INDIANA POLICY

Review

Summer 2016

Mom and Pop Economics: Liberty, Expertise and Our Values

Entrepreneurs trying to create or expand small businesses, our chief job creators, are hard pressed to overcome regulations, cultural shifts and global trade laws.

"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."

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A FUTURE THAT WORKS

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- Recognize that equality of opportunity is sacrificed in pursuit of equality of results.

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The Tuesday Lunch

by ERIC SCHANSBERG, Ph.D.

The author, an adjunct scholar of the foundation, is professor of economics at Indiana University Southeast.

(May 2) — To have consumption, we must have production. We can produce our own stuff, but most of us aren't good at a Robinson Crusoe approach to life. So we usually produce a few things, in areas where we have a "comparative advantage," and engage in trade with others who do likewise. When all of us work where we have skills, we win and society wins — tremendously.

But usually, we don't work alone and then engage in trade. We work together in groups — often, large groups — to produce goods and services. Why do we do this? Did you ever think about why businesses exist at all? Economists point to three primary reasons.

First, different risk preferences will lead some people to value the (relative) security of employment. If 99 of 100 workers are risk-averse, they would happily work for the 100th and let him deal with the greater risks (and the potential big bucks) of ownership and entrepreneurship.

Second, bringing levels of production together often reduces "transaction costs" — the cost of making trades happen. If we're all in the same building and trying to operate by the same mission, our costs of transportation and communication should be much lower.

Third, "economies of scale" can occur with larger production. For a variety of reasons, the average cost of production often decreases when you produce more. To note, it's usually lower-cost to produce seventy units one — than to produce one unit 70 times.

To encourage business, there is a role for government. For example, the government enforces contracts and protects the property rights of business owners and employees. Without these functions, the incentives to engage in productive activity — inside or outside of a firm — are greatly reduced.

Government also provides a regulatory function in contexts where markets struggle. For example, because we don't have enforceable private property rights for air and much of our water, firms have an incentive to throw their pollution onto these common resources. As such, government should protect common resources with effective regulation. Unfortunately, the government also uses regulations to make it more difficult for businesses to participate in a market. The regulations are useful as restrictions, in an effort to enhance monopoly power for cronies who want higher profits and don't want to compete as much. In "The Triumph of Conservatism," Gabriel Kolko argued that the legislative agenda of the Progressive Era was quite useful for enhancing the monopoly power of those connected to political power.

But with both types of regulation, government necessarily creates additional costs for businesses — as they adhere to the regulations. Back to our point about "economies of scale": Uniform regulations generally provide an advantage to larger firms, since they are in a stronger position to absorb these costs. As such, regulation typically encourages the formation of larger businesses and the reduction of small businesses.

A key exception: Lawmakers often seek to mitigate this problem by exempting smaller firms from certain regulations. For example, the Affordable Care Act only applies to businesses with 50 or more employees. But this is troubling for at least two reasons.

First, the exemptions indicate that the regulation is not really all that important. (If it were so important, we'd mandate it for everybody.)

Second, the cutoff is arbitrary. Even if this regulation is good policy, the chosen number is certainly not revealed from on high.

As with most public policies that expand the reach of government, the benefits of enhanced regulation are obvious while its costs are larger but far more subtle. We can see the benefits of mandated labeling on food, but its costs are absorbed into prices. Smaller firms will tend to be driven out of business.

We can see the jobs saved by international trade restrictions, but the higher prices and the greater job losses are far more subtle. We can see the problems presented by unlicensed hair braiders and peanut farmers, but the costs of licensing are more insidious.

Economists are fond of discussing the tradeoffs in personal choices, business decisions, and public policy. But in the case of regulation, it's certainly troubling that the costs are so subtle. And it's worrisome that regulation tends to cause so much more trouble for small business.

If Indiana wants to promote standards of living, then less regulation is generally preferable — to protect small business, to enhance business and to encourage competitive markets that will please workers and consumers.

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Liberty, Expertise and Our Values

Entrepreneurs are hard pressed to overcome regulations, cultural shifts and global trade laws to create or expand their businesses.

by MARYANN O. KEATING, Ph.D.

The author, a resident of South Bend and an adjunct scholar of the foundation, is co-author of "Microeconomics for Public Managers," Wiley/Blackwell.

(May 1) — In 1776, privates in the Continental Army expected to be treated as gentlemen, and they resigned if the terms of their contract were not honored. This concept of liberty differed from the practice of social exclusiveness in New England, hierarchical status in Virginia and the individual autonomy of back-country settlers (Fischer, 28). Following a disastrous New York campaign, however, American officials realized that the War of Independence required a way of reconciling freedom with the realities of government and the need for tax revenue with the pandering by politicians to prejudices.

The improvised solution strongly affirmed the principle of civilian control over the military but granted to generals power limited in scope to direct the war. After the War of Independence, similar ideas spread to many American institutions, including business corporations, colleges, religious congregations, voluntary associations, the free press and public organization of many kinds. This became the model for American liberty — separation of powers and rule of law (Fischer, 370). As was the experience of Washington and his generals, each generation has to relearn the lessons of liberty.

The plurality of expertise in distinct realms is a hallmark of the American system. Government officials are expected to maintain the rule of law and provide domestic and international security. The tendency towards corruption is openly acknowledged and abated only by separation of powers, the right to assemble, a free press and periodic elections. For example, the military is changed with protection from international threats. However, we fully acknowledge a tendency of the military industrial complex to overspend and, therefore, insist on congressional oversight and an elected President as Commander in Chief. Similarly, free enterprise is recognized as the most effective means of getting food to the table, clothes on our backs and, in general, providing us with other goods and services. Yet, firms engage in crony capitalism and lobby government for special advantages. The liberty that each realm enjoys in exercising their responsibilities requires vigilance, a willingness to tolerate risk and a correction of course when particular interests take precedence to principles and justice.

Given liberty to assume risk and bear the consequences of personal decisions, Americans are expected to maintain a willingness to make tradeoffs and cooperate implicitly and explicitly whenever necessary. This order breaks down when certain individuals or groups are perceived as protected and not playing by the rules. Selected protected people are viewed as credentialed, financially secure, taken care of and having greater access to power.

Whenever these advantaged people operate from a base within government, they create public policies under which the unprotected are forced to live. Ordinary people believe that certain individuals on the Hill in Washington, in the European Union and as members of the oligarchy in developing countries are able to insulate themselves personally from the consequences of their decisions. Yet, such decisions also adversely affect those for whom elected representatives pledged to act in trust. Protected individuals, having lost any particular national allegiance, make decisions, rule on labor and financial markets and issue regulations governing people with limited resources and negligible access to power (Noonan).

A democratic republic cannot ignore the economic well-being of those in all walks of life. In the long run, those who believe that their interests are no longer protected withdraw by lowering their tolerance for taxes,

Table 1: Top 10 and Lowest 10 Scoring Countries on the 2016 Index of Economic Freedom by Rank

The Most Free	The Least Free
1.Hong Kong	169. Argentina
2. Singapore	170. Equatorial Guinea
3. New Zealand	171. Iran
4. Switzerland	172. Rep. of Congo
5. Australia	173. Eritrea
6. Canada	174. Turkmenistan
7. Chile	175. Zimbabwe
8. Ireland	176. Venezuela
9. Estonia	177. Cuba
10. United Kingdom	178. North Korea

reduce their work effort, shun risk, shield income in the underground economy and entertain ineffective nationalistic policies.

Unfortunately, long-discredited minimum-wage laws, over-regulation of business and isolationist policies actually work to advance the interests of protected individuals here as they have in Argentina and elsewhere wherever the protected ones are allowed to set policy for personal advantage.

The goal is to maintain liberty for ordinary firms and people such that they can pursue their economic goals and expertise in a way consistent with overall American priorities and principles of justice. The questions to be addressed are: Can openness to the global economy be pursued in a manner consistent with U.S. national interests without disadvantaging ordinary people? Does the quest for security and a disinclination to accept personal risk represent a change in American character or merely a response to institutional and legal constraints? Can government maintain the rule of law and regulate without inhibiting private investment, job creation and personal initiative? The answer to all three questions is yes but only if those elected fully understand what liberty entails, vigorously pursue an agenda consistent with U.S. national interests and are willing to accept political risk for the sake of principles.

When National Interest and Global Trade Were in General Agreement

Following the protectionist policies of the Great Depression and trade disruptions caused by World War II, the General Agreement on Tariffs and Trade (GATT) was signed by 23 nations in 1947. GATT established a rules-based world trading system that facilitated the movement of goods and services across national borders by reducing tariffs and other barriers. This agreement was extremely successful; it achieved mutually advantageous tariff reductions, product by product, through several multilateral rounds of negotiations. GATT evolved into the World Trade Organization in 1993.

Prior to each round of GATT negotiations, the United States determined national priorities for tariff reductions with specific countries for certain products; once a pair of country reached an agreement, the new lower negotiated rates were extended to all signatory nations. The ultimate goal was to expand world trade in general. All of this was done idealistically on the principle that the world trading system should be based on rules rather than outcomes advantaging or disadvantaging particular domestic industries. Consider the implications for all GATT countries if the United States negotiated reduced tariffs on guano fertilizers coming into the U.S. from Peru in return for tariff reductions into Peru of U.S. tractors. All GATT members, operating under the most-favored-nation principles, were expected to abide by the negotiated reduced tariffs on guano and tractors.

Free trade in agricultural products was generally off limits in GATT rounds, it being blocked by powerful domestic interest groups and political sensitivity. However, GATT was enormously successful in reducing tariffs, increasing international trade and increasing living standards around the world. Early success, of course, was due to the types of goods then moving across national borders, namely made-here-sold-there products. By the

Table 2: Exploring the 2016 Index of Economic Freedom Data for North America

Country	Overall Score	Property Rights	Freedom From Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
Canada	78.0	90.0	81.0	80.0	50.4	81.8	72.6	76.9	87.0	80.0	80.0
Mexico	65.2	50.0	35.0	74.9	76.4	70.7	58.2	77.4	79.2	70.0	60.0
United States	75.4	80.0	74.0	65.6	54.7	84.7	91.4	77.0	87.0	70.0	70.0

time the World Trade Organization (WTO) evolved from GATT, a new type of international commerce was developing, the offshoring of production to low-wage nations and supply-chain technology. Tariffs mattered less; international economics became more about the protection of investments and intellectual property and the two-way flow of goods, services, investment and people (Baldwin, 96). WTO remains a factor, but new rules for international production networks, or "global value chains," are increasingly determined by overlapping regional agreements such as the European Union (EU), the North American Free Trade Association (NAFTA), the Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP) (Baldwin, 97).

Free-trade economists who participated in GATT negotiations delighted in seeing the principle of comparative advantage applied on the world stage. They were able to observe fresh produce, well-constructed garments, better automobiles, etc., improving the living standards of ordinary people around the world. However, these economists were fully aware that economic factors were not the main driver of post-World War II international cooperation. The geo-strategic objective, with a compliant political climate in the United States and elsewhere, was to rebuild Europe and foster economic development in Asia, Latin America and Africa to act as a bulwark in fighting the Cold War.

"The global economic clock cannot be turned back, but there is no reason that it cannot beat in time with national priorities."

Present Tension Between National Sovereignty and Global Economic Openness

At question, presently, is the extent to which openness to the international economy affects national sovereignty, the migration of workers, the return to labor and ownership rights. Free-trade economists realize that international trade results in domestic disruptions and an uneven distribution of costs and benefits. Therefore, in a democracy, a consensus is required along with a consistent geo-political strategy.

The global economic clock cannot be turned back, but there is no reason that it cannot beat in time with national priorities in a way that is fair to those who do not consider themselves part of the global elite.

In February, the Heritage Foundation and the Wall Street Journal released their 2016 Index of Economic Freedom. Launched in 1995, the Index evaluates countries in four broad policy areas that affect economic freedom: rule of law; limited government; regulatory efficiency; and open markets. There are 10 specific categories: property rights, freedom from corruption, fiscal freedom, government spending, business freedom, labor freedom, monetary freedom, trade freedom, investment freedom and financial freedom. Scores in these categories are averaged to create an overall score for economic freedom in a given country.

It is simplistic to believe that a country's position on the Index indicates the quality of life enjoyed by residents there. However, it is impossible to ignore, given the few examples presented in Table 1 above, that "free" or "mostly free" countries, as represented by the Index enjoy higher incomes than all other countries.

