all without stretching the debt load to untenable levels.

In our experience, Indiana issuers have not generally been forced to pay noticeably higher interest rates when the total debt ratio is less than 12 percent. There are exceptions on both sides of 12 percent.

The market will permit ratios as high as about 15 percent in fast-growing communities and has penalized communities which are declining when the ratio exceeds 10 percent.

Decisions by the Fort Wayne school board resulted in decades of neglect of facility needs.

— Abbott

The net assessed valuation will not stay the same; it will increase because the tax base is noticeably lower than market value.

— Prediction of the FWCS financial consultant

About half of Indiana's school districts have issued bonds since 2004. (The direct debt ratios of most of them are available from the author.) The average direct debt ratio is 5.17 percent and the median is 4.27 percent. The range is from 15.3 percent to 0.8 percent.

Each of these ratios was calculated at the time the bonds were ready to be issued. The official statement for each issue included a listing of all of the school debt and then-current net assessed valuation and was the main presentation to investors and rating agencies as interest rates were set. In every case above, the Indiana school district was not penalized for the debt ratio. In about 95 percent of the cases, the bonds also qualified for a "AA" rating from Standard and Poor's (S&P) Corporation, one of the national rating services, and the one used most frequently by Indiana municipalities and school districts. S & P defines this rating as follows:

FWCS expects to issue \$500 million of bonds in several stages between now and 2012. In that time, it will repay \$33 million of the bonds that are presently outstanding and in fact will also repay \$35 to \$40 million of the bonds issued for the capital improvement program. It is calculated that a maximum of \$550 million FWCS bonds will be outstanding in early 2012 before the debt begins to decline again.

The district's net assessed valuation is the denominator of the fraction in the debt ratio. The net assessed valuation of the district at the time debt is incurred determines the debt ratio, so the actual ratio will not be known until each time that bonds are issued. The net assessed valuation will not stay the same; it will increase because the tax base is noticeably lower than market value. The average assessed valuation of an owner-occupied home in Fort Wayne increased from over \$85,000 for the 2006 tax payment year to over \$99,000 this year, due largely to "trending." This increase will be mostly masked by the one-year increase in homeowner standard deduction (from \$35,000 to \$45,000) but will show up in full in 2008 when the deduction is scheduled to return to \$35,000. That change by itself will increase the net assessed valuation of the FWCS by about 10 percent, to at least \$8,250,000,000. If the net assessed

valuation remains flat at that level, which is unrealistically conservative, then the maximum direct debt ratio will grow to 6.66 percent in 2012 before declining.

Equally important to the debt ratio, the interest rate paid by the school district will depend on the bond rating assigned by Standard and Poor's Corporation. Although Standard and Poor's Corporation's standards are certainly subject to change over the next five years, FWCS would qualify for a "AA" rating throughout the capital improvement project period. As a result, we are comfortable assuring board members that the scope of the program adopted last month will cause no increased cost due to interest penalties charged by investors for excessive outstanding debt.

Prepared as a memorandum to the Fort Wayne Community Schools board by its chief financial consultant on this issue (a senior vice president of the firm underwriting the bond issues in question).

THE BRIGHT: Downtown 'Development'

*Eric Schansberg, Ph.D.
Indiana Policy Review Foundation
May 20, 2007*

Note: A hotel and clothing union was pressuring the Indianapolis City-County Council to require workers at a municipally subsidized convention complex there to vote on whether they wanted to belong to a union. Otherwise, the union would not be able to guarantee "labor peace." Twenty-one of 29 City-County Council members supported this request because the developer — White Lodging — was to be given millions of public dollars in subsidies and tax breaks.

WHAT should Indianapolis do with regard to the labor environment at the proposed convention hotel?

Given a public subsidy, can members of the City-County Council impose restrictions on the way in which the hotel is built and operated?

Sure. Strings can be attached within the context of a "private-public partnership." Presumably, the extent of the string should be correlated to the proportion of the subsidy. It would be absurd to argue for

massive intervention in the face of a modest subsidy. Beyond the council members' ability to impose restrictions on the way in which the hotel is built and operated, should they impose such restrictions?

The council could do everything from mandating the equivalent of union membership for employees to setting a "living-wage" policy — or a wide variety of other regulations (*e.g.*, how Muslim maids are allowed to dress).

