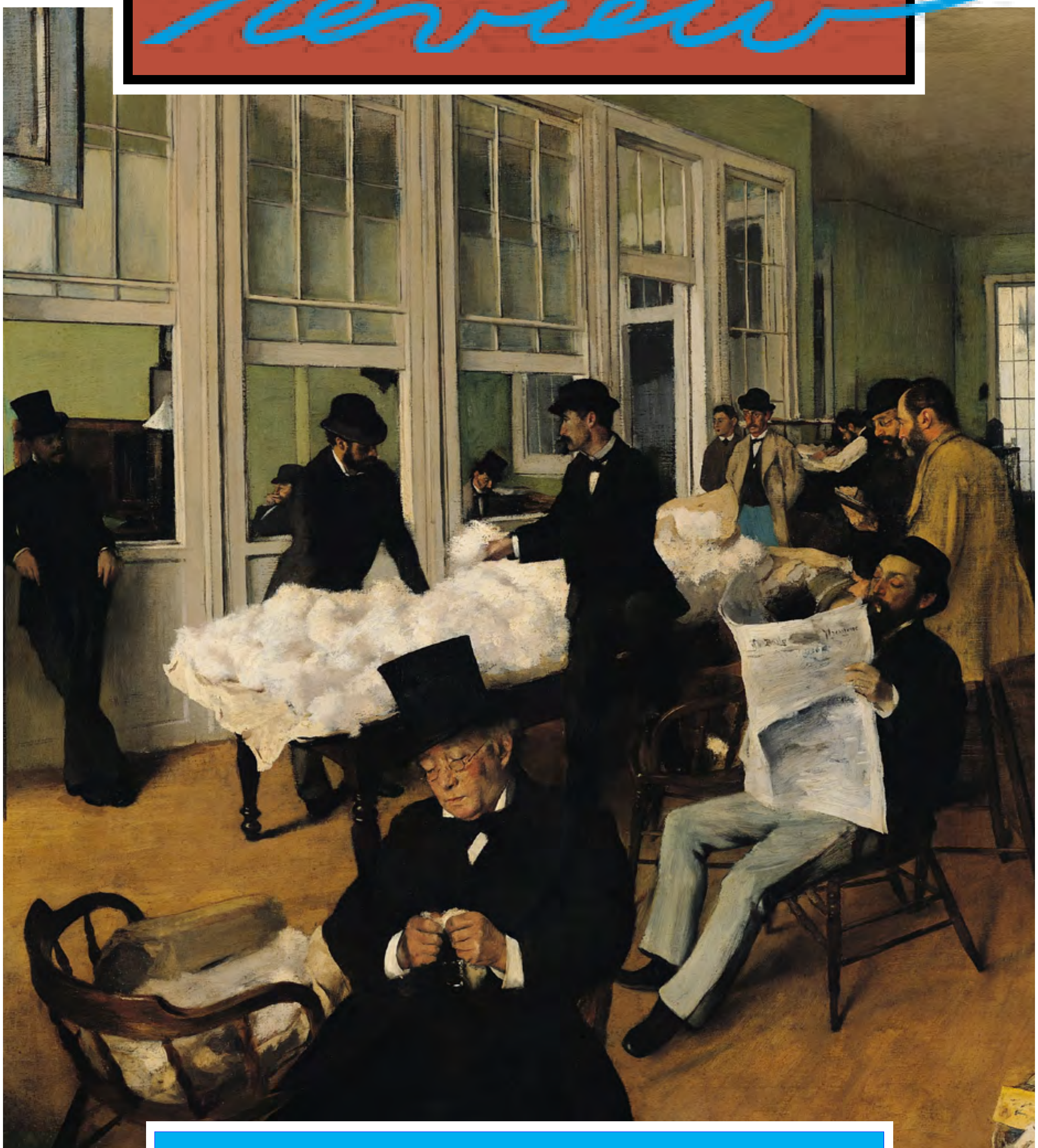
INDIANA POLICY review



Tea Parties That Mean Business

REAWAKENING THE CHAMBER

"A future that works"

In Congress, July 4, 1776,
the unanimous declaration of the thirteen United States of America:

When in the course of human events, it becomes necessary for one people to dissolve the political bands which have connected them with another, and to assume among the powers of the earth, the separate and equal station to which the Laws of Nature and of Nature's God entitle them, a decent respect to the opinions of mankind requires that they should declare the causes which impel them to the separation. We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable rights, that among these are life, liberty and the pursuit of happiness. That to secure these rights, governments are instituted among men, deriving their just powers from the consent of the governed. That whenever any form of government becomes destructive of these ends, it is the right of the people to alter or to abolish it, and to institute new government, laying its foundation on such principles and organizing its powers in such form, as to them shall seem most likely to effect their safety and happiness. Prudence, indeed, will dictate that governments long established should not be changed for light and transient causes: and accordingly all experience hath shown, that mankind are more disposed to suffer, while evils are sufferable, than to right themselves by abolishing the forms to which they are accustomed. But when a long train of abuses and usurpations, pursuing invariably the same object evinces a design to reduce them under absolute despotism, it is their right, it is their duty, to throw off such government, and to provide new guards for their future security.

INDIANA POLICY review

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A FUTURE THAT WORKS

Our mission is to marshal the best thought on governmental, economic and educational issues at the state and municipal levels. We seek to accomplish this in ways that:

- Exalt the truths of the Declaration of Independence, especially as they apply to the interrelated freedoms of religion, property and speech.
- Emphasize the primacy of the individual in addressing public concerns.
- Recognize that equality of opportunity is sacrificed in pursuit of equality of results.

The foundation encourages research and discussion on the widest range of Indiana public-policy issues. Although the philosophical and economic prejudices inherent in its mission might prompt disagreement, the foundation strives to avoid political or social bias in its work. Those who believe they detect such bias are asked to provide details of a factual nature so that errors may be corrected.

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Joyce A. Preest, copy editor; Robert and Lisa Barnum, graphic design. The cover: "The Cotton Exchange, New Orleans," Edgar Degas, 1873, oil on canvas (Getty Images).

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THE TUESDAY LUNCH

If our chambers of commerce aren't supporting and defending the operation of a free economic system, who is?

There is a *New Yorker* cartoon, a businessman at a meeting is pointing to a chart that matches the garish pattern on his suit.

That is the state of business representation in Indiana today, a representation tailored to fit specific clients with specific tastes. The director of your local chamber of commerce is as likely to represent free markets and the general business climate no better than a yellow-page lawyer represents the principles of the U.S. Constitution — that is, only narrowly and incidentally.

We asked an expert on the topic, a long-time member of this foundation, Fred McCarthy, to explain why that is so — or, more important, whether it must remain so.

McCarthy's life's work has been representing business interests, including building leadership and relationships for Indiana chambers of commerce both large and small.[1]

He offers encouragement in that Indiana has a historic model that would restore the state to commercial leadership, *i.e.,* the legislative committees of hometown chambers of commerce, which until recently were a standard for the nation

These committees were tea parties that meant business, McCarthy remembers. They were made up of knowledgeable and principled local businessmen meeting on Saturday mornings so that the local legislator could attend and account for himself.

First, though, McCarthy has bad news. Indiana, even in the midst of a historic economic downturn, has no serious interest at the Statehouse or city hall defining the long-range, ideal vision of Indiana commerce.

Yes, the Indiana Chamber of Commerce would contend that point, but we find McCarthy's argument on the following pages compelling, especially in regard to the weakening of the smaller chambers. There, what passes for business representation is more likely to be only the furtherance of certain private-public partnerships (crony capitalism might be too strong a term, but it's the way to think about it).

Consider what business representation meant even as recently as the 1970s. Here is McCarthy:

> In many ways, running a chamber was less difficult than it is now. Most business people then opposed government intervention in the economy or in business operations, and many refused to accept subsidies or handouts. Dealing with the government was generally consistent across the business spectrum, with representative organizations opposed to unreasonable spending programs and the interjection of government into day-to-day business decisions.

Those sentiments no longer drive many local chambers. The one in your hometown is likely to have accepted government as its senior partner and is pouring its energies into one public-private partnership scheme after another.

At best, many Indiana chambers aspire only to being the middlemen, smoothing the government licensing, subsidizing and regulating processes. You may remember that in the name of efficiency the Indianapolis chamber put its reputation and influence behind the consolidation of union and bureaucratic power.

This would represent an identity crisis if anyone were paying attention to how wealth is actually created or how investment is attracted. For reasons that our cover story details, chamber leaders — incredulously to our mind — no longer see their *raison d'être* as the promotion of commerce. McCarthy again:

> Too many of these groups, in the ill-conceived idea that it is their responsibility to form coalitions for community activity, have become a sort of community club in which all sectors of the community have a voice in policy-making for the chamber.

That leaves us without a voice to defend or restore the principles that would return the Indiana economy to greatness.

We have only a Barney Frank amalgam of corporate and banking interests guided by the absurdity that "capitalism works better from every perspective when the economic decision-makers *are forced* to share power with those who will be affected by those decisions."[2]

How different Indiana's situation would be if legislators every Saturday morning had to face the members of McCarthy's gimlet-eyed hometown committees, whatever the pattern of their suits. — *tcl*

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1. See McCarthy's thumbnail bio on page 2.

2. Frank, Barney. (n.d.). BrainyQuote.com. Retrieved June 3 from BrainyQuote.com Web site: http://www.brainyquote.com/quotes/quotes/b/barneyfran253182.html

TEA PARTIES THAT MEAN BUSINESS

If we are serious about strengthening Indiana's business environment, we will need to rededicate local chambers of commerce to the free-market system.

by FRED McCARTHY

As the legislative session came to a close, I was reminded of a well-worn "bad-news, good-news" story. It has the airline pilot telling his passengers, "Well, folks, we're lost but we have a tailwind and we're making great time."

"The Cotton Exchange, New Orleans," Edgar Degas, 1873, oil on canvas (Getty Images).

Such is the governmental-business relationship in Indiana. There is a certain amount of economic activity but there is cause to question where it is headed, who are its navigators.

Indeed, considering recent approaches to legislative activities by unions and related groups, there is considerable reason for the business community to doubt its voice is being heard adequately in the cacophony. This is in no way an advocacy of lobbying by riot. Nor is it a suggestion that absentee legislating is desirable. But if extreme tactics are to be used by others, it is that much more important for all business people and their organizations at all levels to maintain extreme vigilance, to use whatever is required in time and money to make certain that our business navigators are people with a passion for keeping a free economic system in place.

A friend of mine, an officer of this foundation, has suggested the need for a "Tea Party for pro-business activists." He argues that it is appropriate considering that the organizers of the original Boston Tea Party were themselves merchants and small businessmen.

I must tell my friend that Indiana already has such organizations. They are the local chambers of commerce, specifically those few with surviving legislative action committees. In the late 1970s, however, the business community began to veer off in various other directions and has lacked true navigation since.

It is the contention of this essay that these navigators ought to be — but in too many cases are no longer — the professional leadership of the business community, specifically the individuals represented by the Indiana Chamber Executives Association (ICEA) and supported by the Indiana Chamber of Commerce.

One serious problem in the local chamber movement is its inability to come to grips with its own identity. Odd as it may sound, numerous Indiana chambers of commerce apparently fail to recognize that their primary reason for existence is representation of the business community. For many of these groups, in the ill-conceived idea that it is their responsibility to form coalitions for community activity, the purpose is to be a sort of community club in which all sectors of the community have a voice in policy-making for the chamber.

Certainly, every chamber ought to cooperate with other organizations toward the betterment of the entire community. It is the function of the chamber, however, to represent the business viewpoint within such coalitions. And although coalitions may function as a source of compromise, if a chamber allows other members of a coalition to help set its policy then free-market business interests are compromised from the start. Clearly, if an individual or organization enters into a cooperative

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activity with an expectation of having to compromise, it makes no strategic sense to begin a discussion at the point at which one wants to end it.

To illustrate, are business people allowed to help establish positions for the Indiana State Teachers Association, the United Auto Workers, public officials' groups, etc.? Of course not. How, then, is it reasonable to have representatives of such groups participating in chamber policy decisions?[1]

If the chamber of commerce of a community does not specifically represent the business sector, if the chamber does not support and defend the operation of the free economic system, who will?

Persons who seek and receive the authority to lead chambers of commerce must be presumed to accept a certain responsibility, particularly the responsibility for directing those organizations toward the long-range, ideal operation of that free economic system.

The key words are *long-range* and *ideal*. In this era of so-called public-private partnerships, the qualities most needed by our navigators of commerce are a well-grounded knowledge of economics and an understanding of basic politics. This will lead to the point of recognizing that, mostly, the two don't mix. This, in turn, requires mastery of the most-difficult aspects of the job: the willingness and ability to remind members that government dollars in subsidies, grants or loans all too frequently constitute a short-term bonanza but long-term disaster.

Where Chambers Went Astray

Decades ago in Indiana, business, as represented by the local chambers of commerce movement, had a voice in government. They stood out in this regard. While chambers all over the nation were piddling with "dollar days," sidewalk sales and arranging Christmas street decorations for the retail division, Indiana chambers were deeply and seriously involved in governmental activities.

A "tax-study committee" was an integral part of many such local chamber organization structures, including a review of local public budgets. State legislative programs of one size or another were common.[2]

In many ways, running a chamber was actually less difficult than it is now. Most business people then opposed government intervention in the economy or in business operations, and many refused to accept subsidies or handouts. Dealing with the government was generally consistent across the business spectrum, with representative organizations opposed to unreasonable spending programs and the interjection of government into day-to-day business decisions.

Again, the voice of business was heard at multiple levels in Indiana and it was respected. The result was a business climate that maximized the competitive abilities of companies doing business here. There was a spirit of independence and willingness to assume personal responsibility prevailed.

But things began to change, and the high point of that independence from government in Indiana was reached in the 1970s when the business community began to be attacked for being too negative, primarily in regard to its opposition to excessive government spending.

When industrial development, formerly a chamber responsibility, became "economic" development and became a government means of actually directing when and where such activity took place, things started downhill. Rather than providing infrastructure for a new manufacturing plant, we now were involved in paying for new retail-store

Not too many years ago, running a chamber was actually less difficult than it is now. Most business people opposed government intervention in the economy or in business operations, and many refused to accept subsidies or handouts.

1. By way of example, a major chamber operation in northwest Indiana now represents three cities, each of which formerly supported its own chamber. Its board of directors includes two mayors and two members of city councils. It seems possible, if not probable, that discussion of certain matters would be severely limited with the head of city government sitting in the meeting and having a vote on the group's eventual decision.

2. As an aside, many years ago I taught a course called "The chamber's role in government" at the National Institute for Organization Management. This was a professional management class held at that time at Michigan State University. Chamber executives from all over the country attended, and it was astounding to see how many had never considered any kind of program in which they might publicly oppose a mayor or state legislator.

Even as early as 1987, the Indiana Department of Commerce reported that $119 million had been used over a six-year period to assist companies already doing business in Indiana. Of that total, $52.8 million (more than 44 percent) went into projects for just 22 companies. Ten of the 22 were major domestic, national or international companies that one should be surprised to see on the public dole.

facades in order to make a city "more attractive."

Politicians learned how to blunt opposition to such activity by offering public funds directly to businesses. The temptation to "get my share" proved overwhelming. Everything was fine-tuned and adjusted, and the once only theoretical public-private partnership between government and business came to be treated as a reality, as policy.

Offered in many scenarios as the answer to a community's economic ills, this partnership promises that with the aid of public tax dollars "private" enterprise can do what it otherwise would not or could not do. (Business people today almost never think of this as public welfare for corporations.)