The assumption of those creating the Index is that nations with higher degrees of economic freedom prosper because they capitalize more fully on the ability of the market to generate and reinforce dynamic growth through efficient resource allocation, value creation and innovation.

The creators of the Index conclude: Countries supporting some version of free-market economics, efficient regulation and the free flow of goods, services and capital, generate improvements in living standards. This may be more the case for relatively poorer countries.

The United States in 2016 moved up one slot on the index to be ranked No. 11 globally. At the same time, the U.S. total score dipped a fraction of a point to 75.4, its lowest score in Index history. Scores in labor freedom, business freedom and fiscal freedom suffered notable drops. Decreased openness to the international economy may or may not be contrary to the strategic geo-political interest of the United States. Otherwise, it is a concern that the Land of the Free is losing ground comparatively in terms of economic freedom.

Economic isolationism leads inevitably to a real decline in present overall living standards and long-term economic growth. A related issue should also be addressed: Does this loss of liberty reflect a legitimate kick-back from groups adversely affected by openness or merely a misguided response to populist politicians? A study of sub-categories scores for just three North American countries, presented in Table 2, destroys any illusion that global business environments are similar:

Property Rights — Secure property rights give citizens the confidence to undertake entrepreneurial activity, save their income and make long-term plans because they know that their income, savings and property (both real and intellectual) are safe from unfair expropriation or theft. A key aspect of property rights protection is the enforcement of contracts. The voluntary undertaking of contractual obligations is the foundation of the market system and the basis for economic specialization, gains from commercial exchange and trade among nations. If we accept the Index as valid, in Canada and to a lesser extent in the U.S., private property is guaranteed by government. The court system enforces contracts efficiently with some delays. Corruption is minimal, and expropriation is unlikely. Mexico's lower score, in contrast, indicates that other branches of government can influence judicial decisions.

Corruption — Often a direct result of the government's concentration of economic or political power, corruption manifests itself in forms such as bribery, extortion, nepotism, cronyism, patronage, embezzlement and graft. By imposing numerous burdensome barriers to conducting business, including regulatory red tape and high transaction costs, a government can incentivize bribery and encourage illegitimate market interactions. Working in the informal or shadow economy, sometime referred to as working "under the table," is considered as contributing to corruption because unreported wage earnings evade taxes and, if legitimate, are subject to taxation. Latin America and the Caribbean have tended to have large "shadow" economies relative to formal economies (41.1 percent). The relative size of informal shadow economies to formal economies is lowest among the High Income OECD (Organization for Economic Cooperation and Development) countries (17.1 percent). The larger size of Mexico's shadow economy contributes to its lower score in this category (Miller and Kim, Chapter 4).

Fiscal Freedom — In addition to direct taxes on personal and corporate income, governments impose indirect taxes such as payroll, sales and excise taxes, as well as tariffs and the value-added tax (VAT). In the Index of Economic Freedom, the overall tax burden is captured by measuring taxation as a percentage of total gross domestic product (GDP). Note that the low score for Fiscal Freedom in the U.S. indicates that the overall tax burden here is high compared to Canada and Mexico.

Government Spending — All increases in government spending, financed by higher taxation and debt, entails an opportunity cost. This cost is the private consumption and investment that *would have occurred* had the resources involved been left in the private sector. High levels of public debt accumulated through irresponsible government spending undermine economic freedom and inhibit entrepreneurial growth. The Freedom Index does not make any attempt to identify an optimal level of government spending. The scale for scoring government spending is non-linear such that government spending that exceed 30 percent of GDP leads to much worse scores in a quadratic fashion (for example, doubling spending yields four times less freedom). Entitlements in the form of social security payments, tax remittances for earned income, unemployment compensation, etc., adversely affect scores for more developed countries such as Canada and the United States. Low income but fast growing countries such as Mexico or China lack comprehensive income maintenance programs for the poor and elderly.

Labor Freedom — Labor restrictions include wage controls, laws on hiring and firing, scheduling, overtime, etc. Rigid labor regulations prevent employers and employees from freely negotiating changes in terms and conditions of work, resulting in a mismatch between people who desperately seek work and employers who would be willing to hire them given fewer constraints. A 2007 study of occupational licensing restrictions within the United States estimated their cost at between $34.8 billion and $41.7 billion per year; the study notes that these restraints decreased the rate of job growth by an average of 20 percent. Because the percentage of the American workforce subject to occupational licensing has risen since 2007, it is likely that these welfare costs have risen significantly (Miller and Kim, Chapter 5). The labor freedom score considers the ratio of minimum wage to average value added per worker, hindrances to hiring additional workers, rigidity of hours, difficulties in firing redundant employees, legally mandated notice of job termination and mandatory severance pay. Businesses in the U.S. presently have considerably more freedom to control working conditions, hiring and firing, than do Canadian or Mexican companies.

Investment Freedom — When individuals and companies are free to choose where and how to invest, investment funds flow into sectors and activities where they are most needed and returns are greatest. Furthermore, consider the cost to consumers in baring low-cost carriers from competing in certain air transport routes. For example, allowing one more competitor to enter the Mexican air transport sector led to a 40 percent reduction in airfares (Miller and Kim, Chapter 5). The Index evaluates a variety of regulatory restrictions that typically are imposed on investment. From the ideal score of 100, points are deducted for granting preference to domestic versus foreign investment, restrictions on land use and capital and foreign exchange controls. The U.S. loses points for restrictions on foreign owned ships carrying oil between ports in the United States as well as regulations in transporting internationally sourced products through pipelines and on highways.

Financial Freedom — Banking and financial regulation that goes beyond the assurance of transparency and honesty in financial markets impede efficiency, increase the costs of financing entrepreneurial activity and limit competition. State action limiting or redirecting the flow of capital to politically preferred projects is an imposition on the freedom on firms seeking low-cost investment funds and savers seeking higher returns. As compared with Canada, credit allocation in the United States is more likely to be influenced by government, and foreign financial institutions are subject to greater restrictions. As compared with the U.S., the Mexican government is likely to exercise greater control over financial institutions and hold a significant share of overall assets (Miller and Kim, Methodology).

"Perhaps, it will require a crisis, such as a generation of displaced and alienated youths, to bring about such needed reform."

Qualifying Free Trade

Admittedly, the Index of Economic Freedom is market-oriented. It views ease in dismissing an employee as desirable, but fails to consider the contractual burden on workers (Carson). Critics of the Index have a valid concern about its overall usefulness in determining quality of life and public choice preferences.

However, there is economic value to labor-market flexibility associated with the freedom of employers to hire and dismiss workers, and social value for workers to be given the freedom to compete on the basis of compensation, to exit from undesirable situations anticipating employment elsewhere. Culture, institutions, and politics determine the position of a country on the Index of Economic Freedom.

If the legal, political and economics experts were consistently able to identify the best course and consistently implement best policies and practices, we would not need a democracy. As it is, each of us has to form our own opinions, assess personal priorities in hope that the political process addresses our concerns. Consider how any given free-market economist might address some of the many conflicts between individual freedoms and government protections with respect to global matters.

The default position for a free-market economist, holding American values, is that residents in a particular country should be free to purchase goods and services and invest in global markets without restrictions. A responsible citizen, however, realizes that such liberties at times and in certain situations may not be in the geo-political interest of the nation. Economists are acutely aware that any deviations from freedom, however, burdens households in general in optimizing their present and future standard of living.

Note that a free-market American economist does not suggest that U.S. government operate strategically in terms of the economic interest of American firms and their employees; the government is more of a referee than a coach advocating for a particular team. The dilemma, of course, is when trading partners are perceived as putting American households, firms and workers at a competitive disadvantage. For example, after a U.S. challenge with the World Trade Organization, China agreed to end a subsidy program benefiting seven of its industries, including textile and seafood exports. Countries often choose to operate strategically in terms of their domestic economic interests contrary to agreements made bilaterally or through the World Trade Organization (WTO).

Amidst calls for domestic protection, some free-market economists insist that in spite of the uneven playing field unilateral free trade and investment policies be followed. Do not confuse their position with that of international jet-setters who abandon any official role in the protection of national interests. However, it is not clear whether the recommendations of a free-market economist to ignore the restrictive policies of our trading partners follow from professional considerations or deeply held principles on liberty.

It is almost impossible to separate restrictive trade policies from political corruption. In addition, efforts by government to stimulate exports tend not to be cost effective in terms of tax dollars per job created. Therefore, troubling to our proverbial American free-market economist is the realization that any tilt away from open global markets serves the interest of certain sub-groups at home. In these cases, not only does the overall economic standard of American households decline but certain domestic workers, firms and industries are given an advantage over others.

Restrictive international economic policies have squandered the resources of countries, such as Argentina, Brazil and Venezuela, and relegated a majority of their residents to decades of poverty. At the same time, advantages accrue to their oligopolistic and bureaucratic elites. The solution is openness, at least in the economic realm, monitored by a free press and responsible officials willing to assess the inevitable tradeoffs between security and freedom as represented by the political will of the people. The U.S. ranks high in terms of economic freedom, but to assess the political will of Americans to remain there requires looking at the direction of domestic policies.

Pivoting Away from Freedom in General towards Freedom from Risk

In 1776, American leaders believed that it was not enough to win the war, but they also had to win independence in a way that was consistent with the values of their society and the principles of their cause (Fischer, 375). By doing so, Washington won over Americans from all regions of the country, plus Hessians who choose to remain after the war, and Tory prisoners. Current policy tradeoffs, dealing with immigration, entitlements, national debt, tax flight, the hollowing out of manufacturing, the decline in business formation and work participation, must be addressed. Reconciliation is possible if traditional U.S. principles dominate in safeguarding the interests of firms and individuals to pursue their goals. However, political will is required. Otherwise, the allure of control and personal security will dominate the traditional liberty to control one's destiny and assume risk. This will result in increasing the role of government in every aspect of American life, including the freedom to expand a business or seek work on one's own terms.

U.S. society, as compared with other areas of the world, has traditionally valued entrepreneurial behaviors, such as risk taking and independent thinking. Cultures that reward such behavior tend to be prosperous and innovative. Entrepreneurship is growth oriented and generates employment and the growth of small businesses (Hayton, George and Zahra, 33). The relationship between entrepreneurship and living standards fascinates economists, cultural anthropologists and policy makers.

One stream of research on entrepreneurship focuses on the impact of national culture on per capita output and new businesses created. Another, attempts to identify the characteristics of individual entrepreneurs. A third research stream compares corporate structure in different countries as affected by national culture. In general, researchers have determined that entrepreneurship is facilitated by cultures with persons who score high in individualism, are willing to accept risk, have flat versus hierarchical organizations and favor controlled versus collaborative decision making (Hayton, 34).

National culture is thought to either influence the characteristics of individuals to create a potential supply of entrepreneurs or to offer a supportive environment for new businesses. It is also the case that different types of entrepreneurial structures evolve mirroring cultural priorities. For example, survey respondents from Australia, Great Britain and the United States and Finland appear to be more motivated by financial returns; whereas, those from China, Italy, Puerto Rico and Portugal were more likely to value family/community enterprises (Hayton, 41).

To some extent this entrepreneurial research falls into a tautology trap: cultural values predict the presence of or lack of entrepreneurial activity in a country and vice versa. We must not ignore, however, one significant finding of this research showing that specific cultural dimensions are not stable over time (Hayton, 35). This suggests that a society may change and cease to value and be motivated by things traditionally associated with entrepreneurship such as the need for esteem, wealth and personal independence.

The American Founders did not have "capitalism" in mind when they created a system for governance. Rather, they did envision a "system of freedom" in which ordinary people could seek employment, acquire skills and make a living (Arkes). The optimal policy strikes a balance between regulations designed to protect employees and consumers and the distortions caused by disincentives to earning a living. For ordinary people earning a living mowing lawns, driving cabs and running laundries

Table 3: Distribution of Private Sector Firms by Employee Size Class, March 2015

Establishment Size by Number of Employees	Employees (in Thousands)	Shares (%)	Cumulative Share (%)
1-19	4,403	86.32	
20-49	405	7.99	94.91
50-99	132	2.60	97.51

Source: U.S. Department of Labor www.bls.gov/bdm/bdmfirmsize.htm requires freedom from onerous regulations making it harder to find employment or initiate a business. New regulations making it more difficult for people to support their families should be tested in the same demanding way as laws supporting any other freedom, such as free speech (Arkes). A proclamation issued by Louis XIV in 1776 and written by Finance Minister Turgot vindicated the “natural right” of ordinary people to make their living at ordinary work, not a royal privilege purchased from or certified by the state. This does not suggest sweeping away all food, drug and other safety measures, but rather advocates for more stringent justification for any law or regulation limiting the ability to earn a living and freedom to start and grow a business.