There are a number of reasons, however, to avoid such interventions. In the context of this particular project, a regulation could increase costs and spur inefficiency.

For example, if the city promotes the equivalent of a union, then wages will be artificially higher (above and beyond the union dues that will be paid). This is what one expects from any cartel — an economically defined group of suppliers who restrict entry in order to profit from their monopoly power. OPEC is a cartel in a product market, resulting in artificially high prices. Unions are a cartel in labor markets, resulting in artificially high wages. Cartels are a good deal — if you're in the cartel.

Or what if the city establishes a "prevailing wage" during the construction of the hotel — or a "living wage" during the operation of the hotel? Again, wages will be increased above the competitive outcome.

Some might protest that workers will be exploited by the hotel owners. But the relevant labor markets are competitive, so workers must be paid an appropriate market wage. (Could the hotel get away with paying its secretaries, construction workers and managers only \$6 per hour?) If its employees are not paid a competitive wage, they are free to choose to work elsewhere — and will do so.

Beyond this particular project, the City-County Council sets a bad precedent with subsidies and significant labor regulation. If it is willing to take money from taxpayers to give to corporations in this context, why not in other situations as well? If government interferes with critical workings of this project, future entrepreneurs will know to expect more intervention and higher costs.

Neither approach is an effective strategy if the City-County Council intends to promote fiscal prudence, sound government and economic growth.

Prepared by invitation from the editorial page editors of the Indianapolis Star for the May 20 "Face Off" section.

THE DIM: Downtown 'Development'

*John Stephens
Chairman of INMEX
May 20, 2007*

TO attract conventions like mine, Indianapolis has spent millions of taxpayer dollars to rebuild its downtown. However, many conventions won't even consider the city until its hotels change the way they treat their workers.

As executive director of the American Studies Association, I plan a million-dollar academic convention every year. I also chair the Informed Meetings Exchange (INMEX), and we communicate with literally hundreds of my counterparts at other groups about the labor conditions at the hotels we patronize. The 500,000 attendees in INMEX's 200 groups spend \$700 million every year during their conventions in cities across the country.

All of these groups have pledged to use their convention dollars to support hotels that treat workers fairly, don't discriminate and avoid labor disputes.

Excerpted from the "Face Off" section of the May 20 Indianapolis Star.

THE BRIGHT: Transportation

*Sam Staley, Ph.D.
The Indiana Policy Review Foundation
May 13, 2007*

HOOSIERS waste hundreds of millions of dollars each year in lost productivity, time and frustration trying to get around Indianapolis — and it's likely to get worse. The only realistic proposal to deal with rising traffic congestion is using private capital to finance and build a route similar to Gov. Mitch Daniels' proposed Commerce Connector. But this still is too hot a political potato.

That's unfortunate. Indianapolis desperately needs new roads to stave

If Indianapolis promotes the equivalent of a union, then wages will be artificially higher. This is what one expects from any cartel — an economically defined group of suppliers who restrict entry in order to profit from their monopoly power.

— Schansberg

Buses and trains use 19th-century technologies that aren't suited to the needs of a modern economy. Indianapolis already has two telecommuters for every transit rider, according to the U.S. Census Bureau, and the number of telecommuters is increasing.

— Staley

off ever-increasing congestion. Based on current trends, researchers at the University of North Carolina-Charlotte expect Indianapolis to join the ranks of 55 other metropolitan areas with severe traffic congestion by 2030 unless something is done now.

Many are looking to public transit, particularly light rail, to save us. Unfortunately, transit simply doesn't pass muster as a congestion-buster. Transit now claims less than two percent of all commuting trips, and use is falling dramatically. Between 2000 and 2004, Fort Wayne and South Bend were able to coax a few more riders on buses but Marion County's ridership fell by 16.3 percent during the same period.

Even if heroic efforts were used to turn the system around, the effects on congestion and circulation would be minimal.

First, technology is making obsolete fixed-route transit systems such as rail. Cars, on the other hand, represent customized travel well-suited not only to the individualized needs of families on the go but to globally competitive businesses. Buses and trains use 19th-century technologies that aren't suited to the needs of a modern economy. (Indianapolis already has two telecommuters for every transit rider, according to the U.S. Census Bureau, and the number of telecommuters is increasing.)