This partnership, however, turns out to be anything but benign. What it actually does do is: 1) Allow the politician to make the claim that his administration has produced jobs and wealth in the local economy; 2) disrupt the free economy by misdirecting investment through subsidy and handout, and in some cases the power of eminent domain, into specific geographic areas; and 3) uses the availability of public dollars to mute business opposition to other political programs that are not necessarily in the long-range interests of the locality or the state.

The "partnership," then, gives us the approach that taxpayer support for a proposed economic activity that "A" wants to attempt should be mandated if some public agency decides "A" has a good idea. The possibility of risk for "A" has been eliminated from the equation. If the idea turns out to be unsuccessful, the taxpayer is left holding the bag. If "A" does succeed, it is announced that the new economic activity is good for the community and the taxpayer is expected to be satisfied to bask in that warm glow.

This is a misapplication of the trickle-down theory of economics, *i.e.,* that business activity has a ripple effect, which is actually the case under the right conditions. If "A" saves or borrows the original funding on his own, the employment and monetary activity he generates will, in fact, trickle down to the benefit of the community. The theory does not apply, however, when "A" has obtained the funds originally from the community itself. Taxpayers individually will never break even, much less see a real economic gain from the project.

Much is made of the economic payback when government provides funds for private corporate activities. This is an "investment" in jobs, says the politician, and the funds will be recovered in *x* number of years. Of course, it is never specified to whom the recovery is paid. The promise includes the big "if" that government increases its revenue from an increase in business activity. Taxpayers, though, rarely see any sign of a gain, and the levy necessary to start the program is simply continued to the next boondoggle.

Let me pull an example from my files. As a result of criticism of giveaways to foreign companies, even as early as 1987 the Indiana Department of Commerce reported that $119 million had been used over a six-year period to assist companies already doing business in Indiana. Of that total, $52.8 million — more than 44 percent — went into projects for just 22 companies. Ten of the 22 were major domestic, national or international companies that one should be surprised to see on the public dole.

In sum, the political approach was successful not as an answer to any question of ethics or logic but in the fact that more and more leaders of the business community came to see themselves as possible recipients of largess.

The Turning Point

It is here that we reached a turning point. Our largest business organizations took on the role of proponent rather that opponent for increasing taxation and spending, a role we now recognize as "business as usual" in so many Indiana city halls and the Statehouse.

This was a victory of semantics over substance for all those who favor government spending of all kinds. The age of the public-private partnership had arrived, an age in which the public sector actually has two partners: 1) that large part of the private sector (us) with the supposed privilege of supplying tax dollars; and 2) that much smaller part that for a variety of reasons knows how to get in line for public assistance. The horse had traded its saddle for a feedbag.

But there is more involved in the public-private partnership than finances. Among the most-dangerous aspects is an acceptance of government's participation in business decisions, not so much in the sense of meddling but in giving privileged insiders the power of government coercion, the ability to force the rest of us not only to conform to their decisions but help pay for them.

Those in the profession of managing business organizations must recognize that funds for such privileged public assistance to select businesses come from chamber of commerce members as well as from individual taxpayers. And some of those members undoubtedly will be in direct competition with the companies successfully lobbying for this version of public welfare.

For when a governmental agency participates in an economic decision, the primary consideration of the agency will always be the political effect. The truth of this statement is in the demonstrated unwillingness of the politician to support what might be seen as a "negative" rather than a "positive" approach to supposed economic development. This requires a fuller explanation:

A negative approach is one in which those factors adversely affecting business development are minimized or eliminated, thereby allowing the needed progress to take place. The positive approach, the status quo today, involves the affirmative step of increasing tax revenues — or diverting present revenues away from current use — to make money available for loans, grants or abatements to those relatively few companies meeting the criteria for some government-approved program.

From the standpoint of the politician, the negative-positive factors are determined on a political scale rather than an economic one. We may know that once a tax is reduced or removed, or an intrusive regulation is eliminated, an increase of economic activity will take place but gradually on a broad surface and with little notice of specifics. On the other hand, when a company is handed public funds for a specific project, there are ribbons to be cut, photo opportunities to be had and credit to be taken for "providing new jobs" — all fodder for the next political campaign.

A serious charge can be levied against the current approach in that there is no convincing way to demonstrate that the governmental pay-off had any effect on a company decision. The business owner can look at every other factor involved in a relocation, make the best economic decision for that company and then ask government for assistance in relocating, expanding, retraining or whatever fits the current political vision of economic development.

Nor is there a feasible way to measure what other business plans were deferred or dropped because of increased tax burden. It cannot be automatically assumed that equivalent expansion would not have taken place without intervention of government. Indeed, there is a strong probability that such other activity would have been more beneficial to the community, having been based on true economic factors rather than political ones.

There is one point of consensus: Most business people would like to see government deficits reduced. There are two ways, theoretically, to do this. One is a tax increase. The other is to reduce expenditures. The word "theoretically" is used because every precedent says that increased taxes will mean *increased* spending — not decreased or even level spending.

In sum, from the U.S. Congress right down to various Indiana cities or county councils, there is little evidence of the willingness of politicians to make the hard economic decisions necessary to create true wealth in the private sector.

A Bipartisan Problem

In recent years, most businesses and business organizations, in order to meet economic demands, have had to increase efficiency and productivity. Spending is watched closely and reduced wherever possible (dues formerly paid to voluntary business associations have become casualties of the situation).

Once a tax is reduced or removed, or an intrusive regulation is eliminated, an increase of economic activity will take place gradually on a broad surface but with little notice of specifics. On the other hand, when a company is handed public funds for a specific project, there are ribbons to cut, photo opportunities and credit to be taken for "providing new jobs" — all fodder for the next political campaign.

Public involvement through the public-private partnership was defined as requiring that construction work on the downtown mall was declared to be "public," at least to the point it was subject to the federal Davis-Bacon Act. That act, otherwise known as the prevailing-wage law, mandates the payment of union-scale wages independent of any agreement between a contractor and his employees. The result is a significant cost increase of such projects.

Government budgets stand in contrast. This last session, even a member of the GOP leadership of the General Assembly took the position before a Senate committee that the inheritance tax could not be eliminated unless alternative revenue could be found. Government, you see, never shrinks. And a most disconcerting aspect of the situation, with particular reference to this essay, is the growing amount of pork funneled into select segments of the business community at the expense of the whole.

Downtown Indianapolis is a case in point. Somehow we accepted the alleged view of sophisticates in the great metropolitan centers that Indianapolis was merely a wide spot in the middle of a corn field.

Something had to be done about that — discount the magnificent Museum of Art, ignore the marvelous Indianapolis Symphony Orchestra, write off every good thing about the city. Change was needed if we were to become a "world-class" city. Specifically, we had to have professional sports.

When the RCA Dome — *née* Hoosier Dome — was first under consideration there was, of course, considerable discussion of the financing. The Lilly Foundation stepped up with an offer to fund about half the cost. (At that time, this author wrote a letter to the then-president of the Indianapolis Chamber of Commerce suggesting that the city would get immediate national attention as a city of "class" if the chamber would raise the rest of the cost of the stadium privately, absolving the taxpayer of that burden.)[3]

From that point on, taxes increased, as did the chamber's support for virtually every subsequent public expenditure designed to subsidize a favored downtown business operation, whether it be professional sports or real-estate development.

Real-estate interests generally, plus the heavily organized construction trade unions and the hospitality industry (hotel rooms, food, beverages, entertainment and such), persuaded political leaders that what was needed was a sports-entertainment arena. Bonds were issued and the facility was built.

That was the start of the current era in which Indianapolis imagines itself a city where "things are happening." True, decisions were made on office buildings, the domed stadium, other entertainment facilities (Union Station), a downtown retail mall, etc. The trouble was that the "things" that were happening had an undergirding of some sort of governmental subsidy, loan or grant.

Certain entry-level, low-skill, minimum-wage jobs have been created. The hospitality industry benefitted, which is fine if one happened to own shares of Hilton, Holiday Inn or Hyatt. But the bill comes due with every tax payment, and the "man on the street" finds himself on the wrong side of the public-private partnership, the horse with a saddle instead of a feed bag, expected to be proud to carry the city's contrived "first-class" reputation.

Billions of tax dollars have been committed without the taxpayer having had any real say. These commitments — almost always called "investments" — have been and are being made on projects supposedly good for Indianapolis economics. They are projects, however, that could not have been started nor in all probability continued without taxpayer subsidy.

As an aside, public involvement through this public-private partnership was defined as requiring that construction work on the downtown mall was declared to be "public," at least to the point it was subject to the federal Davis-Bacon Act. That act, otherwise known as the prevailing-wage law, mandates the payment of union-scale wages independent of any agreement between a contractor and his employees. The result is a significant cost increase of such projects.

Meanwhile, business leaders, individually and through most of their organizations, told the people of Indianapolis that this government subsidy constituted great economic development. The truth was that the coercive power of government had been used to condemn (or threaten to condemn) land, to set

3. This is an example of a private foundation's generosity contributing to the misdirection of public funds. The whole idea of public construction of a stadium might have died had it not been sold as being available "on the cheap" because of those private funds.

union wages and to finance otherwise economically unfeasible activities with funds extracted from the tax base. In review, a small group of people and a small geographic area benefitted. The citizenry was given bread and circuses.

During this same period the state embarked on programs that damaged the business community by co-opting many business organizations throughout Indiana. Chambers of commerce all over the state became virtual arms of state government and even federal government. Chambers began to use public funds to run their own programs of tourism and "economic development." There were mergers with publicly funded, separate economic-development operations. Some may have even become involved in decisions as to which projects were being run by favored members.

And somehow, as the "I'll get my share" philosophy prevailed, there were questions that never got asked or answered: "Why should the efforts of the Richmond tourism promotion group be subsidized by taxpayers of Terre Haute?" "Why should commuters of Fort Wayne be the beneficiaries of tax revenues originating in Louisville?"

Illustration 1

THECHAMBER

March 31, 2011

Dear Senator

On behalf of The Chamber I encourage you to reinstate the 17.8% cut to the Public Mass Transit Fund (PMTF) that was amended into HB 1001 in the Ways & Means committee. The impact on the Fort Wayne Public Transportation Corporation (Citilink) will amount to approximately $338,000 annually. This cut will likely result in service reductions, potential layoffs and hinder Citilink's ability to provide local match for federal funding.

Citilink services are essential for the economic, environmental and social health of our community; improving air quality, mobility, and access to jobs, education and social services.

The Chamber's 2011 Legislative Agenda outlines that "a strong and modern infrastructure is essential to economic development and maintaining the quality of life that supports business growth." Specifically: "The Chamber supports policy that will ensure Citilink funding is maintained and protected. The Chamber supports a workable solution and funding mechanism for the Public Mass Transportation Fund."

Citilink has already made fare and service adjustments in response to the effects of the economic recession and increasing operating costs (primarily diesel fuel and insurance). In 2008 Citilink increased fares, cut administrative expenses and reduced the frequency of service. Reducing state funding to 2008 levels will trigger further service reductions and jeopardize their ability to leverage federal funds due to a lack of matching funds.

As a direct result of the impending loss of PMTF funding, Citilink has implemented a hiring freeze, curtailed travel and training, and delayed vehicle replacements and reinstatement of a portion of the service cut in 2008.

With increasing gas prices a safe, dependable and affordable ride to work is essential for economic development and quality of life. Do not further weaken our transportation infrastructure by cutting state funding for public transit. We encourage you to reinstate the 17.8% reduction in Public Mass Transit Funds when considering HB 1001 in the Senate.

Feel free to contact me or Katy Stafford if you have any questions or concerns.

Sincerely,

Mike Landram

Mike Landram, President

Illustration 1: The public-private partnership rationale can be seen in this recent letter from the Fort Wayne Chamber of Commerce lobbying against budget cuts in a long-subsidized but sparsely used bus system. It is one of the many Indiana chambers that has taken a role in its community's economic-development efforts exemplifying a "positive" or uncritical approach to government involvement in local business decisions.

A Breakdown in Leadership

How did we get into this situation? For many years the progression of chamber leadership in Indiana was a matter of climbing an executive ladder, a local one. When the executive of the chamber in a large city moved on or retired, the replacement was frequently hired from a smaller chamber within the state. The leader from a still-smaller chamber filled that opening, and so on in turn. The resulting continuity of personnel and activities was a great advantage to the local chamber movement generally and to governmental activities especially.

For whatever reason, the larger chambers began to fill positions from out of state, thereby cutting off upward mobility for the effective executive of the smaller chambers. The imported executives often came from chambers in other states that did not share Indiana's focus on governmental programs. Many were surprised that Indiana chambers actually were willing to take a public position in opposition to a mayor or state legislator. Not surprisingly, these executive were disinterested in the value of our legislative programs and, as noted previously, had no experience at the Indiana Statehouse. The disappearance of high-level, local leadership from the scene

The "imported" local chamber executives were disinterested in the value of a legislative program and had no experience at the Indiana Statehouse.

No group is in a better position than business leaders to say to city hall or the statehouse; "This idiocy must stop. We will accept no more handouts ourselves, and we herewith demand accountability for all spending programs."

led to the gradual decrease of statewide action programs. Possibly as a result, top-down leadership from the state chamber changed at the same time. The men and women serving smaller chambers were left with too little effective direction.

Finally, many capable executives of the smaller chambers, finding themselves without possibility of upward mobility in Indiana, changed careers. Some changed states. They were replaced to a great degree by reasonably competent people who may have had no desire to move, or by people unlikely to be sought for the bigger jobs, thereby increasing the need to look outside the state for staffing of the larger operations. The circle was complete, to the detriment of effective governmental affairs programs.

A Redefined Local Executive

Despite all these difficulties, it remains a vital responsibility of the business-community leadership to begin the reversal or elimination of governmental fiscal policies designed and fueled by political rather then economic considerations.

No group of people in Indiana today, as a whole, is better educated than business leaders in the sense of having an understanding of the seriousness of our current economic situation. And no group is in a better position to say to city hall or the statehouse: "This idiocy must stop; we will accept no more handouts ourselves, and we herewith demand accountability for all spending programs."

But no group can lead the fight if it stands with hand outstretched, palm up.

The manufacturing sector particularly must educate voters and their elected representatives. Manufacturing is one of the true bases of the Indiana economy. It creates wealth from which nearly every other form of economic activity stems. What is needed is a public policy of fair, reasonable and predictable taxation and regulation for all state industry. What is not needed is a public policy that taxes all for the benefit of a few.

Hoosiers must know that government does not create wealth or economic development. It can only tax it away from one individual — or company — and give it to another. While this may give the illusion of economic progress, there can be no doubt as to the ultimate damage done to a truly free economic system.

Statesmanship at the governmental level must be preceded by statesmanship at the private level. That is, while it is the job of the organization executive to carry

Have Capitalists Surrendered?

"As government grows, businesses try to adapt, often by opening government affairs offices in Washington. Yet the regulatory burden continues to increase as public attitudes toward business continue to decline. Seeing little return on their defensive investments, it is not surprising that many firms despair and adopt strategies of appeasement. If you can't beat 'em, join 'em. This is foolish. Capitalism can scarcely survive if capitalists surrender. Businesses must first understand why they — and capitalism itself — come under attack. It is a mystery why a system that has succeeded so well at increasing wealth finds so little political support. That question was addressed well by Joseph Schumpeter in his 1942 essay 'Can Capitalism Survive?' However, his gloomy answer — 'No, I do not believe it can' — need not become reality. . . . businesses must move from defense to offense — from appeasement to a positive legitimization campaign aimed at liberalizing the economic environment in which it operates. We need real liberalization, not a 'pro-business industrial policy.' To encourage economic growth, government need only get out of the way. One does not need to teach the grass to grow, simply move away the rocks. The challenge facing business is to make that rock-removal campaign politically viable."