One wonders why there has not been a nonviolent popular pushback to the erosion of freedom in the ability to negotiate apprenticeships or to accept a low paying but convenient and acceptable job. Why haven’t parents advocated for their non-academically inclined teens to have the freedom to work out mutually advantageous employment contracts to learn skills leading to high paying jobs? Why haven’t employers been free from legal penalties in offering salaries in terms of skill level? The answer may very well be that firms are unable, unwilling and unlikely to determine expertise and pay for it. That is why competitive labor markets are as important as competitive product markets. Perhaps, it will require a crisis, such as a generation of displaced and alienated youths, to bring about such needed reforms. However, presently across all students surveyed for the Forbes 2016 Index of Best Undergraduate Schools of Business, merely 2.5 percent of graduates went to on to work in start-up firms and 2.2 percent planned to start their own business as a primary job. In any case, universities are offering courses on entrepreneurship and students are familiar with the concept, at least on an intellectual level. Evidently, business undergraduates prefer to envision themselves in large global businesses, preferably high tech, capable of providing themselves with salaries sufficient to live the good life and pay off student loans.

By default, many undergraduate business majors end up working in smaller firms offering a steady stream of convenient and low cost consumer services such as coffee shops, micro-breweries, home delivery, cleaning services, etc. The U.S. is fortunate, to the chagrin of a more curmudgeonly generation and the delight of international visitors, to have a younger generation well trained in and attuned to customer service. It is not clear, however, if the American public, in general, remain open to independently directed mid-sized firms producing whatever the market demands and financially rewarding private owners and workers willing to accept what economists refer to as the “disutility of the workplace.” This term refers to the grittiness associated with work as compared with a more idealized and controlled vision of private business.

Government Policy, Firm Expansion and Employment

In 1953, Congress, created the Small Business Administration (SBA), to "aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns." By 1954, SBA was making and guaranteeing loans to small businesses and assisting them in natural disasters and with procurement of government contracts. By 1958, the Small Business Investment Company (SBIC) Program regulated and helped provide funds for privately owned and operated venture capital investment firms. In 1964, SBA began to attack poverty through the Equal Opportunity Loan (EOL) Program by relaxing credit requirements for smaller businesses. Then, the Office of the National Ombudsman was created to assist small businesses facing unfair or excessive regulation.

Is government attention to small business a reflection of American values? Or is it rather that given their sheer numbers smaller firms have been able to exert political pressure? In either case, there is no denying the important role of small businesses in employment. Table 3 indicates that private establishment with 50 employees or less account for almost 95 percent of total private firm employment.

Advocacy within government for small firms and farms reveals how Americans have attempted to incarnate and sustain a particular way of life. However, there is an economic cost if these incentives lead to a rejection of mid-sized firms producing products and services needed and enjoyed. A study by economists at the Institute for the Study of Labor (IZA) in Germany addresses the issue of job flows and firm size in several countries.

The IZA study began with the obvious assumption that average firm size and the flow of jobs is related to the technological requirements of industries dominant within a country; optimal automobile plant size differs from artisan craft shops. Nevertheless, the study found that regulations affecting start-up costs, bankruptcy procedures and employment protective legislation decrease labor mobility and affect firm size. Labor reallocations harm affected workers and labor protection legislation can reduce this pain, but dynamic flows of labor between firms and industries remains important in promoting productivity growth.

Countries with extensive employee protections show reduced firm and job turnover, adjusted for industry type and firm size. These countries also show less ability to adjust wages in response to shocks such as recessions (Haltiwanger et al., 4). Larger firms entering or existing an

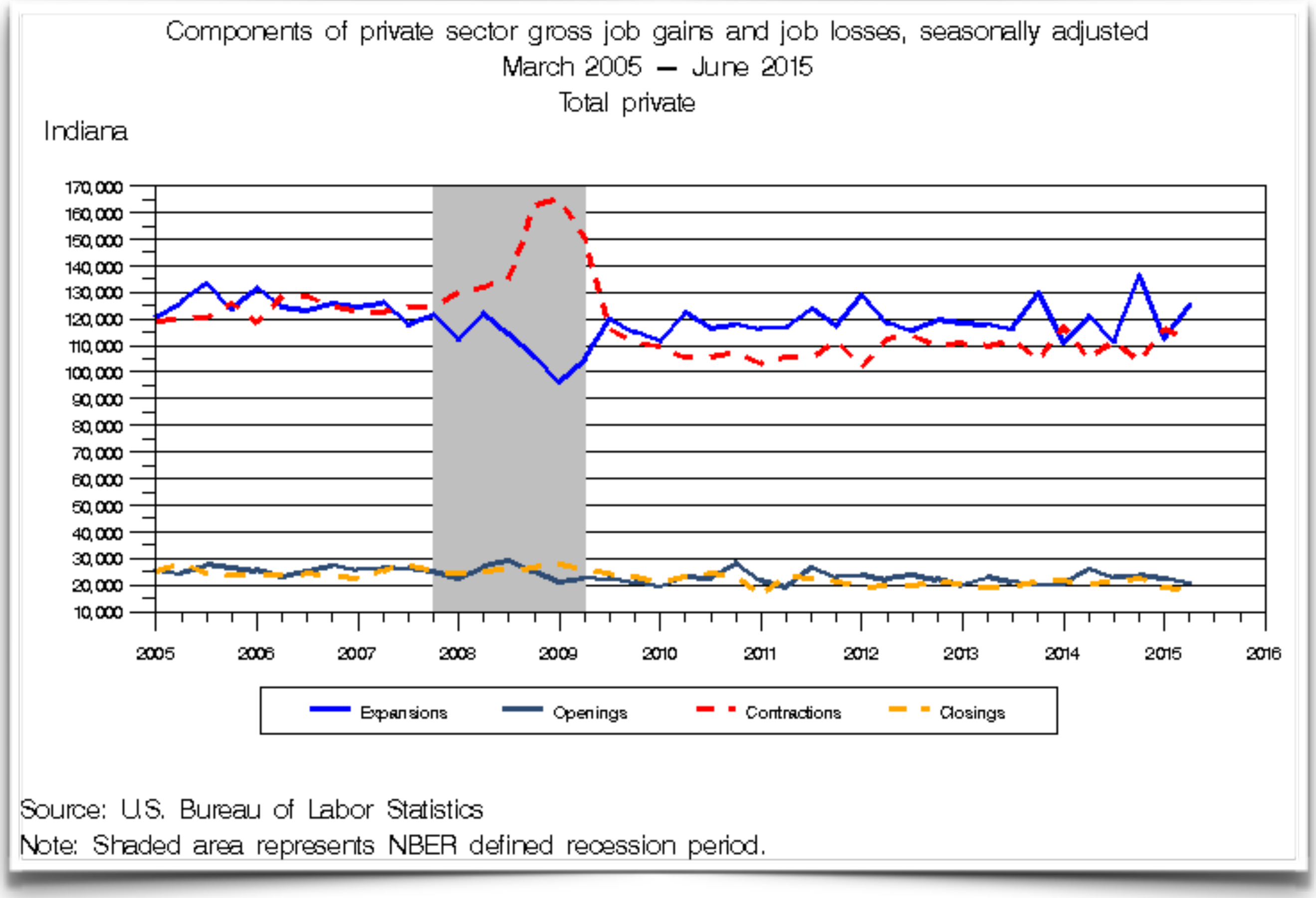

Illustration 1: Indiana total job gains and loses in all industries and in entering and exiting firms from the first quarter of 2005 to second quarter of 2015, seasonally adjusted.

industry are more likely to be affected by product market regulations than labor protections. On the other hand, employee regulations strongly affect small and medium-sized firms (ibid. 5). As expected, regulatory effects are muted in countries where market and labor regulations exist but are not enforced (ibid. 6).

For most countries studied, opening and closing businesses account for about 30-40 percent of total job flows with small and large firms responsible for most of the flow (ibid. 10). Job flows between firms are part and parcel of the creative destruction process as technology and consumer tastes change; however, an unfavorable institutions environment will cause this process to stagnate (ibid. 17).

Job flow dynamics are not just an esoteric theoretical concern. They demonstrate the priority granting a firm's freedom to grow and add new employees in line with its particular expertise. Consider Illustration 1 for private non-government employment in Indiana over a 10 year period. The vertical axis represents the seasonally adjusted numbers of jobs gained by quarter in a given year and the number of jobs lost. On the same axis are the number of jobs created by new firms entering the market and jobs lost through firms exiting. Illustration 1 shows how the Great Recession shocked Indiana's labor market and was followed by a slow recovery. Unfortunately, there is no upward trend in employment for Indiana as a whole throughout this period. Fortunately, however, the loss in jobs due to firms exiting is offset closely by firms entering.

Sample data by state is available for the number of private establishments entering and exiting the market (U.S. Dept. of Labor, Table 9). Dividing employees by establishments gives us a sense of the average number of jobs associated with each new firms and the average number of jobs lost by each exiting firm. For Indiana, from 1993 through 2015, there is some indication that employees per new firm is decreasing from approximately 7 to 4, but workers per exiting firm is neither increasing or decreasing. What needs to be consider is whether or not firms are increasingly reluctant to expand the number employed beyond a certain level.

It is encouraging to note that Indiana's business environment is dynamic enough to offset firms leaving with those entering. However, these tend to be smaller firms exempted from, or staying below, the tax-regulatory radar screen. Larger firms respond in other ways such as inverting their headquarters and production abroad. It is worthwhile to consider how the brunt of regulation is carried by mid-sized firms and their employees. Detailed data on firm size is available from the U.S. Census Bureau's Survey of Business Owners for years ending in 2 or 7 (SBA Office of Advocacy). It is difficult to draw conclusions from available data for 2011 on firm size due to slow recovery from The Great Recession. However, as of 2011, total Indiana employment had not reached 1998 levels neither for firms in general nor for firms in 20-99 and 100-499 employee categories. Employees per firm within categories remained fairly constant from 1998 through 2011, but it is the case that, given this sample, the percentage of total Indiana employment in firms with 20-99 workers declined.

"Freedom is reflected in the ease in starting, operating and closing a business. Does this principle continue to be consistent with American values?"

Lost Opportunities and Hope for the Future of Mid-Sized Firms

Is it the case that technology and industry expertise no longer determine firm size? Are employment decisions too onerous such that mid-level firms target a maximum number of employees or simply exit the market? If so, how and where will the next generation of trade persons, technicians and managers acquire skills and learn what it takes to maintain a business? In order not to succumb to the pessimism implied in these questions, a few examples underline our concern but offer the possibility of change.

A minor government measure affecting traditional American responsibilities, such as who is responsible for trash and lawn care, has the potential of wreaking havoc on the supply of rental properties. Consider a government measure that at first seems reasonable, but in effect makes private property owners accountable for tenants' behavior. The measure, proposed by the South Bend Indiana Common Council, is to create a landlord registry with the goal of being able to contract owners quickly and directly whenever municipal codes are violated. Property owners, presently on record for tax purposes, generally provide renters with a copy of the code. If a tenant does not comply with code, the only option for an owner is to file for the tenant's eviction, something that landlords are reluctant to do and judges are unlikely ever to do (Weaver). If code enforcement, housing officials and the police are not willing to address legal and municipal code violations, not to mention immigration status, directly with occupants, rental units will decreases, rents will rise and more properties are likely to be abandoned.

On the Federal level, full compliance with the Affordable Care and Medical Leave Acts is dependent on a firm's employee numbers. Presently under review, affecting franchises, is how employees per establishment are calculated with respect to ownership levels. Consider another seemingly benign regulation targeting firms by size to compete form EEO-1 with 140 data points.

The Equal Employment Opportunity Commission (EEOC) has a plan to change this form to encompass 3,360 data points. Companies with 100 or more workers would be required to report on employees by 14 different gender/race/ethnicity groups, within 12 pay bands and 10 occupational categories. In addition, the companies will have to report the number of hours worked per employee- even for salaried staff, whose hours are generally not tracked. Multi-plant firms will have to complete separate forms for each location with more than 50 employees. Companies with between 50 and 99 workers would retain the current form, and those with fewer than 50 would be exempt. This costly regulations gives government agencies increased oversight of employee compensation and extends this information to competitors (Furchtgott-Roth).