Second and perhaps most important, the Indianapolis region has a suburban character that transit investments can't hope to reverse. At 2,200 people per square mile, the Indianapolis urban area may be even lower-density than many suburbs. Hope and faith won't be enough to transform the city or its environs into a high-density, transit-friendly urban area like New York or Chicago.

Downtown Indianapolis, while a vibrant and physically imposing destination reminiscent of downtowns of the mid-20th century, is a transit illusion. Most Indianapolis-area citizens actually live in far-flung neighborhoods that make rail transit impractical for users and a fiscal black hole for governments.

Policy-makers on both sides of this issue are right to be worried about our transportation system. Indianapolis soon

will see its competitive advantage erode as it takes longer and longer for people to get to work, meet with colleagues and get children to soccer games or wherever.

The solution, though, is not to herd people onto buses and trains. Rather, the realistic approach is to recognize the benefits of the customized travel afforded by the automobile and to develop a 21st-century road system that embraces it.

Prepared by invitation for the May 13 "Face Off" section of the Indianapolis Star

THE DIM: Transportation

Christine Altman

Director, CIRT

May 13, 2007

THE economies of all of central Indiana cities, towns and counties are interdependent. Our region attracts new investment based on our quality of life — reasonable housing, excellent schools, strong communities with varied and unique amenities. With our success and investments in biotechnology, parks and sports initiatives we are positioning the region as a major metropolitan area. We need now to invest in a robust and dependable transit system that converts commuting time to productive time, allows transit-oriented development and redevelopment of communities without sprawl, provides both commuting and reverse commuting opportunities matching employees to jobs, and mobility for those who do not drive, either by choice, necessity or age.

This summer and fall, CIRT, in conjunction with the Indianapolis Regional Transportation Council, will provide more information on transit and the conclusions of a study titled "Directions."

With your input, we will determine the preferred route for a northeast corridor fixed guideway transit line, the type of technology that would be used (bus rapid transit, light rail or automated guideway), and funding alternatives for costs associated with this line. We'll also look at an express bus service, park-and-ride lots and local systems, including IndyGo and rural transit systems. Each community will determine how it wants to participate

in a regional system and how quickly the system could be built.

Any transportation system, to be successful, needs a consistent and dedicated source of funding. This will require your support.

Transit does not pay for itself and neither do highways. We need to again view transportation as an integrated system of roads, highways, rail and mass transit.

We are excited about the discussions and interest of state legislators in transit this session. Senate Bill 105 provides the platform for a careful, thoughtful analysis of the feasibility and economic impact of transit in our state and region.

Excerpted from the May 13 "Face Off" section of the Indianapolis Star

THE BRIGHT: More Downtown 'Development'

*Ronald Reinking, CPA
Indiana Policy Review Foundation
May 14, 2007*

Note: The following was written in response to rhetorical questions posed by the editorial staff of the Fort Wayne Journal Gazette, an avid supporter of the Harrison Square project.

Q. "Why does the city need a new baseball park when Memorial Stadium is less than 15 years old?"

A. It doesn't. Many confuse the difference between political wants and societal needs. Having a new baseball stadium would be nice. Having a water and sewage system that meets minimum federal standards is essential. Building convention centers and recreational facilities with taxpayers' money could be a benefit. Failure to keep streets free of crime could be life-threatening.

When Memorial Stadium was built, it was heralded as the finest baseball facility in the league; it arguably still is. When Hardball Capital assumed ownership of the Wizards, the owners proclaimed that they were delighted to be here because of the magnificent facility they inherited. Razing the present facility, with its accommodating parking lot, in favor of a baseball stadium five times the cost is a foolhardy and inappropriate use of taxpayers' resources.

Q. "Why should I pay higher taxes to build an unnecessary stadium?"

A. Some are promoting the idea that the \$40-million baseball stadium can be acquired for free. The idea rationalizes that the city has accumulated money from other projects gone bad, that it has overcharged taxpayers for certain services and has thereby accumulated surplus funds, or that it can change existing law to redirect taxes from other areas that don't really need it. The city controller touted the city as fiscally sound and testified it has plentiful money for community entertainment facilities. The valid question not raised is "if so, why not devote these resources to unnavigable streets and roads or to fund the potential half-billion-dollar obligation of our ancient water and sewage systems?"