— Fred Smith, writing in the April 12, 2011, Forbes Magazine.

out member-decided policies, it is also his responsibility to assess the long-range effect of those policies and be prepared to discuss them knowledgeably with his members — to play the devil's advocate, if necessary.

Formally and informally, in meetings and on the street corner, the chamber executive will be asked his opinion, "What do you think?" His answer can affect the community for years to come — dramatically so.

The answer should be the result of honest study demonstrating the delicate balance of realism with idealism. It might well come down to making clear to the membership that the "free" government subsidy flowing to one member is actually damaging other members and the community economy as a whole.

No proposal for public action, be it legislative or administrative, has ever had the completely unanimous support of every member of the business community. Individual members of the community, corporate or otherwise, will make a determination of support or opposition for themselves. But it is the task of each business organization to seek out and to support provisions that are best for the most members. It is the responsibility of the organization to be idealistic — supporting what is good for the community *in the long term*.

The responsibility of the organization executive is to move the organization always toward that "long-range, ideal operation" mentioned earlier in this essay. The challenge is quite simply to accept the responsibilities of leadership. Confucius put it this way: "To see what is right and not to do it is want of courage."

Step One

A big step in the right direction would be the activation of the local chamber governmental-affairs program on a coordinated statewide basis. Legislation of vital interest to business has been lost because of failure to understand the rules well enough to play the political game effectively — or indeed, play it at all.

There has been a lack of sustained effort by Indiana businesses to maintain a coordinated, effective operation of political fund-raising and campaigning. Early on, funds were misused by not making certain they went to those candidates, or incumbents, who understood and supported a truly favorable business climate here. Some in positions of leadership even supported legislative programs that were not in the best long-range interest of economic well-being.

It follows that the business community cannot afford to be captive of the old lore that one or the other of the two major political parties is the "friend of business." In the headlong efforts by most politicians to buy votes with public funds, business will always get the short end of the stick from both parties. Business groups must participate directly in both sets of primary elections. In short, there must be recognition of the dangers of too close a relationship with either Republicans or Democrats.

Any and all direct political action by the business organization must be carried out on an absolutely non-partisan basis. Support for, or opposition to, any candidate must be based on that candidate's views with regard to the business community and without regard for party label.[4]

A Blueprint for Restoration

The election of candidates sympathetic to the need for a reasonable business climate is not the sole answer. There must also be a follow-up legislative program that keeps those legislators informed as to what constitutes the desired climate and how it can best be maintained.

Sadly, many local chamber legislative programs, also known as "Third-House" or "Cracker-Barrel" sessions, are a waste of time or even counter-productive, at least as far as presenting the business position to legislators. Too many times, large public meetings are held at which people who are not chamber members or even business people take over a meeting and loudly debate issues that have no business orientation.

Business simply cannot afford to allow either party to take the position, "You have to support me. You have no place else to go." The answer to that attitude lies at least partly in business participation directly in primary elections. In short, there must be recognition of the dangers of too close a relationship with either Republicans or Democrats.

4. A May 31 Associated Press story under the headline, "Indiana Chambers Take Bigger Roles in Politics," made much of reports that the larger chambers in Indianapolis South Bend, Evansville and Terre Haute are now "increasingly making politics their business." The need, however, is a Tea Party or grass roots approach in the smaller chambers throughout the state.

The author has compiled an 11-point checklist for restoring the purpose and organization of chamber legislative programs for increasing competent navigation by Indiana's business communities.

For that reason I put together the following checklist for restoring the purpose and organization of chamber legislative programs for increasing competent navigation by Indiana's business communities.

1. In order to be successful, a chamber legislative program must be limited to business people and business issues. This is an effort to focus on issues germane to business, not general debate of the full range of community ills. The general public must be excluded if such meetings are to further the chamber's mission and benefit members and the business environment where jobs are produced for all of us.

2. If some members feel other interest groups should be included, they ought to be reminded that no one else will represent the business viewpoint. In fact, business lobbyists at the Statehouse today are hugely outnumbered. It is vital that the business voice not be diluted at the point where it can best be presented.

3. A local chamber legislative committee should be made up of members willing to devote time and energy to the project. The web site of the Legislative Services Agency (LSA) carries full, current information about all bills introduced, including a brief digest of the content and their daily status. Having determined which specific bills are of interest, the job of keeping track of them is straightforward.

4. A legislative committee meeting would normally be scheduled for Saturday mornings, when legislators from the district might be able to attend. It must be a meeting of a chamber committee limited to members and legislators focused on issues and bills of importance to business.

5. The members of the committee should gather the previous day to review reports on the week's legislative action and plan an agenda for the Saturday meeting. It is important that the agenda give legislators attending a chance to talk about bills they have introduced, the list of which the committee should have on hand. Whenever appropriate, the chamber should offer to support the legislator with these measures.

6. But it would be a waste of time to invite legislators to these meetings simply to listen to them talk about goings-on in the Statehouse. This is the time when the chamber of commerce raises its voice on behalf of the business community. And legislators, whether or not present, must be made aware of bills of interest to the chamber.

7. The importance of participation by the individual member of the chamber at this point cannot be overemphasized. The presence of a lobbyist at the Statehouse is necessary. But a legislator's face-to-face session with his neighbors, especially when they are adequately informed on business issues, is impressive in a way

What Does Business Want Anyway?

A Deloitte Growth Enterprise Services survey of 527 executives at mid-market companies (annual revenues of between $50 million and $1 billion) found "tempered optimism" that the economic recovery will continue. However, the survey also found significant concern over government fiscal and regulatory policies. A whopping 50 percent cited federal, state and local debt as the greatest obstacle to U.S. growth in the coming year. Lack of consumer confidence (39 percent) and rising healthcare costs (33 percent) came in second and third. Lest anyone construe the executives' concern about government debt as implied support for tax increases, high tax rates came in fourth at 30 percent. Government austerity, which can include tax increases, and infrastructure needs came in at 15 and 9 percent, respectively. When asked to choose up to three items that represent their company's main obstacle to growth, only 21 percent cited government budget cuts. I'm frankly surprised that the figure isn't higher considering that a number of these companies probably 'do business' with government. Increased regulatory compliance was only a tick higher at 22 percent. Healthcare costs came in third at 30 percent, and uncertain economic outlook was first at 41 percent. I would pin that uncertainty on government policies. It is likely that a substantial number of the respondents would agree given other survey results. Reducing corporate tax rates (33 percent) was the clear winner when the executives were asked to choose up to two measures by the U.S. government that would most help mid-size businesses grow in the next year. Keeping interest rates low (32 percent) was close behind, followed by rolling back healthcare reform (23 percent). Keynesian measures that are popular in the White House, supporting increased infrastructure investment and stimulating private consumption, came in at 19 percent and 14 percent, respectively.

— Posted by Tad DeHaven, April 27, 2011, at http://www.cato-at-liberty.org

that cannot be duplicated in Indianapolis. A supplement to this point is the recommendation that legislators be invited to members' places of business between sessions. Give the legislator a chance to have first-hand information about business operations and problems at a leisurely pace, months before or after the actual session is taking place.

8. The format of the meeting can be informal but must be controlled. When non-members are excluded, a legislator who has taken the time to be present is not being harangued on controversial issues having nothing to do with the business organization sponsoring the meeting. Important positions on legislation adopted by the chamber should be stated calmly but firmly.

9. Keep in mind throughout that the legislator has other constituents to whom he owes representation. It is impossible to imagine a session where even the friendliest member of the legislature would agree with the business position 100 percent of the time.

10. Priorities therefore must be established for those pieces of legislation important to business. Support or opposition to a particular legislator must be based on his or her voting record qualified by the importance of the issues, not simply the number of "pro-business" votes. It is necessary that the chamber's legislative committee inform the legislator directly and clearly which bills are most important.

Then, if the committee thinks it necessary, let the legislator know that future support for or opposition to his candidacy will be based on votes on those specific bills.

11. Clear, effective communication between an understanding legislator and the business community is the sole purpose of the operation of a local political-legislative program.

Summary

It is time to face some facts. First, the financing of any supposed public-private partnership is not free, it must come from somewhere. Government does not pay, it spends, so politicians will always make certain that taxpayers are the ones who pay for programs the public is told "develop the local economy."

In this regard, government has for some time presented itself as a "partner" with business, and currently holds that position in the public mind. Sometimes this partnership is voluntary, sometimes not. But if partner is the right word, government has been and always will be the *senior* partner.

To the extent that business fails to make itself heard through effective public-affairs programs, this relationship will inevitably worsen. More and more decisions that should be economic will be political. Other organizations that are politically more active will take control.

When that becomes the case — to repeat two key points of this essay — Indiana's economy will have abandoned long-range, ideal operation. The fault will be that of the business community; it will not have achieved clear, effective communication with the political forces determining the state's economic direction.

My second point is that it is the small chambers of commerce throughout Indiana that are the organizations most capable of making a real contribution to true economic development. And there are at least two organizations with the responsibility and ability to reinforce a rational, effective and coordinated statewide voice for business and the free market. They are the Indiana Chamber Executives Association and the Indiana Chamber of Commerce.

The task will not be easy. The relationship with the local organizations must be close and strong.

At both state and local levels, chamber members must be made to see the importance of the time, money and effort required for a legislative program.

It must be recognized that advocacy at the local level is vital — as demonstrated by those early business people who gave us the first Tea Party.

The role of Indiana business organizations in maintaining economic stability and integrity is absolutely basic. The importance of the organization executive within that role is critical.

If Indiana does not have such organizations and such business leadership, it had better find them — and soon.

It is the small chambers of commerce throughout Indiana that should be the organizations most capable of making a real contribution to true economic development. And there are at least two organizations with the responsibility and ability to reinforce a rational, effective and coordinated statewide voice for business and the free market. They are the Indiana Chamber Executives Association and the Indiana Chamber of Commerce.

MISOLOGY: A RELIGION FOR THE MINDLESS

Where the degeneration of higher education has left us.

by PHILIP R.P. COELHO and JAMES E. McCLURE

meme *|mēm| noun Biology — an element of a culture or system of behavior that may be considered to be passed from one individual to another by nongenetic means, esp. imitation. The term was invented by Richard Dawkins in his book, The Selfish Gene, to discuss the notion that ideas (memes), like genes, can be viewed as selfishly seeking to replicate themselves.*

In the blogosphere, Mike Godwin, attorney, author and cyber-expert, launched an experiment — to build a counter-meme designed to make discussion participants see how they are acting as vectors to a particularly silly and offensive meme, Nazi comparisons. Godwin created and modestly named his meme Godwin's Law of Nazi Analogies: "As an online discussion grows longer, the probability of a comparison involving Nazis or Hitler approaches one."[1] Godwin describes the method of the experiment: "I seeded Godwin's Law in any newsgroup or topic where I saw a gratuitous Nazi reference. Soon, to my surprise, other people were citing it and the counter-meme was reproducing on its own." Godwin maintains that his experiment has been successful in reducing glib Nazi comparisons. For evidence, he cites Miller's Paradox: "As a network evolves, the number of Nazi comparisons not forestalled by citation to Godwin's Law converges to zero."

Notwithstanding the success of talk radio, the FOX network and the blogosphere, nothing akin to Godwin's Law has arisen as a counter-meme to the irrationality produced by elected officials. Misology has always been rampant in politics; the slogans politicians use are antagonistic to rational thought: all the way from Theodore Roosevelt's square deal[2] (as opposed to a trapezoidal one) to George W. Bush's compassionate conservatism. The term, "rational ignorance" explains the public tolerating these inanities.

Rationality is costly; it requires attention and thought, both of which are scarce and costly. Consequently instead of demanding rationality and thought from their audiences, news programs, politicians, public service announcements, political advertisements and editorials provide 15-second sound bites that are not designed to appeal to the intellect but to the gut. People are rationally ignorant because if one out of 100,000 voters (or one out of 100 million voters in the case of an American presidential election) invests resources to decipher different political claims, then voters will make a more educated decision in casting ballots. And what difference will that make?

Easy answer: None.

As far as we have been able to determine (admittedly our efforts have been confined to swiveling in our office chairs to examine book shelves and Googling the Internet) no election anywhere with 100,000 or more votes cast was ever decided by one vote. Still, it may happen, and we may win the first prize in a lottery (if we ever buy tickets), but these events are more than bizarrely unlikely and not a wise basis for planning. With the odds vastly against one vote being decisive, rational voters will not spend scarce resources in analysis and thought. This is not irrational, what is irrational is to spend time, effort and money in quixotic pursuits, thus we have rational ignorance. The results are obvious: Outrageous statements once made are accepted as fact; repeating falsehoods frequently


Philip R.P. Coelho, Ph.D., (left) and James E. McClure, Ph.D., adjunct scholars of the foundation, are professors of economics at Ball State University. This is excerpted from their forthcoming work, "American Misology: Can Reason Survive," copyright©2011 Philip R.P. Coelho and James E. McClure, all rights reserved, reprinted with permission.

1. See: www.wired.com/wired/archive/2.10/godwin.if.html.

2. Starting with Teddy Roosevelt was arbitrary; the names given to political campaigns and issues have never been designed to appeal to the mind. We could easily have started with Tippecanoe and Tyler too (we are fairly sure they did mean too but two would have been as sensible). Further back, Thomas Jefferson's depiction of John Adams in the election of 1800 as a "hideous hermaphroditical character, which has neither the force and firmness of a man, nor the gentleness and sensibility of a woman." While Jefferson's verbiage (as befitting one of the main authors of the Declaration of Independence) is distinctly more elegant than some geometrical deal, it was obviously not designed to address issues that confronted the young Republic (unless, of course, there was an epidemic of cross-dressing that has been lost in the fog of time; perhaps a research issue for the Gender Studies Department of Harvard?).

and loudly is accepted as evidence. Speculations are presented as facts and couched in hyperbole to preempt opposing views. Rational ignorance explains all, but it does not explain why, in just the past three or four decades, misology has been propagating like bacteria in a petri dish. The explosive success of unreason could not, to be sure, have occurred without rational ignorance, yet rational ignorance alone cannot explain it. Rational ignorance, it must be remembered, is as old as politics.

Rational ignorance has been magnified by modern society and permeated higher education because: 1) People are encouraged to acquire greater amounts of highly specialized knowledge that provide a substantial income; and 2) grade inflation and self-interest have converted higher education into dumbed-down politically correct pap. Contemporary universities provide the increasingly specialized education that makes human capital more valuable in modern economies; there are increasing numbers of hyper-specialized courses and faculty, educating people to know more and more, about less and less. The concomitant neglect of general knowledge and analytical reasoning has rendered graduates unable to knowledgeably assess anything outside of their narrow specialties. Consequently, debaters (politicians, their acolytes and advocates for interest groups) have ceased answering questions straightforwardly and debating the merits of issues; instead they deflect, rely on lies, rhetorical tricks, nonsense, ad hominem attacks, non sequiturs and sophistry.