Presently, a complex web of firms and groups opposes regulatory reform and the elimination of special-interest tax subsidies. It is increasingly difficult to hide these concessions as the majority of Americans no longer pay Federal income taxes and states become frustrated in their attempts to increase tax revenue and lower income-dependent government welfare benefits. Proposed solutions in the form of consumption taxes could only increase the ability of officials to direct funds and workers towards favored industries.

Nevertheless, a pro-liberty majority may still exist and there is reason for hope. Consider corporate lawyers' push back against plaintiffs' lawyers and class-action lawsuits. In the early phase of such litigation, a pretrial process called "discovery" requires parties to exchange documents and other evidence related to their dispute. In filing cases against businesses, large scale discovery requests are made for "relevant" documentation and evidence. Compliance raises the cost of doing business and encourages out-of-court settlements, suggesting that legal disputes are decided on the economic pressure one party can bring to bear on another. Lawyers for Civil Justice a lobbying groups representing major U.S. companies celebrate a recent ruling by the Supreme Court Judicial Conference indicating that discovery requests be "proportional to the needs of the case" (Palazzolo and Bravin).

Is this new ruling pro-business and anti-consumer or does it reflect underlying principles of U.S. Justice? One hopes that it is the latter and that it represents one step in restoring U.S. competitiveness. Intimidating investigations, with the risk of lawsuits, are more than most firms can afford or choose to endure. Firms close and jobs are lost due to compliance costs. The tragedy are the companies, products, services and jobs that would have been created in a more conducive environment.

Conclusion

Prioritizing U.S. geopolitical interests, economic policy and measures designed to alleviate personal distress requires trade-offs. Consistent policies, based on the expertise of separate disciplines, need to be formulated and pursued. In a democracy, such as the United States, policy decisions require an on-going consensus of the public with respect to national security, government debt, immigration, international trade and investment and the regulation of private firms. The costs and benefits of global policy harmonization is a national issue not one of soft cosmopolitanism.

Internally, the burdens resulting from economic policy tradeoffs are more easily carried if they are based on American principles with respect to individual liberties. The cultural dimensions of principles governing private entrepreneurial activity are not stable over time.

For example, large numbers of college graduates do not presently aspire to freedoms associated with private sector creativity and ownership, either because they have limited association with such enterprises or they are not willing to assume the associated risk. On a positive note, the dynamics required of a vibrant economy continues in certain sectors of the U.S. economy.

Small firm formation is actively encouraged and subsidized by the U.S. government but the regulatory environment may be impeding employment and expansion of mid-sized firms. The disincentives are subtle such as increasing compliance costs, the threat of litigation, or onerous regulations regarding employment.

This is not a justification or plea for government advocacy and special concessions for mid-sized firms. Such measures are corrupting as demonstrated by resource rich countries that have failed to develop economically. If economic and employment growth are valued, regulations increasing costs should neither target firms by size nor respond to special interests.

Freedom is reflected in the ease in starting, operating and closing a business. Does this principle continue to be consistent with Hoosier or American values?

Does there exist a significant number of people willing to assume risk and accept the personal costs of upholding this principle?

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Mom-and-Pop Economics

The freedom to risk your own money on your own business is not mere entrepreneurship. It requires "irrational optimism," the distinguishing mark of our civilization.

by RYAN CUMMINS

The author, an adjunct scholar of the foundation and an owner of the Apple House, a family business, is the former chairman of the appropriation committee of the Terre Haute Common Council. The foundation staff contributed to his report.

(April 15) — When my father started a business it was a grocery store. It grew into a city-wide family retail operation with four locations in our hometown of Terre Haute. That was so even though across the street from his first store was a much bigger store selling many of the same things, some of it cheaper. My father, you see, was the personification of what I call "irrational optimism," a characteristic of the now endangered American small-business owner, one that we would do well to examine more carefully.

The store across the street was owned and operated by the Great Atlantic & Pacific Tea Company (A&P), a widely held corporation that until 1965 was the world's largest retailer. A&P commanded a percentage of the market that makes the business plan of Walmart look timid. My father was undaunted. He slugged it out with A&P for years, constantly changing his merchandise mix, pricing, physical layout, marketing, suppliers and more.

I was a witness to the hours and sacrifices he made to deliver better value for his customers than the competition. This article is too short and his stories are too long to go into here, but he survived and prospered. A&P no longer exists in Terre Haute. I am proud to say that our family business just finished another in a long series of customer-focused expansions spanning not just years but generations.

It was my father's work and example that allowed me and my brother to make these most recent improvements, the chance to remain in business in this difficult economic climate. More than that, it is what indirectly started other businesses in my town. Irrational optimism is a good thing.

So please accept "mom and pop" and the iconic two-story grocery store as my metaphor for the yearning for liberty and self-reliance that inspires the owners of all small businesses.

But do not confuse that with being your own boss. The customer is the boss. The motivation for owning your own business is the opportunity to create your own destiny, to live your life based on your own efforts, to enjoy the rewards and suffer the consequences of your own decisions.

We are losing that opportunity, you know, losing the freedom to be irrationally optimistic like my father. For even before this presidential administration took office, the number of new businesses was headed for a statistical cliff. (See Chart I.1)

In 2010, the most recent records available for this classification, the nation recorded the fewest new businesses since the Bureau of Labor Statistics had been keeping track — from 4.1 million in 1994 to 2.5 million 15 years later. Also for the first time, more businesses began to die each year (470,000) than were being born (400,000).[2,3]

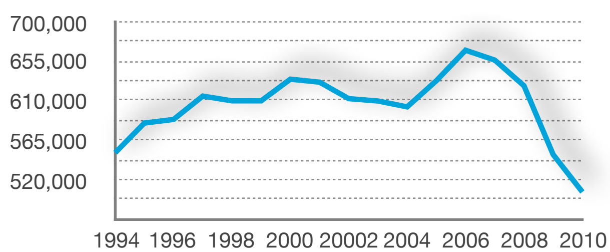
Moreover, fewer businesses are surviving from year to year. Nor is there a healthy "churn" of businesses, i.e., new businesses forming and old businesses retiring. Consequently, the number of new jobs created by new businesses has been in decline since the 1990s, again the sharpest since this type of record has been kept.[4]

Finally, small businesses, those that typically are the entry point for entrepreneurs as they develop ideas and build a customer base, are in utter distress. Of the nine size classes measured by the Bureau of Labor Statistics, the six smallest (249 employees or smaller) have seen their shares of private-sector employment decrease since the early 1990s, while the three largest size classes (250 or more employees) have seen their shares of total employment increase.[5]

Dr. Maryann O. Keating, writing elsewhere in this journal, expresses concern that the regulatory environment is destroying mid-sized firms and employment. She notes that as of 2011, total Indiana employment had not reached 1998 levels neither for firms in general nor for firms in 20-99 and 100-499 employee categories. The disincentives for starting a business are subtle, she warns, such as increasing compliance costs, the threat of litigation or onerous regulations regarding employment.

"Freedom is reflected in the ease in starting, operating and closing a business," Dr. Keating concludes. "Does this principle continue to be consistent with Hoosier and American values? Does there exist a significant number of people willing to assume risk and accept the personal costs of upholding this principle?"[6]

Chart I: Number of Establishments Less than 1 Year Old



In Indiana, business startups generally moved in tandem with closings until about 2000. It was then that closings began to exceed startups for the first time. The numbers are erratic from there on, with startups spiking in 2005, 2007 and 2011 and closings hitting a peak in 2009. The latest data show both startups and closings declining as a pattern of stagnation sets in.[7]

An incidental development being monitored by Mike Hicks, director of the Center for Business and Economic Research at Ball State University, is the decline in what amounts to a way of life, a topic to be taken up later in this essay. Rural Indiana communities, exactly those cities and towns disproportionally dependent on small businesses, are fading. From a recent report by the center:

> "In last month's population report (March), the number of shrinking Indiana counties rose to 54, and those growing faster than the nation as a whole rose to 14. That left 24 counties in relative decline. All the growth is happening in urban places, and all the decline is in rural or small-town Indiana. It has been this way for half a century, but the pace is accelerating. This population redistribution matters deeply for Indiana's health through the 21st century."[8]

Finally, small- and midsize-business owners in Indiana are losing confidence. So says even the predictably boosterish Indianapolis Star. A PNC Bank report in late March found a declining percentage of small-business owners expecting to hire, raise wages and generate greater profits during the next six months. The bank surveyed 151 small-business owners across the state.[9]

The 'Third Factor'

Government intrusion can be thought of as the third factor in any business endeavor, the others being productivity and competition. It has greatly increased its influence since my father's time. Certain Indiana small businesses dependent on national industries are faring particularly bad in this regard. (*See Chart II.*[10])

The Federal Regulation and State Enterprise (FRASE) index is a ratio of the impact of federal regulations on a specific state's industries to the impact of federal regulations on the nation's industries in a given year. For Indiana, the index grew by 74 percent from 1997 to 2013. That is the largest percentage adverse impact of any state during that time.[11]

Two major contributors to that rating are regulations in the second- and third-largest industries of our state: 1) chemical products manufacturing; and 2) motor vehicles, bodies and trailers and parts manufacturing. The authors of the FRASE index note that the Environmental Protection Agency (EPA) is the top regulator of the motor vehicles, bodies and trailers and parts manufacturing industry with 20,615 restrictions, or more than 50 percent of the total number of restrictions relevant to that industry.

That makes the EPA a major contributor to Indiana's 4th-place FRASE ranking as one of the most adversely regulated states. The recently announced moves of Carrier Air Condition and Ford Motor Company plants to Mexico cannot be dismissed as unrelated.[12]

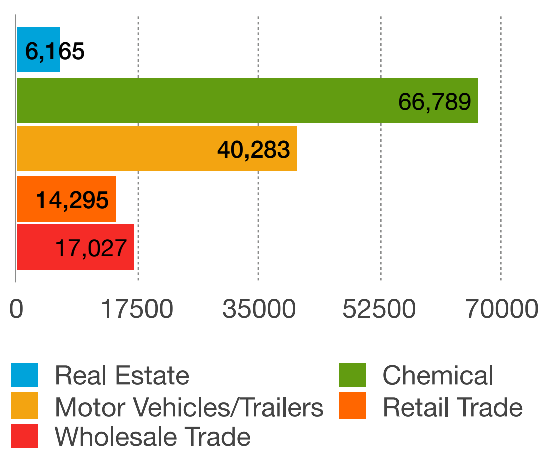
It is true that the needle of the FRASE index is moved primarily by regulations on large businesses, but let me tell you how government intrusion affects smaller businesses. It is one thing to work to deliver value to the customer. It is quite another to try to do this and deal with government rules, regulations, taxes and threats at the same time.

Whatever your viewpoint, it is inarguable that dealing with those regulations can be enough to prevent some from ever going into business in the first place and for others to prematurely close otherwise viable, established businesses. Those events never show up on the statistical charts, i.e., the owner of a longtime hometown business liquidating because he can make as much money sitting on a beach on the Gulf tracking less regulated and taxed investments. Who keeps track of those kitchen-table decisions that a family savings would be better used buying a lake home than starting that business dad has dreamed about?

A member of this foundation owns a small restaurant in an outstate town. He came to work one morning to find an agent of Homeland Security waiting at his door — drove all the way from Indianapolis. The Homeland Security agent (don't ask what this has to do with homeland security) was there to inspect the fire-extinguishing system above the grill, a system that was operating perfectly.

It was the wrong kind. Some lawmaker, perhaps unknowing, but likely at the urging of lobbyists for a pertinent industry, had prompted a regulatory change. The new "safer" system could cost our friend close to $6,000 — a sum large enough to threaten the continuation of his particular business. It takes a lot of lunches to make that amount of money at a 1-3 percent profit margin.

Chart II: Number of Federal Restrictions for the Top 5 Indiana Industries



Federal regulations containing the restricting words "shall," "must" or "required" printed in the Code of Federal Regulations increased from 850,000 in 1997 to nearly a million by 2010. A team of researchers at George Mason University looked at this type of government-induced business crisis. They found that the political explanation for such regulation is dubious and the costs both grave and unspoken, i.e., the creation of barriers that prohibit low-income earners from joining in the American dream.[13]

"The main rationale for these regulations is to ensure quality and to protect the health and safety of consumers," these researchers said. "However, the quality of service either doesn't change or even deteriorates."