Elected officials have a fiduciary responsibility to direct limited taxpayer resources to highest and best uses, not subsidize condos for the affluent.

Q. "The numbers on this project keep changing. What's the real story?"

A. Some numbers change, some numbers don't. Existing leases, outstanding bond obligations and acquisition costs are etched in stone, however, and will remain until paid by the taxpaying public. The government's projections of future costs and performance have been notoriously wrong. City Hall has a documented record of failure when entering the marketplace with taxpayers' money. From Microstandard, to hotels, to shopping centers, to condominiums, to airline shipping, to apartment buildings—all failed ventures with public money. The city has squandered literally millions of dollars to promote and subsidize its vision of a vibrant city. Further government intrusion into the free-enterprise zone should merit neither our confidence nor respect.

Q. "Why not consider the proposed hotel a stand-alone project and vote on it separately from the stadium, as some City Council members want to do?"

A. Because the market already has considered it and rejected it. The city opened nationwide bids on the project and received just one bid. Our hotel consultant, CH Johnston from Chicago, informed us

Fort Wayne has a documented record of failure when entering the marketplace. From Microstandard, to hotels, to shopping centers, to condominiums, to airline shipping, to apartment buildings — all failed ventures with public money. City officials have squandered literally millions of dollars to promote and subsidize their vision of a vibrant city.

— Reinking

The Fort Wayne politicians struck a deal with the state legislators to reward the owners of the Wizards baseball team for their downtown development efforts. The team will receive an estimated \$4-million tax credit paid from state taxpayers' money. This credit could be sold for cash. With the tax credit, the team owners will enter negotiation with a huge profit and virtually no downside exposure.

that a hotel would not be feasible unless it was heavily subsidized by Fort Wayne taxpayers. Polls clearly indicate that city residents do not wish to get into the hotel business again.

Q. "Is the city being too generous with the Wizards owners?"

A. Although full details are not entirely clear nor will they ever be fully known, it would appear that our managers are not Major League players. Hardball Capital has an existing lease for Memorial Stadium for \$211,000 a year. This lease will be forgiven and the baseball team will move to the new stadium rent-free. At the present time, the city receives 30 percent of the concessions sold at Memorial Stadium. The city keeps 10 percent of concessions in the new stadium. The Coliseum will lose roughly \$225,000 in parking fees. Although the city will pay for and own the new facility, Hardball Capital will receive one-half of the naming rights, which are estimated at \$300,000 annually. The city's portion of the naming rights will then be placed in a fund to pay for stadium repairs. The city would get \$1 for each ticket sold over a 275,000 attendance level. This is unlikely to occur, but if it should, this money also will be given to Hardball for repairs.

The politicians have struck a deal with the state legislators to reward the Wizards for their downtown development efforts. They will receive an estimated \$4-million tax credit paid from state taxpayers' money. This credit could be sold for cash. With the tax credit, Hardball will enter negotiation with a huge profit and virtually no downside exposure. Should Hardball owners, therefore, be asked to forgo their corporate shield and sign personally on all debt obligations?

(Since when do we permit a small, inexperienced, out-of-state business to

set the table and call all the shots for the city of Fort Wayne?)

Q. "The Wizards will only play about 70 home games. What about the remaining 295 days of the year when the ballpark is empty?"

A. Neither the city nor the Wizards has demonstrated any expertise or success in booking profitable events at Memorial Stadium. Is it wise to have them practice with taxpayers' money at a more expensive venue?

Q. "What if the Wizards and the hotel developers go belly up? Won't the city be on the hook?"

A. A review of the city's record in hotel management would indicate this is not improbable but most likely automatic. Both the Holiday Inn and the Hilton have visited the bankruptcy court with the city ending up short. There may be a limited market for used hotels, but there is virtually no market for empty baseball stadiums. Whether a hotel flourishes or flounders should not be of interest to governments as they should not be at risk. When taxpayers have underwritten \$40 million in bonds, however, only bad things can happen.

Q. "What's the deal with the condos? Who's going to buy 60 condos?"

A. Again, why should the city care? If the market assesses a pent-up demand, there will be no shortage of developers stepping forward. After the \$4-million tax rebate it's interesting that Hardball Capital is willing to put about 10 times more capital into the condominium venture than the baseball stadium. Should things head south, living space will always have some residual value. Baseball stadiums will not. The risk-reward ratio clearly

IF there is one thing that the public deeply misunderstands, it is economics. People do not grasp the 'invisible hand' of the market, with its ability to harmonize private greed and the public interest. They underestimate the benefits of interaction with foreigners. They equate prosperity not with production but with employment.