Academic Decline

In 2009, the American Council of Trustees and Alumni (ACTA) compiled its "Report on General Education Requirements at 100 of the Nation's Leading Colleges and Universities." It evaluated the extent that institutions of higher education as part of their curricula required seven key subjects: English composition, literature, foreign language, U.S. government or history, economics, mathematics and science. With some modifications we reproduce their report card as Table 1 (below) for their list of the top-20 national universities; each "yes" indicates this course is part of the required curricula for all students. The grades (assigned by ACTA) mean that an institution with an *F* grade required at most one of these courses, a *D* means two were required; *C* three courses; *B* four courses; and an *A* grade required five courses.

There were nine *F*'s and two *D*'s, and no *A*'s awarded to the universities that are ranked as the best in America; a paltry three earned *B*'s. As an indicator of the state of undergraduate education in America this is deplorable. But as our mothers taught us, we can make the best of what confronts us because behind every cloud there is a silver lining. Better yet, there may be gold; we plan to parlay this ignorance into income as we bash pointy-headed intellectuals and gin up sales for our planned book on American misology.

The void in all the middle cells in the table is indicative of invincible ignorancein

Table 1: ACTA 2009 Report Card for Top-20 Institutions of Higher Education

Institution	Comp	Lit	Lang	US Gov/Hist	Econ	Math	Sci	Grade
Brown								F
U. Cal. Berkely	Yes							F
Carnegie Mellon	Yes					Yes	Yes	C
U. Chicago	Yes	Yes				Yes	Yes	B
Columbia	Yes	Yes	Yes				Yes	B
Cornell			Yes					F
Dartmouth	Yes		Yes				Yes	C
Duke	Yes		Yes			Yes	Yes	B
Emory	Yes					Yes	Yes	D
Harvard	Yes						Yes	D
Johns Hopkins								F
Northwestern			Yes					F
Notre Dame	Yes		Yes			Yes	Yes	B
U. Penna.			Yes				Yes	D
Princeton	Yes		Yes				Yes	C
Rice								F
Stanford	Yes					Yes	Yes	C
Vanderbilt							Yes	F
Wash U. St. Louis	Yes							F
Yale			Yes					F

Today's graduates are unable to knowledgeably assess anything outside of their narrow specialties. Consequently, debaters (politicians, their acolytes and advocates for interest groups) have ceased answering questions straightforwardly and debating the merits of issues; instead they deflect, rely on lies, rhetorical tricks, nonsense, ad hominem attacks, non sequiturs and sophistry.

What does Barack Obama's magna cum laude from Harvard Law School mean?

the American academy: Not one of the top-20 institutions of higher education in America requires a class in American government, history or economics. An essential counterweight to rational ignorance within the electorate is a general understanding of how this country's institutions, history and economics have affected growth over the centuries. Knowledge of the history of America, its periodic booms, busts, expansions and contractions, is an antidote to the economic nostrums periodically presented as solutions to problems that are either insoluble (scarcity), or created by some other governmental policies (healthcare costs, youth unemployment), or to some non-existent crisis (a crisis is an awful thing to waste). American Exceptionalism owes a huge debt to the institutions, thoughts, writings and practices of Western Civilization that were bequeathed to us by dead (of course: you have to be dead to bequeath, so if you want to bequeath some money to us you've got to bite the bullet; we will send flowers) white European-American men. The neglect of the foundations of the American experiment is attributable to the politically correct universities and faculties that have removed courses in these subjects from the required core curricula.

Even so, taking courses in government, history and economics is no guarantee that any learning will take place. Standards on content and accomplishment are virtually non-existent in American higher education.

An egregious example is Barack Obama, president of the United States of America. He is widely admired and said to be one of the most-intelligent people to grace the Oval Office; his academic achievements are exemplary: 1) In 1979, he graduated from an elite prep school, Punahou, in Honolulu; 2) In 1983, Mr. Obama was awarded a degree in political science (Columbia University, transferring from Occidental College after two years), and in 1991 he graduated *magna cum laude* from Harvard Law School where he was an editor of *the Law Review* his first year and its president in his second year. Yet while campaigning for the U.S. presidency, Mr. Obama famously did not know how many states there were in the United States (he estimated between 57 and 58). This gaffe should not be attributed to him, but rather to: 1) his prep school (Punahou in Honolulu, reputed to be one of the best in the country); 2) Occidental (ranked by *U.S. News and World Report* as being in the top 30 liberal arts colleges); 3) Columbia (a fabled Ivy League school); and 4) Harvard Law (the premier law school in the country). They failed to teach basic fundamentals in the courses he had on American law, government and history. We presume (they have never been released) Mr. Obama's grades were superb, (remember the *magna cum laude* from Harvard) reflecting not only his insightful mind, but also, and more unfortunately, the absence of content and standards in the elite of the American academy. Of course, *magna cum laude* these days is not your great-grandfather's *magna cum laude*.

In undergraduate education, Harvard first gave the *magna cum* designation in 1880. The faculty then prepared regulations for recommending candidates for the bachelor's degree, either for an ordinary degree or for a degree with distinction; the grades of distinction being *summa cum laude, magna cum laude* and *cum laude*. The degree *summa cum laude* is for those who have attained 90 percent on the general scale or have received the designation of Highest Honors in any department, and carries with it the assignment of an oration on the list of commencement parts; the degree *magna cum laude* is for those who have attained 80 percent on the general scale, or have received the designation of Honors in any department, and carries with it the assignment of a dissertation; and the degree *cum laude* is to be given to those who attain 75 percent on the general scale, and to those who receive Honorable Mention in any study together with 65 per

3. Annual Reports of the President and Treasurer of Harvard College, 1877-78. Also see: http://en.wikipedia.org/wiki/Latin_honors.

4. Where A is 4.0, B is 3.0, C is 2.0, D is 1.0 and F is 0. Back then, the faculty of Harvard assessed the performance of undergraduates, on average, as a C+ + (closer to a C+ at 2.33 than a B- at 2.67. Also, see: http://www.gradeinflation.com/Harvard.html.

cent on the general scale, or 70 per cent on the last three years, or 75 per cent on the last two.[3]

In 1889, the average grade-point average (GPA) for a Harvard undergraduate was 2.46 on a four-point scale.[4] The average GPA at Harvard has risen steadily over the past century and a quarter and in 2005 it was 3.46, or a *B*++. By 2001, the percentage of students receiving the *magna cum laude* designation had ballooned to 36.2 percent. In October of 2001, *the Boston Globe* published an article entitled "Harvard's Quiet Secret: Rampant Grade Inflation" characterizing Harvard's grading standards as the laughingstock of the Ivy League. Harvard had the meaninglessness of its *magna cum laude* exposed, and of course its faculty reacted. It did not end grade inflation. Instead, beginning in the Fall of 2005, it limited to 20 percent the combined number who received either the *magna cum laude* distinction or *summa cum laude*.[5] Harvard's willingness to assign grades to undergraduates without regard for merit and rigor is not unique. *Gradeinflation.com* is an online site that even a *cum laude* would realize is devoted to examining grade inflation. It compiles contemporary and historical data on the inflation of grades using GPAs at American universities and colleges. In the 1930s, the overall GPA was about 2.35 in academe; 2.35 is about a *C* grade on the traditional four-point scale. By the academic year 1991-1992, the national GPA had risen to 2.93, about a *B* (3.0). From then on, it was up, up and away. (Table 2 above summarizes GPAs for various years by type of institution.)

Compared with the GPA of 2.35 for the 1930s, the numbers are striking. Walter Williams, professor and editorial writer, described these data as evidence of either academic dishonesty in awarding unearned grades or evidence that academic standards have been set so low that idiots could earns *A*'s and *B*'s. Williams' concerns over the decline in general knowledge requirements and grade inflation reinforce the perception of rot and decay in American undergraduate education. Consistent with the evidence supplied by ACTA (partially listed in Table 1),Williams pointed out that:

Table 2: Average GPAs: 1991-2007, by years and aggregate

Academic Year	All Schools	Public Schools	Private Schools
1991-1992	2.93	2.85	3.09
1996-1997	2.99	2.90	3.16
2001-2002	3.07	2.97	3.24
2006-2007	3.11	3.01	3.33

Source: Gradeinflation.com

> The American Council on Education found that only 15 percent of universities require tests of general knowledge; only 17 percent for critical thinking; and only 19 percent for minimal competency. According to a National Assessment of Adult Literacy, the percentage of graduates proficient in prose literacy has declined from 40 to 31 percent within the past decade. Employers report that many college graduates lack the basic skills of critical thinking, writing and problem-solving and some employers find they must hire English and math teachers to teach them how to write memos and perform simple computations.

The causes of grade inflation and declining content are created by the incentives university administrators face. University tuition, and in particular private-school tuition, is a multiple of the extra (marginal) cost of educating students in most disciplines. Getting and retaining an additional student is worth many thousands of dollars to a university. If the institution manages to keep a student for four (or more) years while using part-time faculty or lowly paid graduate students in art history, business management, sex studies (why can't modern students learn about sex in back seats like we did), music appreciation, physical education and what not, then a private school will reap close to $200,000 in tuition revenues for an additional expense of less than 25 percent ($50,000) that it costs to indoctrinate the child in that drivel. In contrast, it is much more costly to teach an additional engineering student. Strangely enough, anecdotal evidence on grades in the engineering disciplines indicates almost no grade inflation. What we have is what economists call a moral hazard: Tuition is much greater than the marginal costs of education in most non-engineering disciplines, and consequently there are

Getting and retaining an additional student is worth many thousands of dollars to a university. If the institution manages to keep a student for four (or more) years while using part-time faculty or lowly paid graduate students in art history, business management, sex studies, music appreciation, physical education and what not, then a private school will reap close to $200,000 in tuition revenues for an additional expense of less than 25 percent.

5. See: http://www.thecrimson.com/article.aspx?ref=502943.

Student evaluations of faculty are instrumental in maintaining the charade. University administrators use student evaluations to disguise the decaying content and inflated grades in their institutions; at the end of each semester students are solicited for their opinions about professors and courses. The results of these surveys are used in hiring and firing untenured and part-time faculty.

pressures to retain and graduate students. The result is a multitude of courses that have almost no intellectual content, rigor and objective standards; they are doctrinaire and subjective (try being a male, or anti-abortion in a women's studies department). cater to student tastes, are undemanding and make students feel comfortable about themselves. That they have no intellectual content is irrelevant; they rake in the cash.

Student evaluations of faculty are instrumental in maintaining this charade. University administrators use student evaluations to disguise the decaying content and inflated grades in their institutions; at the end of each semester students are solicited for their opinions about professors and courses.

The results of these surveys are used in hiring and firing untenured and part-time faculty. If part-timers want to be re-employed next term they had better make sure that their students are not discomforted by work, standards, required attendance or, heaven forbid, insisting that students learn something for a decent grade.[6] Tenure-track faculty face the same pressure but on a longer timescale.

Over time, evolutionary processes yield faculties that are more concerned with popularity and being regarded as nice guys, and less interested in training critical thinking (proving something as being inconsistent or fallacious may hurt someone's feelings and their priceless self-esteem) and insisting on learning.

Still, by design or default, institutions place great weight on student evaluations in making decisions that affect faculty rewards, career progress and professional growth, yet there is almost no evidence over what they do in fact measure.[7] The decline in academic standards is explained by rational beings following incentives that accentuate the myopic view of professional administrators. A career in administration means that there is little weight given to the long-run survival and reputation of the college. Instead, the focus is upon: enrollment, graduation rates, keeping the rabble (students and tenured faculty) happy, publicity and, worst of all, change and innovation.

The last is the worst because change is valued simply because it is change. In their résumés, administrators are able to put any change, no matter how detrimental or stupid, as a positive accomplishment. Changing the core curriculum to reflect fashionable trends (women's studies, ethnic studies, entrepreneurship, gender studies or whatever) at the expense of traditional courses (Western Civilization, American history and government, economics and the classics) is a positive entry on a vita. Conversely, re-emphasizing traditional courses at the expense of women's studies, ethnic studies, entrepreneurship, gender studies or whatever is also a positive. What is important is change, because that enhances résumés and incomes. Churning is the one constant that is now prevalent in American higher education.

Although churning contributes to the decline in standards, it is good from an administrative viewpoint: The fewer standards that there are, the more they can burnish their *curriculum vitae*, the more they increase incomes and enhance new job prospects. Onward and upward.

6. A decent grade, it should be noted, is an ever-changing standard that is different for different institutions and even different disciplines within an institution. A C grade in engineering in the School of Engineering and Applied Sciences at Harvard University is harder to get than an A from its Department of English. Across America an A in English is for average. Bestowing upon the mediocre a grade reserved for outstanding accomplishments makes no sense; if you must make sense of it, you have to realize that English departments are refuges for the quantitatively challenged and the politically correct (is this redundant?).

7. Of What Value are Student Evaluations? by Edward B. Nuhfer (2003) accessed online at: http://www.isu.edu/ctl/facultydev/extras/student-evals.html

Authors' Note: We have justifiably disparaged Harvard for a number of reasons, but here we have to praise Harvard for relying upon administrators who have been promoted from the ranks and have every intention of going back to the ranks. The deposed president of Harvard, Lawrence Summers, appeared to be sincerely interested in a quality undergraduate institution; this also appears true for his successor, Drew Gilpin Faust. We think their commitment to quality reflects their commitment to scholarship; both are highly accomplished scholars, unlike 115.75 percent of college administrators (that percentage is not a misprint; it is just an eye-catching number that we thought would add corroborative detail, giving artistic verisimilitude to an otherwise bald and unconvincing narrative).

Table 1: Ball State University Grading by Course for Fall 1990 and Fall 2009 Compared by Enrollment, by Percentage A's and B's and by GPA

Course Title	*Enrollment Fall 1990/Fall 2009*	*Fall 1990 A's & B's*	*Fall 2009 A's & B's*	*Fall 1990 GPA*	*Fall 2009 GPA*
Principles of Accounting 1	977/511	52	66	2.41	2.77
Principles of Accounting 2	334/181	35	52	2.07	2.39
Principles of Biology 1	215/221	35	48	2.04	2.35
Principles of Biology 2	85/205	41	42	2.17	2.19
General Chemistry 1	239/547	36	61	1.91	2.72
General Chemistry 2	49/74	27	53	1.93	2.45
Introduction to the American Criminal Justice System	271/233	61	59	2.43	2.58
Elementary Microeconomics	1,082/522	29	43	1.84	2.28
Elementary Macroeconomics	380/241	27	33	1.92	2.04
English Composition 1	2,592/2,786	68	77	2.74	2.88
English Composition 2	1,418/1,157	65	79	2.73	2.98
Principles of Finance 1	370/214	31	46	2.00	2.47
Earth, Sea and Sky: A Geographic View	317/440	44	47	2.32	2.33
American History, 1492-1876	219/214	50	51	2.45	2.36
American History, 1877-Present	719/237	59	45	2.67	2.21
Principles of Management (Managing Behavior in Organizations)	495/347	79	92	3.12	3.30
Principles of Marketing	581/363	52	80	2.57	2.95
Mathematics and its Applications	1,569/1,332	41	49	2.14	2.36
Introduction to Music	814/626	64	82	2.73	3.18
Introduction to Philosophy	651/458	64	78	2.72	2.99
General Physics 1	120/185	53	64	2.51	2.77
General Psychology	1,751/1,524	42	61	2.25	2.60
American National Government	946/557	46	51	2.31	2.47
Introduction to Social Work	136/119	43	84	2.46	3.20
Principles of Sociology	1,410/1,304	45	65	2.32	2.71

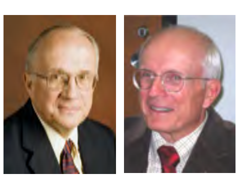
GRADE INFLATION: DIAMONDS OR RHINESTONES?

by CLARENCE R. DEITSCH and T. NORMAN VAN COTT

Colleges and universities routinely produce lots of things, including evidence about their students' accomplishments and credentials. Students' athletic achievements, for example, are reported with fanfare and detail. The measuring rods for athletic achievements don't change over time — yards per rushing attempt in football means the same thing today as in previous years.