More recent research found that if regulation had been held constant at levels observed in 1980, the U.S. economy would have been about 25 percent larger than it actually was as of 2012. This means that in 2012, the economy was $4 trillion smaller than it would have been in the absence of regulatory growth since 1980, all of which amounts to a loss of approximately $13,000 per capita.[14] In Indiana, there are more than 400 different professional/business licenses, permits, certifications and other permissions, required to engage in most commercial activities including common construction, attending your neighbors' children in your home, calling an auction, cutting hairs, applying facial makeup, designing home interiors, therapy massaging, athletic training and the fitting of hearing aids.

Their licensure, not to mention the myriad attendant regulations and zoning laws, have been legislatively declared absolutely essential to your health and safety. What is lacking, though, is a system of reality checking for those regulations, an issue I will take up later in this essay.

Finally, there is regulation's effect on income equality, a seemingly bipartisan goal these days. There the George Mason researchers have more discouraging news. They found that increases of even one standard deviation in the number of steps necessary to legally open a business is associated with a 1.5 percent increase in income inequality and a 5.6 percent increase in the share of income going to the top 10 percent of earners.[15] So the rich do get richer and the poorer poorer, but not without government help.

Economic "Development"

Our friend's restaurant, sad to say, is a common story. Municipal zoning laws, parking requirements, signage codes, licensing laws, assessments, property taxes, and other fees imposed by local government on business are tough to deal with. And the state brings another round of special taxation in numerous ordinary and extraordinary forms, employment rules, hiring, retention and termination regulations, building codes, reporting requirements, tax remittance deadlines, record-keeping policies and more, all of which owners must adhere. I can't estimate the high costs imposed by the federal government, as roughly measured by the FRASE index, or the costs of complying with them.

And it is this last cost that threatens the profit margins of even the most carefully run small businesses. Something as simple as answering a question on employment law can quickly involve expenses reaching into thousands of dollars. And the burden is not just the cost of the dollars, while significant, in dealing with all levels of government regulations. It is the cost in time that a small-business owner is forced to spend in comply.

My parents, the owners of our family business before we purchased it from them, had to spend thousands of dollars and well over a hundred hours of their time, mine and my brother's time, to establish a plan to deal with federal and state inheritance tax. That included paying new taxes generated by the sale of the business, legally ensuring that "arms-length" transaction rules were observed and so forth. This was all money and time taken away from the business that produced no additional value for our customers.

The time would have better been used to analyze and purchase the best new forklift to purchase or which type of greenhouse would be the best choice for the business and its customers. This would have added value to the services and products we offer to our customers.

Instead, it went to attorneys, accountants, financial advisors with a sizable chunk going straight to the government. Again, with no value added. I suppose some might point to the employment of those attorneys, accountants, and bureaucrats as some sort of value. For a more thorough understanding, however, I recommend Frederic Bastiat's classic "The Broken Window Fallacy."[16]

Another classic journalist on economics, Henry Hazlitt, writing in his million-copy bestselling, "Economics in One Lesson," observed that, "Government assistance to business is as much to be feared as government regulation of business."[17] Any list of the burdens placed on small business is incomplete without that caution, without a warning against the ironically named economic "development."

How can that be, that government economic-development bureaucrats are as much or more of a threat to business than even government regulation? Simply put, because this gives bureaucrats, backed by the legitimate use of force that is the essence of the state, the power to pick winners and losers. It would be hard to create a more corrupting or damaging scenario for the entrepreneurial business owner.

It is in this specific process, i.e., a bureaucrat or politician picking "winners," that all others in business are automatically made "losers." Their profits, be they fat or slim, will be confiscated by force and turned over to the "winner." Again, turn to Hazlitt:

> "The government spenders forget they are taking money from 'A' in order to pay it to 'B.' Or rather, they know this very well; but while they dilate upon all the benefits of the process to 'B,' and all the wonderful things he will have which he would not have had if the money had not been transferred to him, they forget the effects of the transaction on 'A.' 'B' is seen; 'A' is forgotten."

"It is hard enough to stay in business and turn a profit. It's a damn site harder when your government forces you to subsidize the competition."

The Corner Grocery: A Way of Life or a Banality

Like A&P before it, Walmart is a large, multi-national corporation with good profits and a large market share. Everything I sell is sold by Walmart. Everything that many small retail businesses sell — from grocery stores to florists to hardware stores to clothing stores — is sold by Walmart. But the smaller owners stay in business competing against Walmart because they believe they can deliver better value to their customers — at a profit, every day.

Enter the government economic-development bureaucrats. Things change.

Most Hoosiers have never heard of the Indiana Skills Enhancement Fund. It is supported by a tax levied on the payroll of all businesses, including every one of those competitors of Walmart. Here is how it works: When Walmart opened a new distribution center in Gas City, the Indiana Economic Development Corporation (IEDC) gave the company several hundred thousand dollars from the Skills Enhancement Fund to be used to train employees at the new facility.

I've always admired the accomplishments of Sam Walton in building his business, but I think he might be ashamed to see his company, with the sordid cooperation of bureaucrats and politicians, becoming a welfare queen. In any case, I object to having my money, and the money of hundreds of other Walmart competitors, forcibly taken and given to this multi-national competitor.

In letters to then-Gov. Mitch Daniels, my state senator, my state representative, and the IEDC, I argued that I pay to train my own employees and I needed the money they confiscated to do just that.

I only received one response, an explanation from someone on the governor's staff that essentially said, "There, there, small-business owner, you just don't understand how economic development is actually accomplished."

But I and all other Indiana businessmen *do* understand. It is "accomplished" in hundreds of different statist schemes to the detriment of those who are actually producing and selling products or services.

In sum, it is hard enough to stay in business and turn a profit. It's a damn site harder when your government forces you to subsidize the competition. And it adds insult to injury when it is supposedly free-market, property rights-respecting Republicans doing the damage.

Lost Opportunities, Government "Shops"

Some of us don't like the sound of all that — or any of it — and our concern has to do with a healthy republic rather than anything capitalistic. "I don't want to sound like a doomsayer, but when small and medium-sized businesses are dying faster than they're being born, so is free enterprise dying," says Jim Clifton, chairman of Gallup, earlier this year. "And when free enterprise dies, America dies with it."

Clifton says there are 6 million operating businesses in the United States with one or more employees. Of those, 18,000 have 500 employees or more, including about a thousand with 10,000 employees or more. Another 900,000 have 100 to 500 employees. The rest are what we call small- and medium-sized businesses, many of them of the mom-and-pop variety, that is, not so much businesses as ways of life.[18]

And that is what we are talking about here — business ownership as an American way of life. A banality? Perhaps, but members of this next generation are deprived of the option of setting out on their own, building an enterprise with youth, energy and character.

In talking with friends that are small-business owners, they seem to share a common trait. It is the aforementioned "irrational optimism," the idea that where others have failed or deliver a lesser quality, they can solve the tough problems and succeed. They all believe they can deliver value to the customer better than the competition.

Running your own businesses is not for everyone, to be sure. Opening a dry-cleaning shop, once a common aspiration for young business-minded couples, has become an impossible challenge, as Jonathan Adler detailed in a classic paper for the Cato Institute.[19] But there is a trade-off. Owning an American business operating under the laws of a constitutional republic is the closest thing to classically defined liberty afforded a common man, and that is true for all of history. Read the testimony of the German, Irish, Chinese, Indian, Mexican and other immigrants to America over the last 150 years.

So why isn't our government alarmed about a dramatic drop in this marker, however minimalist, of the American character? The chairman of Gallup again:

> "My hunch is that no one talks about the birth and death rates of American business because Wall Street and the White House, no matter which Party occupies the latter, are two gigantic institutions of persuasion. The White House needs to keep you in the game because their political Party needs your vote. Wall Street needs the stock market to boom, even if that boom is fueled by illusion. So both tell us, 'The economy is coming back.' But let's get one thing clear: This economy is never truly coming back unless we reverse the birth and death trends of American business."[20]

What people *do* like to talk about — office-seekers, anyway — is how government can bypass the entrepreneur entirely by creating businesses on political demand, either directly or through so-called "public-private" partnerships. U.S. Rep. Andre Carson of Indianapolis, for example, has been hearing complaints from constituents who live in neighborhoods in which the twin burdens of crime and regulation have created commercial wastelands.

Carson, in his way, would come to the rescue. He is proposing federally subsidized and controlled food "deserts," politically identified regions that lack neighborhood grocery stores (500 in Indiana, 125 in Indianapolis). The merchandise therein would be officially prescribed, of course. "You'd stick to healthy food options; you wouldn't have Doritos or HoHos," Carson was pleased to tell the Indianapolis Star.[21]

Again, one would be hard pressed to come up with a plan more likely to produce economic disaster or one that so completely misunderstands — or would purposely overturn — the tenets of our society. Similarly on the GOP side, there is Gov. Mike Pence's reelection-minded Regional Cities Initiative, a mercantilist scheme that leaves economic direction to politically chosen crony capitalists. These serve, however, as a bad example to compare with a good one, the corner grocery.

It was not so long ago when everybody knew a classmate or two who was being raised on the second floor of a corner grocery. They were identical, those stores, built for housing a family of four or maybe five (top floor) and making enough money to support them (bottom floor).

The late columnist Bill Vaughan claimed to be president of the Exalted Order of Persons Born Above a Grocery Store (PB/GS), of which the membership included Hubert Humphrey, vice-president of that too, and Ronald Reagan, who was provisional. And it may be indicative that if you Google "born above a grocery store" you are directed to more than 4 million Internet sites.

Why are such people important? The answer is their role in salting the electorate with common sense, to the degree that scarce commodity can be measured in economic terms.

How many of you routinely bet everything your family owns on the future behavior of other people, most of them strangers? The people I know who operate their own businesses have faced that situation — repeatedly. If they were even able to survive in business at all it required them to liquidate personal savings to meet payrolls and operating expenses. At the very least, most pledged personal assets (often everything they own) to secure financing or gain credit from suppliers. Credit extension by suppliers to small business always require a separate, personal guarantee of payment by the owners before credit is granted.

Those types of make-or-break decisions, repeated over the years, instill humility and wisdom concurrently — what you can reasonably expect of yourself and what you can reasonably expect of others.

Demystifying Profit

You might know a store in your town with its aisles full of customers, its parking lot full of cars and a seemingly high demand for its particular product or service in the current market. It is easy to assume that lots of money is rolling in, that they can afford higher taxes and more costly regulation. What'd you don't see are the stacks of invoices for merchandise, utilities, insurance, taxes, marketing or the biggest expense of all, payroll. While it is critical that there is money coming in, that is not the most important aspect of profitable operation. It is the money kept after everything is paid that tells the truth about a business.

Each semester, John Kessler, an economics teacher at Indiana University-Purdue University-Fort Wayne, asks his class to give him their best guess of the profit margin of a typical small business. They are off by magnitudes of tens of percentage points. “They don’t doubt me, but they are shocked by the small actual margins,” Kessler says.

Even businesses considered “going concerns” often work on net profit margins of 1 to 3 percent. Margins in double figures are only the dream of most small businessmen. At normal margins, just two or three years of break-even or loss will wipe out the gains made in all the profitable years.

When profits are earned, most will be reinvested. Equipment constantly needs to be repaired or replaced. Expansion must be financed or paid for from retained earnings. It doesn’t take a rocket scientist to figure that saving your money and paying for something rather than borrowing is the best option. While profits from operations (in a Subchapter S corporation, which is the organizational structure of most small businesses) are taxed to the owner as ordinary income, it is rare that these profits are actually paid out to the owner. Limits on what can be expensed versus depreciated, and over what time period, will cut into what the owner takes home.

Operating a small business requires a different mindset when it comes to working hours. Weekends, vacations, days off, holidays, personal time all become secondary to meeting the needs of the business. This mindset is routine for most small-business owners, especially in retail businesses. When the computers crash, when the refrigeration stops working, when the forklift throws a flywheel, when the public restroom has a major disaster, when the truck can’t be there until 2 a.m., it is the owner who ultimately deals with it — as the buyer, the repair technician, the security guard, the freight handler and the janitor, often at the same time.

So why do it? Why not work for someone else and leave these problems to someone else? Well, that’s a question every small-business owner asks. Indeed, I have friends who have called it quits. Sometimes it was their own choice and sometimes it was a choice made for them by their customers. Again, there is that misconception — that the owner is the boss.