— Bryan Caplan, "The Myth of the Rational Voter: Why Democracies Choose Bad Policies," *Cato Policy Analysis* No. 594, May 29, 2007

favors the city holding the baseball stadium bag and Hardball Capital keeping the condominiums. If the city is at risk here, why not make things binding and require the developers to sign personal commitments in addition to the corporate ones (as all small businesses do in Fort Wayne)?

Q. "Couldn't the city's \$64 million be spent on something better?"

A. How about police and fire protection, water and sewage systems, education, streets and roads, legal, justice and criminal administration and creating a more inviting living environment for Fort Wayneans with less taxation? The huge public debate over this issue is paradoxical. We have been asked to pay for a new, luxurious hotel to support a convention center that is unoccupied while existing hotels are half-full. We are moving and expanding to a new baseball stadium to favor an existing one that plays to half-empty seats. We are financing retail shops when existing retailers struggle and the market is moving to Internet purchasing. We are subsidizing residential condos when the market is in free-fall and there is an overhang of 4,500 residential homes in the Fort Wayne real estate market.

The city is not powerful enough to bend the free market to its vision.

Q. "What's the rush? Why are Mayor Graham Richard and the city moving so fast on this?"

A. An informed and educated populace simply would not tolerate this folly. By rushing this through, the calculation is that opposition will be intimidated, uninformed and too disorganized.

Q. "Is this really the best project to spend this kind of money on?"

A. All governments, federal, state and local, have compiled dismal records when attempting to expand their domain into private property enterprises. Fort Wayne may not be the worst, but it may well qualify for honorable mention. Watching the City Council and our officials on TV, we are presented with articulate men with nice suits and designer ties who have the lingo down. It is truly unfortunate that their fiscal

record in these matters does not match their TV persona. By year's end, city and county officials, elected and appointed, may well burden Allen County taxpayers with debt exceeding \$2 billion.

Last one out, turn out the lights. Enough is enough.

Ron Reinking is a certified public accountant with offices in downtown Fort Wayne. He wrote this for the foundation in response to an April 15 commentary in the Fort Wayne Journal Gazette.

THE DIM: More Downtown 'Development'

*Stephen Parker
Downtown Booster
May 14, 2007*

C ONTINUED education of the public is important, not just of the details of the (Harrison Square) project and financing, but the other big issue that has been brought up time and again – parking.

If you look at the conceptual site plan, you'll notice there are no parking lots included within the project area. One of the biggest goals with this project is to make the downtown area vibrant. You do not accomplish this with a parking garage on every corner. You accomplish this by having people on the sidewalks. . . .

Watching Harrison Square develop over the past four months and our City Council deliberating over the last few weeks have been a learning experience. This plus a public hearing and the city's openness in providing documents and information regarding the proposal have marked a turning point in our city's history and direction. The burden to make this successful lies not only with the city. The public has a continued responsibility to stay informed, ask questions, challenge when necessary and help educate others to make this the most successful redevelopment in the history of the country. We were known in 1982 as the "city that saved itself." We now have the opportunity to be "The city that saved itself — again" or even "The city that reinvented itself — better than ever before."

Stephen Parker moved to Fort Wayne in 1989 and lives downtown. He wrote this for the Journal Gazette. Excerpted from a column in the March 16, 2007, issue.

We have been asked to pay for a new, luxurious hotel to support a convention center that is unoccupied while existing hotels are half-full. We are moving and expanding to a new baseball stadium to favor an existing one that plays to half-empty seats.