But what if the number of inches per yard on football fields was falling at an unknown rate? That is, suppose that yards were getting "shorter." Yards per rushing attempt would be rising, but the statistic would have diminished information value, particularly for making comparisons across time.

Fortunately, a yard is still a yard in college football. The same cannot be said for course grades as a measure of academic achievement. An *A* today doesn't mean as much as it did in previous years. Likewise, *A*'s at college *x* and college *y* are losing comparability. The same holds for *A*'s in, say, economics compared with English composition. Decades of college and university grade inflation, proceeding at varying rates across schools and disciplines, have stripped course grades of much of their evaluative content. Grade-based honor rolls, deans' lists, graduation honors and class ranks are also



Clarence R. Deitsch, Ph.D., (right) and T. Norman Van Cott, Ph.D., adjunct scholars, are profeors of economics at Ball State University. This article is based on work for the John William Pope Center for Higher Education Policy, Raleigh, NC.

becoming ho-hum awards. At our university the grade-point measures for *cum laude, magna cum laude* and *summa cum laude* have been bumped up from 3.4, 3.6 and 3.8, to 3.6, 3.8 and 3.9 respectively.

Along these same lines, it is curious that definitions of the various letter grades no longer appear in our course catalog. At the same time, the current "Faculty and Professional Personnel Handbook" has definitions of course grades. So the current faculty members are told what the letter grades mean but current students are not. Go figure. Those and other experiences prompted us to look at grades in 26 "threshold" (introductory) courses at our university. Table 1 on the previous page offers evidence about grades in these courses for autumn semesters in 1990 and 2009. Column one lists the courses by their university catalog titles. Column two indicates the number of students receiving *A, B, C, D* or *F* grades in each semester (in 2009, plus and minus grades were permitted). Columns three and four show percentages of course enrollment receiving *A*'s and *B*'s in the two semesters. Columns five and six show the grade point averages (GPA) for the two semesters. (Given that the initial year is 1990, previous decades of grade inflation are already built into the numbers.)

Editor's Note: The Ball State University administration, asked to comment on grade inflation generally and this article in particular, sent this statement to Seth Slabaugh, a reporter for the Muncie Star-Press.

THOUGHT-PROVOKING questions about academic rigor are always welcome at Ball State University (BSU). Student learning is our currency. We don't shy away from asking ourselves what students are getting from their education here. The more discussion we have on the topic, the better.

There are many things that can explain the grade differences between the two years in the article. Grade inflation is one possibility. But there are many others such as stronger students, stronger faculty, better definitions of student-learning outcomes, better advising and new learning technologies to name a few.

At Ball State, we know that we are attracting stronger students than we did in 1990. For all practical purposes, Ball State was open-admission until the mid-1990s. At that point, Ball State began requiring students complete the more-rigorous Core 40 curriculum before being admitted, the first Indiana institution to do so. And while the College Board recalibrated its SAT scoring system in the mid-1990s, making comparisons difficult, average test scores are indisputably higher today than in 1990. Since 2006 alone (the year the author came to BSU), the average SAT scores of entering freshmen have risen 53 points. And there is a continued emphasis on better-prepared students. More than 62 percent of last year's class held Indiana's Academic Honors Diploma or equivalent, up from 46.8 percent in 2006. Statewide, only some 31 percent of high-school graduates achieve that status. Both nationally standardized test scores and higher levels of high-school curricula reflect academically stronger students today than in 1990. It is worth mentioning that the courses listed in the article's data are primarily introductory-level courses. Grades in these courses would be particularly sensitive to student preparedness, which is reflected in both SAT scores and the academic honors diploma.

Consistent with our strategic plan, we have also hired particularly strong faculty in recent years. They are often recognized as national experts in their fields. A recent example: Dr. Susan Wilczynski will start next month as a distinguished professor of special education in Teachers College. She comes to us after serving for five years as the executive director of the National Autism Center.

Also, higher education in general and Ball State in particular have become more focused on learning outcomes. In 1990, defined-learning outcomes were rare. Ball State's commitment to clearly defined learning outcomes results in better teaching and learning.

Some of the best evidence of student learning is the ability of our graduates to succeed upon graduation. Our graduates are both competitive and successful. For example on nationally standardized tests, our spring 2011 graduates scored, on average, in the top half of all graduates nationwide in computer science and mathematics. They scored better than 75 percent of graduates in political science and psychology. And in business, which includes our economics department, graduates scored better than 80 percent of their peers. In December of 2010, 100 percent of our bachelor's RN students passed their nursing licensure tests.

In short, the questions raised in the article are important questions that are, and should be, raised regularly among the faculty. Faculty, department chairs and deans are expected to challenge themselves individually and collectively to hold their students to high academic standards.

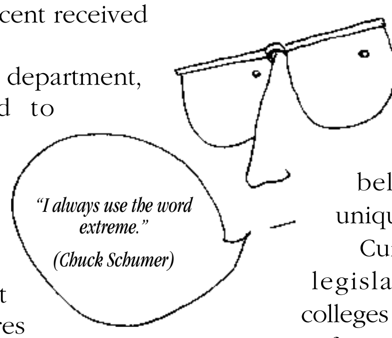
— Terry King, provost, Ball State University, June 1, 2011

What immediately stood out to us was that grades rose substantially between 1990 and 2009. Of the 26 courses, the percentage of *A's* and *B's* rose in 24 courses. Grade-point averages rose in 23 courses.

Incidentally, to say that our university was forthcoming with this information is a serious overstatement. Our requests were alternately ignored and stonewalled, notwithstanding the fact that scores of people on campus have such access and publicize grade-point averages for various groups of students. Our request was not complicated by student privacy issues; we did not request student-specific grades, just overall course grades. We only obtained the grades via the Indiana Access to Public Records Act.

To cite one example from Table 1: In 1990, 52 percent of the students enrolled in Principles of Marketing received grades of *A* or *B*; by 2009, 80 percent received *A*'s or *B*'s.

Alas, even our own department, economics, succumbed to inflation.



Some of our colleagues point to students' rising SAT scores over the period as a rationale for the rising grades. Sorry, it doesn't wash. Why? Well, SAT scores themselves were inflated in 1995, something SAT officials euphemistically labeled "re-centering." Prior to 1995 the mean verbal score was 420; after 1995 it was 500. The mean quantitative score rose from 470 to 500 in 1995. Improved performance? No, pure inflation.

Our administrators never mention grade inflation publicly, but they do feign at dealing with it by convening faculty meetings directed at what is called Assurance of Learning (AOL). This is a national effort, mainly by business schools, directed at defining inputs into the college classroom.

Administrators call our AOL meetings "brainstorming" sessions. To this end, faculty members "brainstorm" about undergraduate business knowledge—that's right, we brainstorm about knowledge. We also brainstorm business ethics, separately for undergraduates and MBA students. We wonder whether different ethical standards for undergraduates and graduates exist. Perhaps the most cosmic brainstorming sessions have been MBA sessions on "leadership management," "change management" and "decision-making."

We do not, however, brainstorm about grading standards and academic excellence. After all, the academic DNA of the people presiding over AOL is the same DNA that has afflicted decades of administrators who have neglected their responsibilities as custodians of their college and university grade vaults.

For decades, these same people have hidden behind an academic-freedom mantra and allowed faculty to debase standards on the grounds that they must be free to act as they wish as teachers. In our college, faculty grade distributions do not figure in the assessment of a person's teaching when he or she is being evaluated for promotion and tenure. We think that is amazing, and we have no reason to believe this omission is unique to our college.

Current federal and state legislative efforts to offer colleges and universities monetary incentives for graduating students in four years will only exacerbate this problem.

Professors don't have to be rocket scientists to figure out that low grades can delay student graduation, thereby undermining state funding and faculty salaries. Such a legislative "fix" will be like putting grade inflation on steroids.

The time-honored measuring rod for students' academic accomplishments and credentials is still valuable. Unfortunately, those in charge of overseeing those measuring rods are incapable of administering the standards.

So as the last strains of Pomp and Circumstance faded at graduation this year, we had a better idea about how students performed as athletes than as students. As Chester Finn of the Thomas B. Fordham Foundation writes:

"Once everyone's wearing rhinestones, you might not notice someone wearing diamonds."

Professors don't have to be rocket scientists to figure out that low grades can delay student graduation, thereby undermining state funding and faculty salaries. Such a legislative "fix" will be like putting grade inflation on steroids.

ADAM SMITH AND THE CONSTITUTIONAL COMMERCE POWER

Of the various powers possessed by Congress, few have been interpreted with as much contention.

"The Congress shall have Power . . . to regulate Commerce with foreign Nations, and among the several states, and with the Indian Tribes."

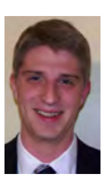
— *Article 1 Section 8*

The Adam Smith Prize is a competition held at Ball State University in the spring of 2011 awarded to the best essay using the work of Adam Smith.

by **ARRON KIDDER**

Since ratifying the Constitution different provisions of the document have been interpreted differently allowing for varying degrees of federal power. This variance has consequently affected the flow of goods and services among the states. Using a textual approach to framer interpretation, the goal of this article is to note any congruence between the founding fathers and the works of Adam Smith, a respected thinker on the matters of political economy and philosophy. While Adam Smith's discussion of commerce refers to relations between nations, a similar framework can be applied to state relations in our federal system of government. With all parties aware of the benefits of trade and commerce, a similarity exists among the ideology of the constitutional framers and the works of Adam Smith in relation to their views on commerce.

Of the various powers possessed by Congress, few have been interpreted with as much contention as the commerce clause. Along with the other enumerated powers given to the nation's lawmakers, the commerce clause is found under Article 1 Section 8 of the Constitution which reads, "The Congress shall have Power . . . to regulate Commerce with foreign Nations, and among the several states, and with the Indian Tribes."[1] While few question the government's authority to oversee matters concerning international commerce, the ambiguity of the language as codified by the framers has resulted in acrimonious conflict among government actors when the extent of federal and state power has been questioned with litigation. Given the system of federalism in which the United States government operates, the commerce power, along with just about all federal and state regulation, is subject to various means of interpretation among the executive, legislative and judicial branches of government. Using the commerce clause as justification, both the legislative and executive branches have employed the commerce clause to broaden the scope of government activities in the business and commercial spheres. At the same time, courts at both the state and federal levels have been left as arbitrators among the conflict, assisting in the working definition of the commerce power and the extent to which it can be used to justify policy.



Arron Kidder, who holds bachelor's degrees in both mathematical economics and political science from Ball State University, is a redevelopment assistant for Muncie and Delaware County's Economic Development Alliance.

1. Frohen, Bruce, ed. 2002. The Constitution of the United States of America 1787 in The American Republic: Primary Sources. Indianapolis: Liberty Fund.

'Lively, Thought-Provoking and Idea-Centered'

The future of higher education lies in partnerships. Over the last few years members of the Economics Department of the Miller College of Business have offered a unique learning experience for both Ball State students and Muncie residents. In partnership with the E.B. and Bertha C. Ball Center and in consultation with Indianapolis-based Liberty Fund, a number of colloquia have been offered where students, faculty and Muncie community members have examined classic economic texts and engaged in Socratic discussions about issues that arise from them.

The sessions were lively, thought-provoking and idea-centered. The format allowed for open dialogue and inter-generational interaction in ways not accomplished in traditional faculty-centered lectures. In the fall of 2010, the group examined a number of writings of Adam Smith including both Smith's well-known and well-read Wealth of Nations along with his less well-known and less well-read Theory of Moral Sentiments.

In the spring of 2011 another partner, the Charles G. Koch Foundation, joined the effort by facilitating the visit of two prominent Adam Smith scholars, Professor Peter Boettke of George Mason University and Maria Paganelli of Trinity University (Texas), and by funding a student essay contest on Adam Smith.

We were delighted when the Indiana Policy Review Foundation agreed to distribute the winning student essays to a wider audience. We hope you enjoy the fruits of these Ball State students' labors. They are the product of the exciting collaborative education that is becoming the hallmark of our university's programs.

— Cecil Bohanon, Ph.D., adjunct scholar

Despite the differing ways in which the commerce power has been interpreted by various government actors, primary sources such as the Federalist Papers can offer insight into the original intent of the constitutional framers when one uses a textual approach to interpreting such works. Having witnessed the inefficiencies of the government under the Articles of Confederation, Alexander Hamilton and James Madison wrote at great lengths in their essays to not only defend the principles of the new Constitution, but explain the rationale behind the allocation of power and responsibilities among the three branches of government that the Constitution lays out. In a discussion of the dangers from war between the states, Alexander Hamilton notes the various reasons for animosity among the states, and notes among them competition in the realm of commerce. In Federalist Paper #6 he states, "The causes of hostility among nations are innumerable . . . There are others which have a more circumscribed, though an equally operative influence, within their spheres: such are the rivalships and competitions of commerce between commercial nations."[2] Still, while noting that commerce and competition may be a source of antipathy among the states, he goes on to say that, "The genius of republics, say they, is pacific; the spirit of commerce has a tendency to soften the manners of men, and to extinguish those inflammable humours which have so often kindled into wars. Commercial republics, like ours, will never be disposed to waste themselves in ruinous contentions with each other. They will be governed by mutual interest, and will cultivate a spirit of mutual amity and concord."[3] Thus, while giving credence to the notion that competition can result in dispute, Hamilton seems to be optimistic that the streams of commerce may also be used to foster friendly relations in the states. In The Wealth of Nations, Adam Smith offers several factors and practices that lead to a nation's wealth or worth, namely, principles such as the division of labor and the proliferation of markets as well as commerce and trade. Similarly to Hamilton, who views commerce as a positive, Smith also attributes civil relationships between nations to commerce stating, ". . . commerce and manufactures gradually introduced order and good government, and with them, the liberty and security of individuals, among the inhabitants of the country, who had before lived almost in a continual state of war with their neighbours, and of servile dependency upon their superiors. This, though it has been the least observed, is by far the most important of all their effects."[4] Despite the

"Despite the ability of commerce and competition to result in animosity as feared by Alexander Hamilton, both he and Adam Smith seem to give deference to the idea of free commerce, and are optimistic of the effects it can have in fostering good government as well as healthy relations."

— Kidder

2. Hamilton, A., J. Jay, J. Madison, G. W. Carey and J. McClellan. 2001. No. 6: Concerning dangers from war between the states in The Federalist. Indianapolis: Liberty Fund.

3. Ibid.

4. Adam Smith. 1904. Chapter IV: How the commerce of the towns contributed to the improvement of the country in An Inquiry into the Nature and Causes of the Wealth of Nations. London: Methuen.

It is fair to assume that the constitutional framers saw the commerce power as one that would ensure free trade among the states and dampen the types of regulation that would prohibit it.

— Kidder

ability of commerce and competition to result in animosity as feared by Hamilton, both men seem to give deference to the idea of free commerce, and are optimistic of the effects it can have in fostering good government as well as healthy relations.