Right or wrong, straightforward or fickle, cooperative or combative, it is the customer that is the boss. The business owner doesn’t decide what to pay staff, customers do. The business owner doesn’t decide what price will sell, what hours to be open, what merchandise or services to offer, or any of the critical decisions. It is the customer who ultimately and always makes these decisions in a well-run operation.

So, what exactly do members of our “grocery store” generation know that Representative Carson and officialdom do not know? First and most obvious, if the callow enthusiasm today for socialism is indication, is that government cannot forcibly transfer wealth from one person to another without dire consequence. “The problem with socialism is that you eventually run out of other people's money.” Those are the words of another of us born above a grocery store, Dame Margaret Thatcher.

Nor would those who had to stock canned goods, clean produce, butcher meat, sweep aisles, price and shelve, and then at the end of a 12-hour day balance a cash register, all to make enough to pay a mortgage, think a minimum wage makes sense. Nor would allowing government employees to in effect set their own wages and working conditions through public-sector collective bargaining. Nor would allowing a privately controlled national bank to determine with a turn of the fiscal dial the worth of the currency in that register. Nor would leaving a Social Security system unfunded. No would government health care. Nor would Carson’s government “stores.”

These approaches are either ignorant as purposely obnoxious — abetting city, state and federal regulations and their attendant taxes and costs to endanger or exclude the private sector without providing society, citizens or even customers a comparable good.

In my city, such official ignorance was on display in debates over establishing both an ambulance service and a public-safety training academy. In both instances, council members in support of engaging in these activities (which were both provided by the private sector) submitted profit-and-loss statements that claimed profits of hundreds of thousands of dollars. In the case of the public-safety training academy, the claim was it would show a profit by the second year.

It was a pipe dream. Even conceding their income figures were close to accurate (a dubious concession for sure), the expense side of officialdom's profit-and-loss statements quickly came apart. In both cases before our council, the arguments in support of engaging in these government-operated businesses minimized or even ignored obvious expenses while recognizing only revenues.

The revenues were considered "profits" that would add to the city's general revenues. Expenses were almost completely disregarded. The result, of course, were shortfalls that required subsidies from the general tax revenues with a concomitant reduction in monies available for other budget items. Fast forward a few years and the city administration is puzzled that their projects ran out of money. What those in government don't seem to understand is that revenues are not profits. A business owner learns that quickly or perishes.

"In Indiana, there are more than 400 different professional-business licenses, permits, certifications and other permissions."

Conclusion

Please know that the crisis in small businesses cannot be blamed on chance swings in the business cycle or fluctuations in market preference. Largely and most significantly, it is the result of public policy, your government's decisions. The Legislature, if it were willing, could change it.

But again, few officials understand that they open a Pandora's box when they attempt to choose which type of business, and *whose* business, government should be encouraging. Our public debate, therefore, is simplistic. It focuses on just one strategy: subsidizing businesses that promise grandiose innovation (think Google) at the expense of common enterprises (think corner grocery).

Winfield Moses, a legendary Democrat mayor of Fort Wayne, has experience with both. A local homebuilder, Moses learned a hard lesson early in the technical revolution. His administration signed $1 million in an unsecured economic-development loan to a big, high-tech microcomputer company in Ohio. The management cashed the check but declared bankruptcy before producing a single Fort Wayne job.

Today, Moses might go in a different direction. "Fort Wayne could be the Austria of North America," he told an officer of this foundation a few years ago. By that, Moses meant he now might promote Fort Wayne's traditional skills in manufacturing enhanced by high-tech, computerized methods. These businesses, he had earlier argued, would be smaller state-of-the-art shops so efficient that they would be the last to close in a recession.[22]

This makes sense to Gallup's Cliffton. He fears that entrepreneurship is no longer woven into our national fabric. Again, American leadership seems to be counting on a new wave of inventions to save the economy and their political position: "Because we have misdiagnosed the cause and effect of economic growth, we have misdiagnosed the cause and effect of job creation," Cliffton argues. "To get back on track, we need to quit pinning everything on big innovations, and we need to start focusing on the small entrepreneurs and business-builders."

There is a problem, he concedes: We have killed off all the small entrepreneurs who would be, should be, individually powering the economy. While we have provided tax rebates, grants, subsidies and government-secured loans to distant corporations for their promises to bring to town the next technical marvel, we have taxed, zoned and regulated to death any neighbor brash enough to start or maintain a small businesses.

So our entrepreneurs, my father's irrational optimists, go the way of those corner groceries. If we are ever to find them again, we will have to demand answers from our lawmakers regarding the barriers they have erected to business ownership. For starters, how many of Indiana's licenses and regulations solve no demonstrable social problem but merely serve a special interest? Why aren't regulators required to prove on a regular basis that the problems from which they presume to save us are widespread or systemic?

Further, we will have to recognize, as a citizenry, that the primacy of the individual in public affairs has been replaced by mere promises from an increasingly detached government. More than that, equality of opportunity has been lost in pursuit of equality of results.

If we cannot reverse that, we relegate Indiana to a third-tier state, the default setting of the world, in which we accept a reality where to start a business or to own property requires the permission of some ruler or another. In such a world, the corner grocery or most any other truly independent proprietorship would be illegal, if not only a memory.

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Opponents of the dedicated "Red Line" bus lanes question the wisdom of dramatically changing traffic patterns along two of the city's key thoroughfares: College Avenue and Meridian Street. College Avenue, seen here, will narrow from three lanes (two north and one south) to one north and one south, with a dedicated bus lane in the center. *(Photo: Andrea Neal)*

From the South Wall

Bureaucrats, not Citizens, Are Calling the Shots for Indy's Transportation Plan

by ANDREA NEAL

The author, a columnist and adjunct scholar of the foundation, teaches history at St. Richard's Episcopal School in Indianapolis. Neal, having most recently served on the state Board of Education, is a former editorial page editor of the Indianapolis Star. Before that, she covered the Supreme Court of the United States for United Press International.

(May 3) — The first batch of concrete hasn't been poured, yet the occupants of homes and businesses along College Avenue in Indianapolis see a boondoggle of historic proportion on the horizon.

It's called the Red Line, an all-electric rapid bus line that would convert one of Indy's most established residential areas into a mass transit corridor with ticket kiosks, center loading platforms 60 feet long and limited left and right turn lanes. The cost? An estimated $100 million for the first leg, extending 13.6 miles from 66th Street on the north side of the city to the University of Indianapolis on the south. The feds have pledged $75 million towards construction; taxpayers are on the hook for the remainder and future operating costs.

Subject to a referendum, a .25 percent Marion County income tax would fund the larger Marion County Transit Plan, which includes extending the Red Line another 23 miles and building two additional rapid bus transit corridors running east and west.

"Big Dig 2.0" is what one critic calls it. The reference is to the infamous Boston highway tunnel project associated with the late House Speaker Tip O'Neill, legendary for his ability to get federal money for his home state of Massachusetts. The Big Dig ended up costing $22 billion and has been dubbed one of the biggest taxpayer rip-offs in history.

"This project looks less like the start of a sensible transportation plan than something dreamed up to grab big grant money," complains Indianapolis resident Anna Tanner, a Red Line critic. "If the dollars for the Red Line pour in, someone is bound to benefit, but that someone isn't us."

Federal System Failure

Founding Father James Madison and his colleagues had a good idea: Create layers of government – federal and state - so that each can check the other when one gets too controlling. The states share their authority with local government, and that creates another layer of checks. It's called federalism, and its intent was to dilute government's power over the citizens. Madison called it "a double security on the rights of the people."

When it comes to transit planning, however, the layers of government don't check each other; they aid and abet. The feds promise to send money to cash-strapped local governments if they implement transit improvement projects. Local agencies are blinded by the allure of federal funds. They agree to whatever the regulatory agencies require, even if it's not what is needed or citizens want. The locals get stuck paying for the project long after federal funding dries up. As the late economist Milton Friedman famously said, "Nothing is so permanent as a temporary government program."

In order to secure money, agencies write grant applications carefully tailored so that each element matches federal criteria. They then solicit letters of support from business leaders, community organizations and elected officials, especially congressmen, who typically are quick to lend their names to something that brings money home to their districts.

By the time plans go public, momentum is already on the side of a project – no matter how costly. This puts citizen-critics in the thorny spot of having to connect the dots, inform fellow citizens, and mount a credible campaign against something that movers-and-shakers have already deemed worthy.

That's the position Lee Lange found herself in when she started digging into the details of the Red Line. Lange manages a commercial building along the route and fears her tenants may not survive months of construction work outside their door. She's been calling City-County Councilors and officials at IndyGo, the city's transit agency, to register her concerns.

Especially frustrating for citizens is the sense that bureaucrats set policy first and seek buy-in from the public after the fact, instead of the other way around. "These are agency heads – lifelong bureaucrats – who have no accountability," Lange notes.

Consider the chronology of the Red Line. In 2014, the Indiana General Assembly passed Senate Enrolled Act 176, which created a mechanism for transit agencies like IndyGo to raise taxes for rapid transit and other system improvements.

In April 2015, U.S. Transportation Secretary Anthony Foxx came to Indianapolis to declare it a pilot site for the Obama Administration's Ladders of Opportunity Transportation Empowerment Pilot. The program encourages high-density housing development along mass transit lines in an effort to connect people to jobs. His announcement came with a pledge to help Indianapolis obtain federal grants "to catalyze construction" of a transit corridor. IndyGo filed its federal grant application for the Red Line later that year, and received official word in February of the grant's approval.

All this took place before newspapers and television reporters had started to scrutinize the project. Most public discussion of the Red Line to that point was part of broader conversation about Central Indiana's regional transportation planning initiative called IndyConnect. Those most affected, businesses and homeowners on the Red Line route, did not learn of the project's potential impact on parking and traffic patterns until they took the initiative to request public documents.

U.S. Rep. Susan Brooks, a Republican whose district includes the north end of the Red Line, is hardly a tax-and-spender. Her letter of support was prominently included in the grant application, and constituents have just now started to ask why.

Her explanation is familiar: "IndyGo requested the letter of support, and a number of public officials in Marion and Hamilton Counties, as well as local leaders and neighborhood groups along the proposed Red Line route, have expressed support on behalf of their constituents. Hoosier tax dollars, which fund these programs, are typically spent in other communities in other states. I believe they should be spent on projects to improve opportunities and spur growth in our region."

There is constituent support, though it's most vocal from those who would benefit from development along the route. These include real estate investors and transit-oriented businesses. An opposition group, CollegeAvenueIndy.org, has launched a petition drive to stop the project and has collected 420 signatures to date, most from individuals in neighborhoods that would be affected by shifting traffic. They have passed their concerns on to Brooks in Washington.

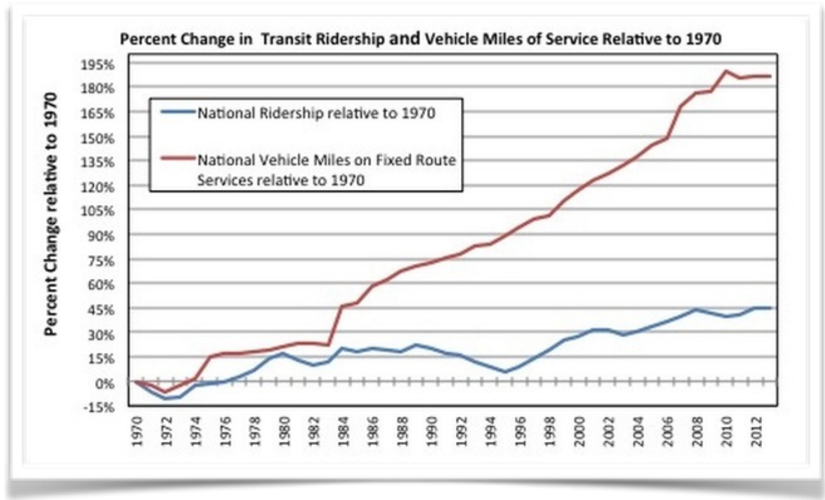
Too Many Cooks

Joseph Postell, a political scientist at the University of Colorado, has written extensively about the role of bureaucracy in policymaking. He observes that the growth of government in the United States has led to an "administrative state" where decision-making is anything but democratic.

He writes, "The myriad agencies and departments that make up this administrative state operate as a 'fourth branch' of government that typically combines the powers of the other three and makes policy with little regard for the rights and views of citizens."