— Reinking

The (Global Man's) Burden

*Take up the Global
Man's burden;
Send forth the best ye breed;
Go bind your sons to exile
To serve your captives' need;
To wait in heavy harness,
On fluttered folk and wild;
Your new-caught,
sullen peoples,
Half-devil and half-child.*

*Take up the Global
Man's burden;
In patience to abide,
To veil the threat of terror
And check the show of pride;
By open speech and simple,
A hundred times made plain
To seek another's profit,
And work another's gain.*

*Take up the Global
Man's burden;
The savage wars of peace;
Fill full the mouth of Famine
And bid the sickness cease;
And when your
goal is nearest
The end for others sought,
Watch sloth and
heathen Folly
Bring all your hopes
to nought.*

— With apologies to Rudyard Kipling

In Their Hearts . . . Well, They're Not so Sure

Dagny Faulk's work in this issue on the loss of Indiana's blue-collar workers should give GOP strategists pause. It puts in doubt the continued effectiveness of the Reagan Era-battle cry: "In your heart, you know he's right." In fact, says Charles Kesler of the Claremont Institute, Republicans need to know that there's no "they" there anymore. Here he is writing in the Jan. 31 *Wall Street Journal*:

If conservatism means being decent and patriotic, then of course, nearly all Americans are fuzzily conservative. But that doesn't tell you much about how they vote, which in recent years has been in roughly equal numbers for Democrats and Republicans. The notion that a steady conservative majority exists, waiting only to be activated by the right Republican appeal, thus makes for bad GOP strategy. It lures Republicans into thinking their job is easier than it is, by disguising the hard truth that victory still depends on persuading, not merely reminding, a crucial segment of the electorate to think conservative and vote Republican.

Proud to Be a Right-to-Lose-Jobs State

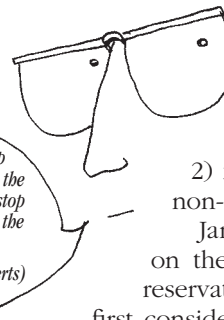
Our friend Larry Reed from the Macinac Center in Michigan, the very linchpin of the nation's labor movement, tells us that from 1970 to 2000 right-to-work states created 1.43 million manufacturing jobs.

At the same time, non-right-to-work states (including Michigan and Indiana) lost 2.18 million jobs.

Yes, but we have Daylight Savings Time and full-day kindergarten.

The 'Christianity' Card

When C.S. Lewis was asked to help organize a Christian political party, he declined, saying he was opposed to doing the two things necessary



for success:
1) Rejecting all Christians who don't agree with him; and

2) forming alliances with non-Christians.

James Dobson of Focus on the Family has no such reservation in regard to that first consideration. In a March 28

Indianapolis Star story, Dobson gives the boot to Sen. Fred Thompson (properly baptized, we are told, into the Church of Christ): "Everyone knows he's conservative and has come out strongly for the things that the pro-family movement stands for. [But] I don't think he's a Christian; at least that's my impression."

One man's sin is another man's policy statement.

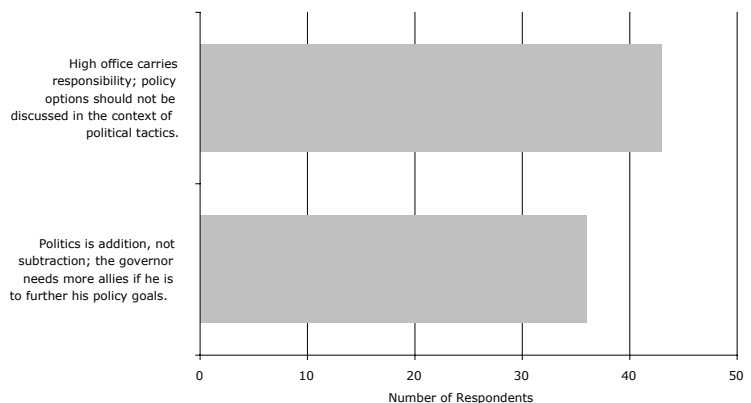
When Fire Trucks Catch Fire

This May 14 Associated Press story out of Kokomo was poetic:

A garage housing Howard County's Emergency Management Agency equipment burned, destroying ambulances and fire trucks stored in the structure. As Kokomo firefighters arrived at the building about 9 p.m. Sunday, the building was nearly engulfed in flames. Three ambulances, two tankers, a grass fire truck, two engines, an air truck and a hazardous material unit remained inside the building . . .

You will need a freedom of information request or a change in administration to determine the cause.

THE BARBER POLL: "Which best describes how you think Gov. Mitch Daniels should approach a second term?"



This quarter's survey was sent to 198 correspondents (persons who have somehow gotten on our e-mail list). It was conducted between June 18 and June 24.