While Hamilton may have a predilection for commerce and its benefits in fostering peace, James Madison at times takes a more cynical view of the action of states in absence of a governing power overseeing such commerce. In Federalist Paper #42 Madison states with regard to the commerce power, "A very material object of this power was the relief of the states which import and export through other states, from the improper contributions levied on them by the latter. Were these at liberty to regulate the trade between state and state, as must be foreseen, that ways would be found out to load the articles of import and export, during the passage through their jurisdiction, with duties which would fall on the makers of the latter, and the consumers of the former. We may be assured, by past experience, that such a practice would be introduced by future contrivances: and both by that and a common knowledge of human affairs, that it would nourish unceasing animosities, and not improbably terminate in serious interruptions of the public tranquillity."[5]

Under the weak system of federal government under the Articles of Confederation, commerce between the states was stymied with the ability of states to impose duties and taxes on one another on goods crossing state lines. Such a fear is present in Madison's Federalist Paper #42, and in addition to the obstacle that such restrictions place on commerce, Madison seems to fear that such restrictions would disrupt the placidity of the country.

As this may reflect the fears discussed by Hamilton in Federalist Paper #6, a preference for uninhibited trade seems to emerge, as well as the need for a central authority to oversee a seemingly anarchic system of commerce.

While Madison seems resolute in the tendency of states to impose regulation, Smith offers a similar discussion in The Wealth of Nations. In book IV Smith notes the tendency of governments to offer market monopolies to industries by "high duties, or by absolute prohibition,"[6] and at the same time is skeptical of the benefits that it can incur. He states, "That this monopoly of the home-market frequently gives great encouragement to that particular species of industry which enjoys it, and frequently turns towards that employment a greater share of both the labour and stock of the society than would otherwise have gone to it, cannot be doubted. But whether it tends either to increase the general industry of the society, or to give it the most advantageous direction, is not, perhaps, altogether so evident."[7] In Wealth of Nations Smith offers several insights in terms of a government's role and duties. Along with providing defense for the nation, Smith argues that a nation must also be able to administer justice, and ensure the enforcement of contracts and property rights. While the regulation of commerce does not appear in his list of government responsibilities, there is a similarity between Smith and James Madison in the view that given the opportunity nations or states will protect industry within their borders.

While congressional and court interpretation of the Constitution's commerce clause may be subject to change, a consideration of framer intent can be helpful in the way terms such as "commerce" and "regulation" are defined. While Adam Smith and founding fathers such as Alexander Hamilton and James Madison may not have lived to see the extent to which the commerce power would be used by governmental actors, there are similarities in the ideology of Smith and these constitutional framers concerning the importance of commerce in fostering amicable relations between nations or states as well as a state's

5. Hamilton, A., J. Jay, J. Madison, G. W. Carey and J. McClellan. 2001. No. 42: The same view continued in The Federalist. Indianapolis: Liberty Fund.

6. Adam Smith. 1904. Chapter II: Of restraints upon the importation from foreign countries of such goods as can be produced at home in An Inquiry into the Nature and Causes of the Wealth of Nations. London: Methuen.

7. Ibid.

temptation to protect its borders through protectionist measures such as taxes or duties. It is fair to assume that the constitutional framers saw the commerce power as one that would ensure free trade among the states and dampen the types of regulation that would prohibit it. While Smith wrote of an international system of anarchy, one can ponder whether Smith would view a similar overarching authority over international trade as one that could be beneficial to all nations.

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The Effects of the Division of Labor On the Hutterite Commune

by AUSTIN McMILLAN

Central to the economic growth and progress of humanity throughout history and most notably in modern times, is the effect of the division of labor. The principle idea behind the division of labor is that the specialization of simpler tasks within a production process, by a multitude of laborers, is a more-efficient way to produce goods and as a consequence brings about economic growth. The division of labor by nature has the tendency to produce a sense of solidarity within a society and groups of people benefit from the integration and unity achieved by the specialization of skills. For commune people, such as the denomination of Anabaptists known as the Hutterites, who live their lives separated from the rest of society, both the division of labor and social solidarity are essential to their survival.

The Hutterite people, or Brethren, originated in Europe around the time of the Protestant Reformation in the 16th century and spread to thrive in their own colonies across North America. These North American colonies rely on agriculture for subsistence and are isolated from large populous areas. At the core of the Hutterite way of life is their belief of community of goods, the will of God and a well-defined division of labor. These factors hold the colonies together cohesively and in harmony. Donald Huffman, Professor of Sociology at Cedar Crest College in Pennsylvania, spent time in a Hutterite community and observed, "The labor of each individual, so coordinated, added to the wealth of all" (Huffman 5). Those in authority in Hutterite colonies emphasize keeping all able-bodied men and women at work because, "Work is important as a unifying and integrating element in colony life" (Hostetler 182). Not only is specialized labor important as a means for preventing discord in the colony, but also the people rely on cooperative labor for the production of nearly all of their perishable goods and material belongings.

The Hutterite's utilitarian approach to labor means the Brethren support mechanization and the implementation of labor-saving procedures. But they also understand that adopting such practices may threaten their traditional beliefs that the individual's own labor supports the entire colony and prevents discontent in himself. As a result, the Hutterite people will only approve mechanization that will help the colony thrive without putting laborers out of work. The 18th-century philosopher and economist Adam Smith observed in The Wealth of Nations that, ". . . The invention of all those machines by which labor is so much facilitated and abridged, seems to have been originally owing to the division of labor" (Smith 4).

"The Hutterites understand that adopting mechanization may threaten their traditional beliefs that the individual's own labor supports the entire colony and prevents discontent in himself. As a result, the Hutterite people will only approve mechanization that will help the colony thrive without putting laborers out of work."

— McMillan

Austin L. McMillan, a senior at Ball State University working toward an Entrepreneurship major in the Miller College of Business, was a summer intern at Sun King Brewing Company in Indianapolis. This fall he will continue work on the "Military 2 Market Project," developing commercial applications for military patents.

"Work for women, particularly young unmarried females, is not as mechanized as it is for the men of the field because the Hutterite way of life supports ensuring that they all are kept busy so that they do not become restless or distract the men at work."

— McMillan

Therefore, adopting modern combines, tractors and other machinery is a result of the Brethren's specialization of agriculture and recognizing an increase in the quantity of labor.

All members of a Hutterite colony serve a distinct purpose to benefit the community as a whole. With the average colony size ranging from 90 to 120 members, it is extremely important that individual tasks are specialized and that the colony members work together to supply the colony with its wide range of needs (Christensen, and Levinson). "The Brethren supply nearly all their own labor; it is their personal contribution to the colony economy, and a significant means of saving" (Bennett 200). In a colony, there are a great number of specialized jobs including carpenters, plumbers, dairymen, field workers, meat processors, mechanics, machinists, printers, teachers, ministers, tailors, cooks, beekeepers, blacksmiths and various livestock managers and workers. Primarily, goods are produced for use in the commune alone. However, grain and livestock are taken to market to provide income for savings that the colony can use to make purchases for farm machinery, fuel, technology, land or other effects.

There are a number of jobs divided among the men, women and children. Both sex- and age-related division of labor is practiced in the colony. "Men, rather than women, are directly engaged in the income-producing phases of colony operations. Women as a rule are assigned to family, domestic and food-preparation jobs" (Hostetler 182). While women occasionally tend to the gardens or poultry, most of their tasks include painting, food preparation, sewing, laundry and childcare. The men commit all of their time and effort into the more grueling labors of the field, or in some instances a particular trade. Among the men are the managers, field hands and young boys whose job descriptions range from the farm boss who supervises all of the operations in the fields down to a cattle herder who is often a boy between the ages of 10 to 15.

Age-related division of labor is significant to the Brethren because particularly the younger boys are useful for freeing up the time of the older male laborers by completing simpler tasks such as livestock feeding, egg collecting and pen maintenance. Additionally, boys begin operating tractors and other machinery as well as "shadowing" alongside older men in carpentry, farm implement repair and other technical repair jobs. Ten- to 15-year-old girls spend most of their time babysitting and begin to familiarize themselves with food preparation. Work for women, particularly young unmarried females, is not as mechanized as it is for the men of the field because the Hutterite way of life supports ensuring that they all are kept busy so that they do not become restless or distract the men at work. The problem of 'unemployed' young women has become somewhat more urgent since many colonies have invested in garden tractors and cultivating attachments, for in the past, hand cultivation kept the girls busy most of the day" (Bennett 204). As a result, Hutterites sometimes exercise less-efficient methods of doing work to guarantee that everyone stays active.

It is important to view the colony as a single enterprise rather than as a community of individual families working for their own benefit. All income is put into a common bank account, and the needs of the colony are decided collectively. They do not consider time, wages or man-hours in performing labor and do so only to serve the betterment of the entire colony. Particularly for the Hutterite people, the economic benefits of division of labor are greatly outweighed by sincere feelings of solidarity among the people. This solidarity brought about by the religious views shared by all and as a consequence of the division of labor in the colony, have allowed the Hutterite people to thrive for more than 500 years. Continued unity and harmony among the Brethren will ensure their existence for years to come.

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The ‘Invisible Hand’ Conundrum

by JACK ALLGOOD

Perhaps one of the most intriguing and debated topics in economics is the interpretation of Adam Smith’s metaphor: the “invisible hand.” This metaphor has been interpreted over and over by economists, philosophers, politicians and the like, and tends to be made more complicated than its underlying meaning. These excessive interpretations have led to what is now known as the Adam Smith Problem. In order to address the phrase’s underlying meaning, I will first provide significant background information on the use of *the invisible hand* in Smith’s literature as well as provide a synopsis of past and present interpretations of the metaphor and reasons why it is interpreted as it is. I will then discuss my analysis of the metaphor and my ideas and support behind its true meaning.

Adam Smith uses the phrase *invisible hand* three times in his works, the first of which is in his work entitled The History of Astronomy:

“For it may be observed, that in all Polytheistic religions, among savages, as well as in the early ages of Heathen antiquity, it is the irregular events of nature only that are ascribed to the agency and power of their gods. Fire burns, and water refreshes; heavy bodies descend, and lighter substances fly upwards, by the necessity of their own nature; nor was *the invisible hand* of Jupiter ever apprehended to be employed in those matters. But thunder and lightning, storms and sunshine, those more irregular events, were ascribed to his favour, or his anger” (Smith, The History of Astronomy).

Here, Adam Smith refers to *the invisible hand* as the “invisible hand of Jupiter.” In this work, *the invisible hand* provokes a theological idea that natural order is interrupted or controlled by *the invisible hand* of the god, Jupiter (Macfie 595-596).

Adam Smith’s second use of the phrase *invisible hand* occurs in The Theory of Moral Sentiments:

“The rich only select from the heap that is most precious and agreeable. They consume little more than the poor, and in spite of their natural selfishness and rapacity, though they mean only their own conveniency, though the sole end which they propose from the labours of all the thousands whom they employ, be the gratification of their own vain and insatiable desires, they divide with the poor the produce of all their improvements. They are led by an invisible hand to make nearly the same distribution of the necessaries of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society, and afford means to the multiplication of the species” (Smith, The Theory of Moral Sentiments 203).

In The Theory of Moral Sentiments, Smith uses *the invisible hand* to describe that a rich person “unintentionally helps to distribute (the necessaries of life) more widely, so as to approach equality” (Raphael 70).

Adam Smith also uses the phrase in his book The Wealth of Nations. In this book, Smith says the following:

“As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestick industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the publick interest, nor knows how much he is promoting it. By preferring the support of domestick to that of foreign industry,

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he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention" (Smith, The Wealth of Nations 356).

In this passage, Smith is saying that self-interested members of society are unintentionally working toward maximizing the wealth of society by pursuing their own gains and interest. This passage, as well as the passage from The Theory of Moral Sentiments will be the only passages used in this analysis of the meaning of *the invisible hand.*

Many economists have varying views on what Adam Smith meant by his metaphor: Jacob Viner believes that *the invisible hand* as well as other phrases used throughout Smith's works, is a substitution for God (Coase 538). Viner hypothesizes that Smith believed in a personal God and believes that a divine power created the characteristics of the marketplace and society. This, however, is not the case. Smith notes in The Wealth of Nations that there is a "curiosity of mankind about the 'great phenomena of nature,' such as 'the generation, the life, growth and dissolution of plants and animals'" (Coase 538). If Smith had a strong belief in a personal God, no such remarks about the curiosity of the existence an all-natural power would have been made in his book, The Wealth of Nations.

Another Smith commentator, A. L. Macfie, believes that *the invisible hand* is the "ultimate governor, which controls the self-love of individuals . . . the ultimate natural harmony of individual interests" (Werhane 103). In short, Macfie is saying that *the invisible hand* is a regulator of economic activity. By Macfie interpreting *the invisible hand* as a regulator of economic behavior, he is essentially comparing *the invisible hand* to the impartial spectator in The Theory of Moral Sentiments, which regulates moral behavior. Through simple economic analysis, it is easy to discover that competition is the regulator of economic activity, and not *the invisible hand.* Rather, "the invisible hand is created out of competition among (self-interested) individuals . . ."

As previously discussed, there are some interpretations of *the invisible hand* that refer to it as God or some supreme, all-natural power. The image of *the invisible hand,* however, has nothing to do with theology. "Smith uses the phrase for vivid effect, to give (readers) a picture of an imaginary controlling device . . ." (Raphael 72). Therefore, I believe that Smith chose such fine wording ("invisible hand") in order "to make his readers appreciate the remarkable character of the phenomenon" (Raphael 72). By using the words "invisible hand", Smith was able to provoke a sense of curiosity and awe from his readers and made them realize that a market was a miracle and a harmonious system. In addition, for *the invisible hand* to be the hand of God, it would be most logical that there would be much more equality in the effects of *the invisible hand.* For instance, the economic well-being of the United States is clearly not parallel to that of North Korea, Iran, Haiti, etc. This provides that there is some difference in how societies and economies are exchanging goods and services. These differences are normally thought to be but are not limited to the absence of a free market (or the presence of a top-down government) and private-property rights. These all play a role in providing incentives to buyers and sellers and thus there are varying effects in different countries with different factors that affect the marketplace.

Smith, an empiricist, "was impressed by the way in which the market can be observed to work, producing automatically reactions to changes in cost, supply and demand so as to set up an equilibrium" (Raphael 73). Smith often referenced market prices and their tendency to move toward an equilibrium or natural price. This showed that Smith "was reminded of a system of mechanics, and the unplanned beneficial effects which reminded him . . . of natural harmony" (Raphael 73-74). Smith also regarded the market as a harmonious system, which benefits society through its exchanges.

Given Smith's empirical research and ideas of a systematic market, I believe Smith intended *the invisible hand* to be used as an explanatory term to describe the method by which self-interested buyers and sellers interact and exchange goods and services in order to maximize their own gain, which in turn produces unintentional economic well-being for society. In simple terms, the "invisible hand" is sellers offering buyers terms that benefit buyers, which conduces buyers to buy, and likewise, buyers offering sellers terms that benefit sellers, which induces sellers to sell (Van Cott). When these buyers and sellers enter the marketplace, they enter with the information in order to make a mutually beneficial exchange, and if a mutually beneficial exchange is not attainable, there's no exchange. Thus, if buyers buy and sellers sell, then each side gains and there is unintentional economic well-being. Smith also hints at this interpretation in his work, The Theory of Moral Sentiments:

"The man of system . . . seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chessboard. He does not consider that the pieces upon the chessboard have no other principle of motion besides that which the hand impresses upon them; but that, in the great chessboard of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might (choose) to impress upon it. If those two principles coincide and act in the same direction, the game of human society will go on easily and harmoniously, and is very likely to be happy and successful. If they are opposite or different, the game will go on miserably, and the society must be at all times in the highest degree of disorder" (Smith, The Theory of Moral Sentiments 243-244).