His observations ring especially true when it comes to transit policy, which has been imposed top down from the federal government ever since the interstate highway system was developed in the late 1950s and '60s. In the Indianapolis metropolitan area, a confusing assortment of agencies and departments – often mandated by the feds and staffed by urban planners -- calls the shots. None of their boards is elected by or familiar to voters. The system seems designed to obscure the source of decision-making.

On March 29, the IndyGo board of directors voted to approve the Marion County Transit Plan, which includes the Red Line. In the news release announcing the vote, IndyGo pointed out that the plan was just phase one of Indy Connect, "the multi-county transit vision for Central Indiana." Who created Indy Connect? It was a partnership of the Indianapolis Metropolitan Planning Organization (IMPO), Central Indiana Regional Transportation Authority (CIRTA) and IndyGo.



Source: Jordan Candler. "Consumers Aren't Keen on Mass Transit. The Patriot Post. May 2, 2016; http://patriotpost.us/posts/42295 (last viewed May 2, 2016).

MPOs exist in all cities over 50,000 population. These are federally funded planning agencies charged with "conducting a continuing, cooperative and comprehensive transportation planning process." In reality, one critic says, they are an unnecessary layer of government, a step removed from voters, that takes power away from locally elected officials.

The mission of the Central Indiana Regional Transportation Authority is similarly ambiguous: to "coordinate and define the delivery of public transit services throughout the region." It's led by a 17-member board with a majority of members appointed by elected leaders from ten central Indiana counties — again one step removed from voters.

Little wonder that community activists like Lange are frustrated. Responsibility is dispersed among so many different agencies and individuals that no one is accountable for the whole picture. And, much like Bostonians during the Big Dig project, opponents are left pushing a big rock uphill.

How Government Decides

All this begs the question: Who wanted the Red Line in the first place? The local community where it will be located or the federal government that dangled the money? The answer seems to be: a combination of both.

IndyGo applied for the grant, but no elected body voted for it to do so. Indy's former mayor, Republican Greg Ballard, endorsed the project (as did his successor Democrat Joe Hogsett) but didn't come up with the idea.

The Indiana General Assembly in a sense enabled the project with Senate Bill 176, which allows the Indianapolis City-County Council to hold a referendum to raise taxes to pay for its future costs. That's a bit like shutting the barn door after the cow's out. IndyGo insists no referendum is needed for the first leg of the project thanks to the generous federal funding. City-County Councilors themselves are conflicted about the project's merits and whether it will serve the most transit-dependent citizens. "What bothers me is that this IndyGo administration does not care about the taxpayers who live on or around this proposed Red Line route," complained Democratic City-County Councilor Joe Simpson. "They don't have a lot of support within the route area."

If the Red Line proponents have their way, the first-leg will be just the starting point of a 35-mile bus rapid transit corridor that will eventually connect the cities of Greenwood, Indianapolis, Carmel and Westfield. Two additional corridors running east and west would also be built, adding another 31 miles of bus rapid transit by 2020. Erin Tuttle, a Red Line critic, projects the eventual cost to build the system would exceed $390 million, far beyond current estimates. "If the first segment of the Red Line, which is only 13 miles, will cost $98 million, how can they build the other 53 miles for $292 million? IndyGo's numbers don't add up."

The Red Line is unusual because it's not just a transit project; it's part of an Obama administration program, Ladders of Opportunity, to change housing patterns adjacent to mass transit. The first step in that direction – a proposed six-story 205-unit apartment in a neighborhood of single-family homes – was canceled by the developer in March due to intense public opposition. Notably the connection between the Red Line and high-density developments has not been publicly discussed since Secretary Foxx's April 2015 visit to Indianapolis.

The Ladders strategy turns on its head standard practice for locating public facilities. The late Dave Perlini, who worked in both Fort Wayne and Indiana state government for years in key administrative roles, once was asked: How do you plan for new infrastructure? "We don't," he said. "We just lay down the streets and utilities where people decide they want to go." Apparently not anymore. Both the housing initiative and the Red Line demonstrate bureaucracy-led decisions, whose paperwork was generated in government offices with almost no public input.

Randal O'Toole, an urban planning and transportation scholar with the Cato Institute also writing in this issue of the journal, affirms the worst fears of the opponents. He predicts that the Red Line's costs would exceed its benefits and would likely produce more pollution than it would relieve by taking cars off the road. "IndyGo's failure to consider the alternative of running frequent buses on shared traffic lanes, rather than dedicated lanes, seems more oriented to making itself eligible for a federal grant than actually improving transit service," he concludes.

This is not how policy should be made, and it's not what the Founding Fathers had in mind when they invented federalism.

"We are designing our system around federal criteria in order to secure federal funding rather than designing it around what would serve the needs of Indy residents," Tuttle said. "If we want transit to be successful, it has to work for the people who will use it."

What Follows ISTEP?

(March 3) — A word of caution to Indiana K-12 students: Don't get too excited about the repeal of the ISTEP exam. The "next iteration of assessment and accountability" is coming, according to Gov. Mike Pence. If our recent debate over academic standards is any indication, the new test could be just like the old one, or worse.

As a former member of the State Board of Education, I'm skeptical every time the state pledges a new and improved educational product. Just three years ago, the Indiana legislature voted to withdraw from the Common Core academic standards initiative after Hoosier parents complained loudly about what they were seeing in the classroom. In April 2014, the board adopted "new" Indiana standards that were nothing more than a rewrite of the Common Core.

The same thing is likely to happen with testing.

Here's why: At this writing, the governor and most Republican legislators had yet to identify what they want to do differently. Most want to keep a test with high stakes, which means students, schools and teachers would continue to be judged partly on the basis of test scores and score improvement.

Courts have said that, whenever test results are linked to high "stakes" for students — diplomas, in particular — the tests must be closely aligned to what is actually taught. It's a matter of fairness. A similar argument could be made when stakes involve teacher pay or letter grades for schools. That's why the state switched to a new version of ISTEP this year: to better align to the content of the state's standards.

Complicating the picture: State School Superintendent Glenda Ritz has said she wants to get rid of high-stakes testing.

House Bill 1395 has charged a 23-member committee with making recommendations on this issue to the governor and legislature by Dec. 1. The committee is made up of teachers, principals, parents, college and workforce representatives, lawmakers and Glenda Ritz. With so many people on the committee and so many interests, prospects for consensus look slim.

"Seems like overkill to me," observes Richard Phelps, Ph.D., the author of "Estimating the Costs and Benefits of Educational Testing Programs" and at least one nationally recognized expert who ought to be invited to the committee's first meeting to share the latest in standardized testing research.

Phelps believes strongly in the benefits of standardized tests but is leery of recent innovations in assessments that claim to ensure college readiness on the part of test-takers or to do a better job of assessing higher order thinking skills. That's a fad, and Indiana has fallen for it.

The creation of a standardized test should be purely a mechanical process once policymakers determine the scope and purpose of their testing, Phelps explains. He advises that a 90-minute multiple-choice test per subject area is more than adequate to gather necessary data for comparing achievement and measuring gains. Open-ended questions, claimed by some to be necessary to test critical thinking, add hours to the testing and grading process and aren't necessarily better than multiple choice.

Constant change is part of the problem, Phelps says. He calls it churning. "We have to have a revolution every two years even though it's not really necessary," he says.

Some lawmakers have advocated using an off-the-shelf achievement test, such as the Iowa Tests of Basic Skills and Educational Development. These are nationally normed, multiple-choice tests that assesses students' skills in reading, vocabulary, spelling, math concepts and computation, among other topics. The benefit of the Iowa would be cost and efficiency. At the Eighth Grade level, for example, a core battery covering language arts and math takes less than four hours, half the time of an ISTEP exam. Results are available almost immediately. Others have suggested giving schools local control and letting them choose from a menu of internationally benchmarked assessments.

A third option would be to take the current ISTEP and shorten and streamline it to meet the objections that led to House Bill 1395 in the first place: The test takes too long, scores aren't available for months, way too much time is spend piloting test items and scoring errors have made its results less than credible with teachers and parents. After spending tens of millions of dollars to develop the test, that option would salvage part of taxpayers' investment.

The committee's chance for success will depend largely on the vision set by the governor who appoints five members and gets to pick the chairman.

In the debate over academic standards, Gov. Pence was satisfied with a superficial rewrite of the Common Core that scored political points with some but failed to address substantive concerns about the quality of the standards. He'd be wise to meet with Richard Phelps first and then make recommendations for the shortest, quickest and best test possible that will provide only the data that is absolutely necessary to judge student achievement.

Indy Doesn't Need Dedicated Bus Lanes

The point of the proposed Red Line seems to be to qualify for a federal grant, not to actually improve transit service or the environment.

by RANDAL O'TOOLE

The author is a Cato Institute Senior Fellow working on urban growth, public land and transportation issues. His analysis of land use and transportation issues is brought together in the 2001 book, "The Vanishing Automobile and Other Urban Myths." O'Toole, an early environmentalist, rides a bicycle to work. He wrote this at the request of the foundation.

(Feb. 22) — The Indianapolis Public Transportation Corporation (IndyGo) has proposed to start a 37.5-mile bus rapid transit service from Westfield, due north of downtown Indianapolis, to Greenwood, which is due south. Phase 1 of this route would start at 66th Street north of downtown and go to Hanna Avenue south of downtown, covering a distance of 13.6 miles. Battery-powered buses would operate on this route using dedicated or semi-dedicated bus lanes for a little more than half the route. These buses would be given priority over most other traffic at signals.[1]

IndyGo's goal, it says, is "to significantly improve mobility in one of the strongest travel corridors in Central Indiana." While this is a commendable aim, the agency has not made any effort to determine if this proposal is the best way to achieve it. Instead, the project is designed to make IndyGo eligible for federal funding for things that are neither cost effective nor environmentally sound.

As a result, there are several problems with the project. Transit is largely irrelevant to most Indianapolis residents, and the number of people whom the new buses will attract who aren't already riding transit is trivially small. The dedicated lanes will slightly speed the buses for those few people but slow traffic for many more people who continue to travel by car. The electric buses that IndyGo proposes to buy will be expensive, oversized, and will actually do more harm to the environment than Diesel or compressed-natural-gas buses. Finally, IndyGo's proposal for cities to subsidize construction of transit-oriented developments along the bus route follows an urban-planning fad that has failed in other cities that have tried it.

Indianapolis Is not a Mass Transit City

Transit plays an important role in a few American cities, notably New York, Chicago, San Francisco, Boston, Washington and Philadelphia. These cities have downtowns filled with hundreds of thousands of jobs surrounded by densely packed residential neighborhoods, making it possible for transit to move large numbers of people from their homes to work. Transit carries more than a third of commuters to work in the New York urban area (which includes Long Island, northern New Jersey and southwest Connecticut) and between 10 and 20 percent of commuters in the other five urban areas. Even in these urban areas, transit loses money, with fares typically covering only one-third to one-half of operating costs and no maintenance or capital costs.

Indianapolis is not like these cities. The city, according to Wendell Cox's comparison of central business districts, has about 73,000 downtown jobs, less than a third of any of the above six cities.[2] The population density of the Indianapolis urban area is 2,100 people per square mile, just one-third of the San Francisco-Oakland urban area and less than half of the New York urban area.[3] Transit carries just 2.6 percent of downtown Indianapolis commuters to work, and less than 1.5 percent of all commuters in the urban area.[4] Bus fares cover less than 20 percent of IndyGo's operating costs.[5]

In 1990, IndyGo buses carried 12.4 million passenger trips, an average of 15.4 trips per Marion County resident. This fell to a low of 8.2 million trips in 2009, for an average of just 9.1 trips per resident. After that it grew to 10.3 million trips in 2014, or 11.0 trips per resident.[6] Ridership fell by 5 percent in 2015.[7] Indianapolis trips per capita are well below the national average, which in 2014 was about 42 trips per urban resident.