The invisible hand can simply be referred to as this system by which self-interested buyers and sellers interact. No czar, dictator, bureaucracy, supercomputer or all-natural power, sits somewhere on a pedestal planning out the infinite number of transactions that occur each day in markets all over the world. In fact, "the more the economy is planned, the more it is plagued by shortages, dislocation and failure" (Jacoby).

The framework behind *the invisible hand* is possibly the most intriguing part of economics. It is so simple and yet so miraculous. Through my research and analysis, I have developed a vital answer to *the invisible hand* aspect of the Adam Smith problem.

In the interpretations of many scholars, the meaning behind the metaphor, *the invisible hand,* is over- analyzed. *The invisible hand* can be easily defined as the method by which self-interested buyers and sellers interact and exchange goods and services in order to maximize their own gain, which in turn produces unintentional economic well-being for society.

This simple method provides social benefits that far exceed any other possible outcomes for a society.

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— Allgood

"Single low-skilled men face a lower effective real-wage rate than single parents, more likely female, who receive earned-income tax credit (EITC)."

— Keating

by **MARYANN O. KEATING**

One of America's biggest economic problems is the decline in work among men. Among industrialized countries, we have the lowest share of prime-age males working in the labor force — just over 80 percent of those between the ages of 25 and 54 have a job, as compared with 95 percent in the late 1960s.

Reflecting the 2008-2009 recession, unemployment is still 9.3 percent for males, and almost half of the jobless have been out of work for more than six months. Others have dropped out of the labor force, receive disability insurance or are in prison. Almost 35 percent of men age 25-54 with no high-school diploma have no job, up from 10 percent in the late 1960s.

In sheer numbers, male unemployment has increased relative to females in the Great Recession; this is particularly the case in Indiana where male employment dominates in the automobile, manufacturing and construction industries. The declining trend of male participation rates, however, is a separate issue. The pattern of the past four decades suggests a ratchet effect in which the share of poorly educated men in work falls in recessions and fails to recover fully in subsequent expansions.

The Economist reports that based on recent trends 15 percent of prime-age men in the U.S. will not be working when official full employment is realized later in this decade. The fraction of prime-age men receiving Social Security disability benefits, a number supposedly rigidly constrained by health, has tripled from 1970 to 4.7 percent. Federal spending on such benefits amounts to almost one percent of Gross Domestic Product. Marriage rates have also fallen, arguably related to male joblessness.

As of March 2011, the Indiana labor force participation rate for males and females combined is not significantly different from the national average. However, with respect to neighboring states there is a difference. Indiana residents are more likely that those in Kentucky or Michigan and less likely than those in Illinois or Ohio to either have a job or to be seeking one. The U.S. decline of male labor-force participation in recent decades parallels a corresponding decline in male graduation rates. According to a 2006 report from the Business Research Center at Indiana University's Kelley School of Business, males account for just 40 percent of Hoosiers holding bachelor's degrees. In addition, women significantly dominate among Hoosiers who attended college or hold an associate degree. Young women are more likely to graduate from high school than males and this difference persists into in the 25-34 age group, which includes those earning a GED.

It is not the case, therefore, that young men are delaying work to successfully pursue training. Declining male work participation in recent decades has been compensated by rising rates of female participation. However, the issue is not one of male versus female labor participation. Total work force participation by both males and females is undoubtedly coming under closer scrutiny, rightly or wrongly, as the need for tax revenue increases.

Is the decline in the percentage of employed U.S. males due to structural changes in the economy? Men have been harder hit by the decline in labor demand for low-skilled manufacturing work. But this is true in all industrialized countries. In the U.S., however, the decline in male labor-force participation has been more recent. Declining high school and college graduation combined with increasing imprisonment rates explains part of the problem. Additionally, government policy has reinforced decreased incentives to work or hire males.

Getting oneself declared officially disabled is a one-way street to permanent detachment from the world of work. In addition, single low-skilled men face a lower effective real-wage rate than single parents, more likely female, who receive earned-income tax credit (EITC). Child-support payments are necessary, but deducted directly from pay they offer a plausible partial explanation for why non-custodial males avoid paid employment.

There is always the possibility that overall declining male labor-force participation may self-correct. Donald Coffin at Indiana University Northwest studied the unexpected increase of older males in labor participation. Males, ages 55-64, decreased their work participation from 90 percent to 64 percent between 1949 and 1994. Currently, however, 71 percent of men, ages 55-64, remain in the labor force. Your co-worker complaining about having to postpone retirement is not joking.

With respect to younger men, Barack Obama's goal of increasing the percentage of those graduating from high school and college is admirable and may ultimately foster more work. But the link between education and labor-force attachment is not a given. What comes first, the chicken or the egg? Both graduation and labor-participation declines may be indicators of a yet-unknown factor. Hope for an interesting career, tailored to the unique interests and capabilities of the individual and yielding good post-tax income, could offer Hoosier males the best incentive to persist both in educational certification and labor-force participation.

Industry-specific training with employer cooperation seems to be most effective in encouraging low-skilled men to return to the labor market. For younger men, intervention at several stages is necessary to encourage at-risk males to connect with work in the first place. Unfortunately, many men never fully connect with the job market. — *June 15*

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by **ERIC SCHANSBERG**

In this Great Recession, it is sad to travel through this great country and see the ranks of the unemployed crowded with so many youth. I think we can all agree that this is deplorable — and that we should endeavor to find an equitable and efficient method for improving the lives of our young people.

So, I have a proposal: Tuition and books at a public university should be free to all students. Students would attend the public university closest to their home. This would be financed by some combination of local, state and federal taxpayer dollars. And it would be regulated by a similar combination of local, state and federal oversight — university boards, parent-professor associations, state legislators and a new federal program, "No College-Student Left Behind" (NCLB).

Those who want to attend a private university would still have that option. They would pay taxes to support the public universities and then pay private-school expenses on top of that. A wide variety of private schools — some religious, but mostly secular — would be available to satisfy the demand for various niches in the market for higher-education services.

All government loans and grants would be eliminated, since there would no longer be a financial barrier to obtaining a college education. Students could still borrow money from family, friends or banks to pay for education at a private university.

Think about the benefits: First, in the short-term, it would reduce unemployment among young people (and others) by engaging them in another productive endeavor.

Second, education — a wonderful thing — would be freely accessible to all. In the long-term, at the micro-level, we would expect an increase in worker skills, leading to higher pay. At the macro-level, we would expect an increase in human capital and technological advance, leading to more economic growth.

Third, jobs would be created throughout higher education — from administrators to professors to staff. Construction at universities would boom, creating an untold number of jobs in the building trades. Publishers would sell more books; office-furniture makers would sell more desks; computer makers would sell more laptops; and so on.

Of course, one can imagine some of the complaints that would arise.

Private schools would vociferously oppose what they would describe as "unfair" competition, having to operate alongside highly subsidized public schools. But the market they serve is fundamentally different and one might argue that their preferences should not be allowed to supersede the greater public good.

Some taxpayers might complain about higher taxes. But how many would notice the difference? With the costs spread over multiple levels of government and across

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— Bohanon

many taxpayers, the per-tax, per-person costs would be modest. In any case, what's the big deal about those in the middle and upper classes paying additional taxes?

Bureaucrats connected to government grants and loans might lose their jobs. But more bureaucrats would be needed to regulate the growing public-sector efforts in higher education. And those displaced from loans and grants could probably be shuffled to other areas of the education bureaucracy without much impact.

The biggest ruckus would probably be raised by economists. As George Stigler once pointed out, economists are "the premier pourers of cold water on proposals for social improvement," particularly through government activism. Although political supporters and utopian dreamers focus on the benefits of such proposals, an economist would inevitably ask about its (opportunity) costs as well.

The costs? Resources taken from taxpayers would be diverted from efficient uses to the subsidized area. Some people would have money taken from them through taxation — to support an activity that other people would not value enough to devote their own resources.

Proponents of free higher education would point to its positive ripple effects. But the diverted resources would also have negative ripple effects. On net, we would be merely moving resources from one sector of the economy to another. In a grand shell game, jobs would be gained, but more jobs would be lost.

Economists would also wonder about the impact of reduced property rights and ownership. If one doesn't pay for something, he is less likely to take it seriously. This is already a concern since higher education is subsidized significantly by the federal and especially state governments. With even less skin in the game, students would be more likely to treat education casually, reducing its value for all students.

Of course, if you don't like my proposal, then you should also be opposed to our current provision of K-12 education. Elementary and secondary public schools are free and students must attend the government-run school in their neighborhood — unless their parents are wealthy enough to attend private schools or resourceful enough to homeschool. If my proposal is not all that good for young adults, how can it be the policy of choice for children? — *May 25*

Eric Schansberg, Ph.D., an adjunct scholar, teaches economics at Indiana University at New Albany.

by CECIL BOHANON

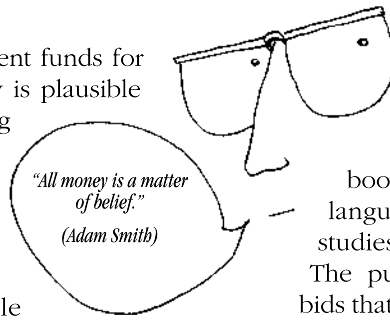
A family has come on hard times. Both mom and dad are unemployed. Although the mortgage is paid-up (for now) and there is enough food in the pantry to last to the end of the month, two service disconnections are scheduled for today. The first is for a cable-television bill of $88 and the second is for a natural-gas bill of $102. The unemployment checks are coming in 10 days but only $122 is available.

Dad walks downtown to pay the gas bill. He sees a poster about a government program that helps unemployed families with their "essential" utility bills. He enters the government office, provides the necessary identification and fills out the required paperwork. The agency issues a check payable to the gas company for $102. Overjoyed, he immediately surrenders the check to the gas company and promptly pays the $88 cable bill.

Is the government program paying the heating bill? Well, yes. However, it is not outrageous to note that its effect frees up other resources so as to keep the cable service on. The government dollars are what economists call fungible. Payments to beneficiaries directed to support one activity facilitate other activities.

A women's health organization provides both routine healthcare services and abortion services to low-income households. Client fees are subsidized by private donations and government funds. Government checks are never used to pay for abortion procedures but it is plausible that government funding for medical services frees up other resources available to the organization to provide more abortions.

A church runs a food pantry and an evangelical program to save lost souls. The church is supported by private donations but also receives government funds for its food pantry. It certainly is plausible that government funding for the food pantry frees up other resources to the organization to expand its evangelical outreach.



So are government dollars keeping the cable TV on, promoting abortion and funding sectarian religion? Or do they keep the furnace on, provide health services and feed the hungry?

You make the call, but this pesky economist reminds you to be consistent. You cannot have it both ways.

And yet, both conventional conservatives and progressives do want it both ways: Government dollars directed to my causes do not support controversial activities, while government dollars directed to your causes most certainly do. — *March 23*

Cecil Bohanon, Ph.D., an adjunct scholar, teaches economics at Ball State University.

by **ANDREA NEAL**

School Superintendent Tony Bennett wasn't exaggerating when he declared, "From top to bottom, it's a new world for Indiana schools." Even textbooks won't look the same.

House Bill 1429, which passed the House 80-11 and the Senate 40-9, didn't get the attention that went to vouchers, charter schools or teacher performance pay. But it has potential to change the way teachers teach and students learn.

For starters, it redefines what a textbook is. As of July 1, the word "textbook" in the Indiana code will refer not just to books but also computer hardware, software and digital content.

Also, the statewide textbook-adoption process will end for all but reading instructional texts. Local schools will have flexibility to choose their own textbooks or none at all. And they can use the same books for as long as they wish – as long as they continue to meet academic standards. Current law requires new books every six years.

For more than half a century, textbook adoption in Indiana has been a cumbersome process requiring publishers to produce free samples of books in core subjects like language arts, math, social studies, science and health. The publishers submit sealed bids that guarantee prices over a six-year cycle. Books are made available for a public comment period before an advisory committee recommends up to seven books in a subject area. The local districts conduct their own review of the state-approved books before making a final selection.

In 2009, the State Board of Education began expressing reservations about the quality of textbooks it was endorsing. It granted school corporations a "blanket waiver" that allowed them to use Internet resources in place of textbooks and to select their own teaching materials. HB 1429 puts that change into state law.

This reform was a long time coming.

As far back as 1989, research concluded that statewide adoption failed to achieve its two main goals: ensuring quality of books from district to district and holding down costs through high-volume sales. On the contrary, an unrestricted marketplace in which prices are determined by supply, demand and competition would be cheaper than a system of state-imposed price controls, said the report by Michael A. Tulley.

With textbook adoption under local control, small and online publishing houses will have a better shot of showing and selling their materials to schools. Teachers will be encouraged to write their own texts and a plethora of free online curricula will have a level playing field with big publishing firms.

The measure will encourage schools to replace books with new technology like the Kindle, but the choice of hardware is a cosmetic one. The real reform involves the content choice, which classroom teachers are in the best position to judge and will now have more power to influence. — *May 11*

Andra Neal, an adjunct scholar and columnist for the foundation, teaches at St. Richard's Episcopal School in Indianapolis.

"(Textbook reform), which passed the House 80-11 and the Senate 40-9, didn't get the attention that went to vouchers, charter schools or teacher performance pay. But it has potential to change the way teachers teach and students learn."

— Neal

DOES THE ISTA HAVE A CASE?


T. Craig Ladwig is editor of the journal.

An intense argument waged this last legislative session in the letters columns of Indiana newspapers between the head of the Indiana State Teachers Association (ISTA) and Jim Banks, a GOP state senator from Columbia City. One man thought the other man's estimate of the cost of teacher unionization was wrong.

The two sides, though, were not equally credible. The position of the senator was straightforward and politically courageous, *i.e.*, a powerful private entity, the teachers union, is destructive and should be disbanded.

On the other side, the position of the ISTA, inarguably self-interested, was reactive, *i.e.,* the opposing position is "absurd."

If King Solomon were sitting on his throne, he would first want to see the evidence of the more self-interested party. But there was nothing substantive in a union letter to Indiana newspaper editors, only the assumption that supporting a teachers union is the same thing as supporting classroom learning — that and attacks on any source providing information damaging to the union's interests.

As a rule, the union pretends that any criticism of the education system is criticism of every individual teacher. No discernment is allowed, you see, when one is "fighting for the kids."

Specious arguments put aside, we were left with a pile of evidence on the senator's side of the table. It began with the simple logic that if the union does not provide significantly higher salary and benefits (costs) it could not justify its existence. Increasing costs, like it or not, is its business.

The question, then, was not whether public-sector unionization costs but whether the cost was a value to the general public.

It is a good question, an open question and one that should be fully debated this next session. It is a question, though, that the ISTA will likely dodge.

There is a reason for that. In a related article, one that the union's supporters denigrated but could not refute, Tad Dehaven, a former deputy director of the Indiana Budget Office, made this distinction:

> The attempt (by a government union) to make common cause with 'working men and women' is as repulsive as it is backward; employee compensation accounts for half of the money state and local governments spend each year. That money is taken from working men and women in the form of income, sales, property and a multitude of other levies on the private sector.

DeHaven went on to make these points:

- In 2009, hourly compensation (wages plus benefits) for the average state and local government employee, including teachers, was 45 percent higher than the private-sector average.
- For retirement benefits, it is 90 percent for government workers versus 67 percent for private-sector workers; life insurance is 80 percent versus 59 percent; paid sick leave is 89 percent versus 67 percent.
- Defined-benefit pensions are offered to about 80 percent of government workers versus 20 percent in the private sector.
- In regard to job security, consider that layoffs and discharges for government workers occur at just one-third the rate of the private sector.
- And it is not because government workers are hard pressed; they are three times less likely to quit than workers in the private sector.

Finally, I have in front of me an algebraic formula constructed by Chris Edwards for his article in the Cato Journal, "Public-Sector Unions and the Rising Costs of Employee Compensation."

The formula compares the costs in compensation for those states with unionized teachers and for those states without. Even though a full-page long, the formula does not include other spending distortions (construction mandates, licensing requirements, pensions, etc.) that result from a union's influence at a state house. Nonetheless, it shows that public-school patrons pay a premium of more than eight percent for teacher unionization.

So next session if Indiana taxpayers are to be convinced that union activities constitute an education bargain, the ISTA will want to put forward its own numbers in an equally believable equation.

Senator Banks has proved this much already: The union can no longer win the argument by hiding its special interest behind our common desire to support teachers and their students. — *March 4*

> We may envision an Olympian perfection of perfect beings in Washington doing the business of their employers, the people, but any of us who has ever been at a zoning meeting with our property at stake is aware of the urge to cut through all the pernicious bullshit and go straight to firearms.
>
> *— The playwright David Mamet, "Why I Am no Longer a Brain-Dead Liberal" (http://www.villagevoice.com/news/0811,374064,374064,1.html last viewed June 13, 2011)*

The Star's 'Do-Good Tear-Jerker'

It cannot have escaped notice that virtually all recent media and publishing scandals have involved advocacy journalism's unquestioning acceptance of the "do-good tear-jerker." This is the type of story so moving, profound or romantic it is in fact too good to be true.

Such a story is *the Indianapolis Star's* wildly applauded campaign to "save the kindergartners" — a rescue to be accomplished with $150 million that the governor found in the last minutes of the legislative session. He will use it to help pay for full-day kindergarten classes, a program to be discussed more fully below.

First, a review of the new journalism:

• The uber-example of the do-good tear-jerker is Janet Cooke's gripping 1980 profile for *the Washington Post* of the life of an eight-year-old heroin addict. Her article, "Jimmy's World," won the Pulitzer Prize on the nomination of none other than *Post* Assistant Managing Editor Bob Woodward. A group of my former colleagues at the competing *Washington Times* liked to gather obnoxiously each spring on Pulitzer day in mock celebration of Jimmy's birthday "had he lived."

• Then there is Tawana Brawley of Wappinger, New York, who retracted her much-publicized story about being held in the woods for days and raped by six racists, including police officers.

• Or there is Crystal Gail Mangum, the hard-working North Carolina lap dancer (recently charged with stabbing her boyfriend to death). Her story of being molested by the Duke lacrosse team was accepted on its face not only by the local and national media but by an unquestioning university administration and a district attorney, subsequently disbarred.

• And this week we read that the charity to which Barack Obama gave a good part of his Nobel Prize money is something less than claimed. Its founder seemingly invented the story that has served as the group's money-raising inspiration, his promise to a darling Himalayan girl that he would build schools throughout the region.

Where are the gimlet-eyed news editors who would spike these too-pat stories before they damage the readership?

Not at *the Indianapolis Star,* certainly, where advocacy journalism has held sway in recent years. There, a columnist on the news pages, Matt Tully, has built a classic do-good tear-jerker around the supposedly desperate plight of Hoosier kindergartners. Here is the columnist in a full-throated delivery worthy of little Jimmy himself:

> Twenty years from now, full-day kindergarten will be as accepted and obvious a part of Indiana education as first grade. More children will have graduated who were helped by a boost early in their lives. Student achievement likely will have improved. This move, I hope, also will have paved the way for investments in pre-K programs. Politically, this is almost an indisputable victory — a rare feat. The public and the data are on (the governor's) side.

Yes, if only it were true.

Lisa Snell, an education expert for the Reason Foundation, may wish that improving early learning were as simple as *the Star* says it is. She cites report after report, however, showing that the research is at best mixed. Indeed, the great number of studies show that full-day kindergarten affords only a modest academic edge over half-day kindergarten when measured at the end of the year, and that any small initial advantage disappears by third grade. In most cases, it would seem, small children are better off at home spending that time with their parents. Let Ms. Snell explain:

> One of the studies looked at 1,830 kindergartners in a large urban school district in Indiana and then analyzed their third-grade test scores on the ISTEP in math and language. In that case, researchers found 'evidence that the differences between full- and half-day students are negligible.' Negligible? Not exactly the results you want to hear when you are considering spending $280 million a year.

This is representative of a large body of evidence that *the Star* editors should either accept or refute, not simply ignore. And their contesting evidence needs to be more than mere anecdote and journalese — that is, we need to see peer-reviewed studies of sufficient size and longitude to justify a multimillion annual taxpayer-financed program.

Tully and *the Star's* response to date is that such proof is "widely available" online. But the experts whom we trust can't find it, and Mr. Tully indicates he is too busy to gather it for us.

In any case, the tone of his responses suggests we are wasting his time, his critics being either ignorant, selfish, lazy or disingenuous. So another newspaper buys into yet another do-good tear-jerker, one compelling enough to tug at taxpayer heart strings even now. It is a story, though, unlikely to produce any actual good for those who most need help — even as it rewarded a powerful public-education lobby to the momentary benefit of a favorite son's presidential ambition. — *April 17*

Subscription Anyone?

"WE DO IT (journalism) to pay the bills, as did our friends. But mostly we do it because we feel it's important, and because we will never concede defeat to those rat bastards at corporate headquarters."

— Robert King, the Indianapolis Star's "religion and philanthropy" reporter and the president of the Indianapolis Newspaper Guild. He was quoted in the June 24 Indianapolis Business Journal following Gannett's decision to lay off 81 employees at his newspaper.

Q. What Are Your Legislative Priorities?

With what promises to be a firm hold on the governor's office and strong majorities in both houses, the Indiana Republican Party is under some pressure to produce. We asked our members and correspondents to rank a set of issues by their importance to Indiana. One respondent suggests that the results serve as a "check list" for the next administration as well as the legislative leadership. *(One-hundred six members opened the email invitation with 36 completing the survey for a 33 percent response rate; the survey was conducted by SurveyGizmo June 16 to June 25.)*

REASSERT INDIANA'S SOVEREIGNTY BY OPPOSING FEDERAL INTRUSION (201)

LOWER THE COST OF DOING BUSINESS IN INDIANA (187)

REVERSE THE RISE IN THE COST OF STATE GOVERNMENT (180)

GIVE HOOSIER WORKERS THE RIGHT TO JOIN A UNION OR NOT JOIN A UNION (176)

BRING INTO LINE BENEFITS OFFERED TO STATE PUBLIC EMPLOYEES WITH THOSE OFFERED IN THE PRIVATE SECTOR (158)

PROHIBIT PUBLIC EMPLOYEES FROM ENGAGING IN POLITICAL ACTIVITIES WHILE ON THE JOB (126)

LIMIT LAWSUIT ABUSE WITH A "LOSER PAYS" PROVISION (117)

RESTORE CHECKS AND BALANCES BETWEEN BRANCHES OF STATE GOVERNMENT (102)

** Score (in paranthesis) is a weighted calculation. Items ranked first are valued higher than the following ranks, the score is the sum of all weighted rank counts.*

People who know about opinion surveys don't think much of ours. The sample is inherently biased and so small as to be little more than a focus group. The questions, sometimes confusing, are casually worded and transparently drive at one point or another. That said, we have learned to trust our members and eagerly await their opinions on this and that.

THE DESTINIES OF THOSE WHO SIGNED

Emanuel Gottlieb Leutze, oil on canvas, 1851

Thomas Hoepker, photograph, Sept. 11, 2001

From an essay on the signers of the Declaration of Independence by Rush H. Limbaugh Jr., distributed by the Federalist Magazine

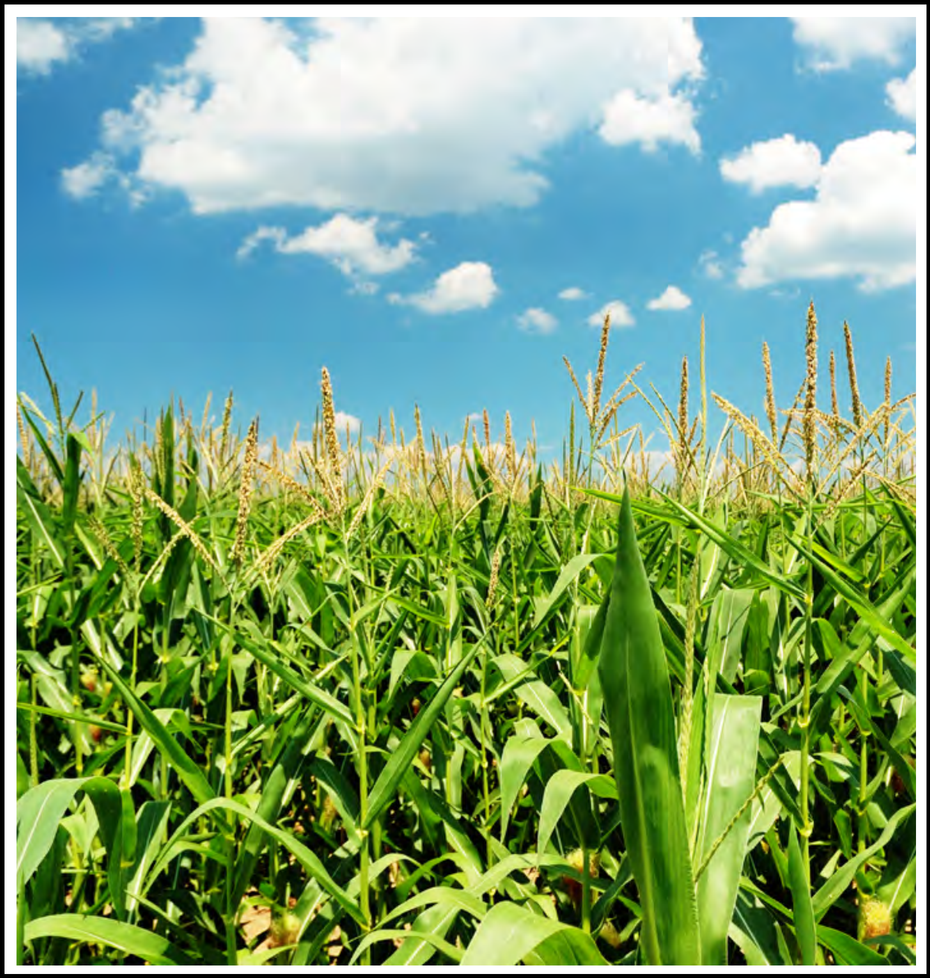
• **Francis Lewis** — A New York delegate saw his home plundered and his estates, in what is now Harlem, completely destroyed by British soldiers. Mrs. Lewis was captured and treated with great brutality. She died from the effects of her abuse. • **William Floyd** — Another New York delegate, he was able to escape with his wife and children across Long Island Sound to Connecticut, where they lived as refugees without income for seven years. When they came home, they found a devastated ruin. • **Phillips Livingstone** — Had all his great holdings in New York confiscated and his family driven out of their home. Livingstone died in 1778 still working in Congress for the cause. • **Louis Morris** — The fourth New York delegate saw all his timber, crops and livestock taken. For seven years he was barred from his home and family. • **John Hart** — From New Jersey, he risked his life to return home to see his dying wife. Hessian soldiers rode after him, and he escaped in the woods. While his wife lay on her deathbed, the soldiers ruined his farm and wrecked his homestead. Hart, 65, slept in caves and woods as he was hunted across the countryside. • **Dr. John Witherspoon** — He was president of the College of New Jersey, later called Princeton. The British occupied the town of Princeton, and billeted troops in the college. They trampled and burned the finest college library in the country. • **Judge Richard Stockton** — Another New Jersey delegate signer, he had rushed back to his estate in an effort to evacuate his wife and children. The family found refuge with friends, but a sympathizer betrayed them. Judge Stockton was pulled from bed in the night and brutally beaten by the arresting soldiers. Thrown into a common jail, he was deliberately starved. • **Robert Morris** — A merchant prince of Philadelphia, delegate and signer, raised arms and provisions which made it possible for Washington to cross the Delaware at Trenton. In the process he lost 150 ships at sea, bleeding his own fortune and credit dry. • **George Clymer** — A Pennsylvania signer, he escaped with his family from their home, but their property was completely destroyed by the British in the Germantown and Brandywine campaigns. • **Dr. Benjamin Rush** — Also from Pennsylvania, he was forced to flee to Maryland. As a heroic surgeon with the army, Rush had several narrow escapes. • **William Ellery** — A Rhode Island delegate, he saw his property and home burned to the ground. • **Edward Rutledge •Arthur Middleton • Thomas Heyward Jr.** — These three South Carolina signers were taken by the British in the siege of Charleston and carried as prisoners of war to St. Augustine, Fla. • **Thomas Nelson** — A signer of Virginia, he was at the front in command of the Virginia military forces. With British General Charles Cornwallis in Yorktown, fire from 70 heavy American guns began to destroy Yorktown piece by piece. Lord Cornwallis and his staff moved their headquarters into Nelson's palatial home. While American cannonballs were making a shambles of the town, the house of Governor Nelson remained untouched. Nelson turned in rage to the American gunners and asked, "Why do you spare my home?" They replied, "Sir, out of respect to you." Nelson cried, "Give me the cannon!" and fired on his magnificent home himself, smashing it to bits. But Nelson's sacrifice was not quite over. He had raised $2 million for the Revolutionary cause by pledging his own estates. When the loans came due, a newer peacetime Congress refused to honor them, and Nelson's property was forfeited. He was never reimbursed. He died, impoverished, a few years later at the age of 50. • **Abraham Clark** — He gave two sons to the officer corps in the Revolutionary Army. They were captured and sent to the infamous British prison hulk afloat in New York harbor known as the hell ship "Jersey," where 11,000 American captives were to die. The younger Clarks were treated with a special brutality because of their father. One was put in solitary and given no food. With the end almost in sight, with the war almost won, no one could have blamed Abraham Clark for acceding to the British request when they offered him his sons' lives if he would recant and come out for the king and parliament. The utter despair in this man's heart, the anguish in his very soul, must reach out to each one of us down through 200 years with his answer: "No."

Please Join Us

In these trying times, those states with local governments in command of the broadest range of policy options will be the states that prosper. We owe it to coming generations to make sure that Indiana is one of them. Because the foundation does not employ professional fundraisers, we need your help in these ways:

• **ANNUAL DONATIONS** are fully tax deductible: individuals ($50) or corporations ($250) or the amount you consider appropriate to the mission and the task ahead. Our mailing address is PO Box 5166, Fort Wayne, IN 46895 (your envelope and stamp are appreciated). You also can join at the website, http://www.inpolicy.org, using your credit card or the PayPal system. Be sure to include your e-mail address as the journal and newsletters are delivered in digital format.

• **BEQUESTS** are free of estate tax and can substantially reduce the amount of your assets claimed by the government. You can give future support by including the following words in your will: "I give, devise and bequeath to the Indiana Policy Review Foundation *(insert our address and amount being given here)* to be used to support its mission." A bequest can be a specific dollar amount, a specific piece of property, a percentage of an estate or all or part of the residue of an estate. You also can name the foundation as a contingency beneficiary in the event someone named in your will no longer is living.



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please contact editor@indianapolicy.org.

INDIANA POLICY review

An Indiana Journal of Classical Liberal Research and Opinion
Observing its 22nd Year