One reason transit is so little used in Indianapolis is that nearly everyone there has access to a car. According to the Census Bureau, only about 2.5 percent of Indianapolis workers live in households without cars. Even most of those workers do not rely on transit: more than 55 percent of them get to work by car, either carpooling or borrowing a car (perhaps using an employer-supplied car), while only 20.5 percent take transit to work.[8] In all, residents of the Indianapolis urban area drive more miles every day than the number of passenger miles carried by IndyGo over the course of a year.[9] Since Department of Transportation surveys estimate that cars carry an average of 1.67 occupants, automobiles move more than 650 times as many passenger miles per year in the urban area as Indygo.[10]

Increasing Congestion Through Dedicated Transit Lanes

The idea of bus rapid transit is basically recognition that buses can do anything that light rail can do for far less money. Light rail has two main advantages over ordinary bus service. First, light-rail cars tend to stop only about once per mile, allowing higher average speeds. Second, they operate more frequently, typically eight times an hour during rush hour and four times an hour the rest of the day, at least twice as often as most local bus lines. However, there is no inherent reason why buses need to stop five or six times a mile and operate no more than two to four times an hour.

"The number of people whom the new buses will attract who aren't already riding transit is trivially small."

Aside from operating more frequently and stopping less frequently, bus rapid transit usually involves "branding" the buses by painting them a distinctive color for easy recognition. It may also involve easily recognizable bus stops, using buses with extra-wide doors for easy loading and unloading, and possibly fare systems where people pay before boarding the bus so as not to slow the buses down during fare collection.

All of these things can be done without dedicating special lanes to buses. Dedicated lanes not only are costly to provide, they take space away from autos and other travelers, which ends up creating more congestion than the buses remove from the roads. Giving buses priority over other vehicles at traffic signals also increases overall traffic congestion while creating only a small benefit for a few people.

Dedicated lanes may be worthwhile in extremely high-use corridors. For example, Portland has dedicated lanes on two downtown streets where it has scheduled as many as 160 buses per hour in each direction. Staggered bus stops allow every bus to stop every other block, giving most passengers easy access to their destinations or to make transfers to other buses. By comparison, IndyGo plans to run just six rapid buses and six local buses per hour on its dedicated lanes. This means the lanes will be operating at well under 90 percent of capacity, and that unused capacity will be entirely wasted. IndyGo's alternatives analysis for the Red Line considered different routes, but every alternative (other than "no build") was presumed to use dedicated bus lanes, so the agency made no attempt to determine if such dedicated lanes would be cost effective.[11]

The argument for dedicated lanes is that buses using such lanes will be faster, and faster service will attract more riders. Yet IndyGo's analysis finds that Red Line buses will average just 18.3 miles per hour. While this is an improvement over the average of 13.6 miles per hour for existing buses in the corridor, 18.3 miles per hour doesn't compete well with auto travel. [12] According to calculations based on Google traffic data, the average speed of automobiles in the city of Indianapolis is 33.7 miles per hour, nearly twice as fast as proposed Red Line buses.[13]

Without using dedicated lanes, IndyGo could speed Red Line buses by simply having them stop at fewer locations than ordinary buses. Transit riders seem to be more sensitive to frequencies than speeds, so simply running buses more frequently would attract many riders. For example, Eugene, Oregon's bus rapid transit line increased speeds by only 4 percent over the previous bus service, yet increased frequencies and branding gained more than 100 percent new riders.[14] Since IndyGo did not consider any bus rapid transit alternatives without dedicated lanes, it made no estimate of how fast such buses would be or how many riders they would attract. One reason why this alternative wasn't considered is that the Small Starts grant program from which IndyGo is seeking funding requires significant infrastructure improvements. Thus, Indianapolis auto drivers will face increased congestion just so IndyGo can be eligible for a particular federal grant.

The idea that faster speeds will dramatically increase transit ridership does not seem to be supported by IndyGo's own ridership projections. IndyGo says that buses in the proposed Red Line corridor currently carry 7,792 weekday riders.[15] IndyGo projects that the Red Line will carry 10,921 riders per weekday. Thus, the faster line will attract only 3,200 new transit trips, or about 1,600 round trip passengers, per weekday. Other buses in the Red Line corridor will also gain about 600 trips per weekday even though their service will not be significantly faster than before.[16] It seems likely that most of these new riders could be attracted to the Red Line corridor without the extra expense and congestion resulting from dedicated bus lanes and signal priority systems.

An Environmental Disaster: Electric Buses

To serve the Red Line, IndyGo proposes to buy 120-passenger, 60-foot, battery-powered electric buses. The size of buses is overkill for the number of riders that IndoGo predicts will be carried, and electric buses will actually do more environmental harm than Diesel buses.

Most of IndyGo's current bus service uses 40-foot buses that have an average of 39 seats but carry, on average, just 5.7 passengers.[17] IndyGo projects ridership on the Red Line will be higher, but if the average bus trip is 5 miles, buses will still carry an average of fewer than 15 people.[18] Even considering variations over the course of a day, 120-passenger, 60-foot buses are simply not needed to carry this many people.

Powering such buses with batteries is supposed to appear environmentally friendly but in fact is not. Sixty-foot buses tend to weigh about 50 percent more than standard, 40-foot buses. Battery-powered buses tend to weigh about 10 percent more than standard compressed-natural-gas (CNG) or Diesel-powered buses. In total, a 60-foot battery-powered bus weighs about 65 percent more than a 40-foot Diesel bus.[19] Moving this extra weight consumes a lot of energy.

From an environmental viewpoint, electric-powered buses might make sense if all electricity were generated by water power, wind power, or solar power. However, Indianapolis Power & Light (IPL) gets nearly all of its power by burning fossil fuels. As of 2007, 100 percent of its power came from burning fossil fuels, 79 percent of which was from coal. The company has a goal of reducing fossil fuels to 90 percent and increasing natural gas to 45 percent by 2017, but even that results in far more pollution and greenhouse gas emissions than simply powering buses with Diesel or CNG.[20]

One major problem is that two-thirds of the source energy is lost in generating and transmitting electricity.[21] Thus, to deliver 1,000 British thermal units (BTUs) of energy to IndyGo, IPL must burn 3,000 BTUs of coal, gas, or other sources of energy. This generates far more pollution and greenhouse gases than directly powering buses with Diesel fuel.

IndyGo's buses, most of which are 40-footers, currently consume an average of 37,100 BTUs per vehicle-revenue mile. Moving 60-foot, battery-powered buses that weigh 65 percent more will require about 61,400 BTUs per vehicle-revenue mile. If those buses have an average of 15 passengers on board, they will use about 4,100 BTUs per passenger mile. By comparison, the average car used about 3,144 BTUs and the average light truck (which includes pickups, sports-utility vehicles, and full-sized vans) used 3,564 BTUs per passenger mile in 2013.[22] If those same 15 people were riding ordinary 40-foot buses, they would only use 2,400 BTUs per passenger mile.

Greenhouse gas emissions from the battery-powered buses are even worse because of the two-thirds loss from power generation and transmission. If IPL meets its 2017 goal of reducing coal to 44 percent of its power sources, then generating enough power to move a 60-foot, battery-powered bus one mile would produce 12,100 grams of carbon dioxide. Divided by 15 passengers results in more than 800 grams per passenger mile.

By comparison, even with only 5.7 passengers per bus, IndyGo's current fleet of buses generates about 476 grams per passenger mile, while the average light truck generates just 253 grams and the average car 223 grams per passenger mile. Operating the Red Line with standard Diesel buses would generate only about 180 grams per passenger mile.[23]

IndyGo's proposal to use 60-foot buses for a route that is projected to carry an average of just 15 people is a waste. IndyGo's proposal to use battery-powered buses is especially foolish. Even ignoring the environmental cost, the current dollar cost of 60-foot, battery-powered buses is $1.2 million each.[24] By comparison, a standard, 40-foot Diesel bus costs around $300,000.[25]

The Latest Planning Fad: Transit-Oriented Development

A criterion for obtaining federal funding for transit construction projects is whether a project will be accompanied by "transit-supportive economic development."26 To improve the chances of getting federal funding for the Red Line, the Indianapolis Metropolitan Planning Organization prepared a transit-oriented development plan.[27] Typically, such transit-oriented developments are high-density, often mixed-use projects. Many are four- and five-story apartment buildings with the ground floors dedicated to small shops and restaurants.

Supposedly, encouraging people to live in such transit-oriented developments will increase transit ridership and reduce driving. In fact, there is very little evidence that this is true. Studies typically survey or monitor the transportation habits of people who live in such developments in comparison with people who live in more typical neighborhoods of single-family homes. These surveys often find that people in the denser developments are less likely to own cars and more likely to ride transit.

The flaw in these surveys is known as self-selection: people who prefer not to drive tend to choose to live in higher-density areas that have better transit service.

That doesn't mean that moving a family of four from a single-family home to a transit-oriented development will radically change their transportation habits. After reviewing studies that accounted for self-selection, A University of California (Irvine) economist, David Brownstone, concluded that the effect of density and urban design on driving was "too small to be useful" in saving energy or reducing greenhouse gas emissions.[28] Thus, while some people prefer to live in such areas, additional transit-oriented housing won't have an effect on transit ridership or driving.

This can be seen in regions that have promoted such developments. Since 1990, the San Jose urban area has increased its population density by 43 percent; built more than 31 miles of new rail transit lines; and built numerous transit-oriented developments along those lines. Yet as of 2013, per capita transit ridership has declined by 20 percent and per capita driving increased by nearly 50 percent.[29]

Portland, Oregon has built scores of transit-oriented developments along its 70 miles of light-rail, commuter-rail, and streetcar lines. Before building rail transit, 9.9 percent of Portland-area commuters took transit to work.[30] As of 2014, just 8.3 percent of commuters rode transit.[31] Portland's Cascade Policy Institute has carefully monitored what means of transportation people living in many of the region's transit-oriented developments use when they leave in the morning. Overall, it found that the share using transit is not significantly different from people living in other parts of the region.[32]

"A University of California study concluded that the effect of density and urban design on driving was 'too small to be useful' in saving energy or reducing greenhouse gas emissions."

Because the demand for living in small apartments on noisy streets is limited, Portland and other cities have had to subsidize such developments. When Portland opened its first light-rail line in 1986, it zoned everything near light-rail stations for high-density development. Ten years later, planners reported to the Portland city council that not a single such development had been built.[33] To encourage such development, the city decided to use a variety of subsidies, the most important of which was tax-increment financing, to dense developments along the transit lines. Overall, Portland has spent roughly $5 billion building its light-rail system and close to $2 billion subsidizing developments near rail stations.34

Indianapolis' transit-oriented development plan includes the use of tax-increment financing as well as a variety of other housing subsidies to promote developments along the Red Line. These include federal grants, the local Housing Trust Fund, and other sources of funding for so-called "affordable housing."[35]

Contrary to claims by urban-renewal advocates, tax-increment financing is not "free money." Any housing built in a tax-increment-subsidized development would have been built somewhere in the city, so taxes collected from that housing used to subsidize its construction are taxes that otherwise would have gone to schools, fire departments, and other property-tax-dependent entities. Not only does tax-increment financing not enhance growth, some researchers have found that it slows growth in cities that use it, probably because it imposes a higher tax burden or reduced urban services on residents and businesses.[36]

Another article of faith behind transit-oriented developments is that there is a pent-up demand for this lifestyle. "Demographic changes and shifting lifestyles are leading to greater demand for development that is walkable, higher density, mixed-use and transit-served," says the Indianapolis plan.[37] In fact, that too is mostly imaginary, which is why such developments nearly all have to be subsidized.

The oft-repeated claim that Millennials prefer to live in cities rather than suburbs is belied by census data showing that the vast majority of people of all ages live in suburbs and that suburban numbers in all age classes, except the very elderly, continue to grow faster than city populations.[38]

Conclusion

IndyGo's proposed Red Line is unnecessarily expensive, will increase traffic congestion, and will produce more pollution and greenhouse gas emissions than the few cars that it takes off the road. IndyGo's failure to consider the alternative of running frequent buses on shared traffic lanes, rather than dedicated lanes, seems more oriented to making itself eligible for a federal grant than actually improving transit service. IndyGo's plan to use 120-passenger buses to carry average loads of 15 passengers is overkill. IndyGo's goal of buying expensive battery-powered buses in the name of being "green" will actually do far more harm to the environment than good.

IndyGo should experiment with bus rapid transit using standard buses painted a special color operating frequent service that stops roughly once per mile using traffic lanes shared with cars and other vehicles. The dedicated bus lanes, transit-priority traffic signals, and giant battery-powered buses proposed for the Red Line are foolishly expensive and counterproductive to IndyGo's stated goal of improving urban mobility.

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Policing for Profit

It does no good for the agencies of law enforcement and prosecution to ignore the Indiana Constitution in pursuit of financial gain for their particular office.

by JOHN KERR

The author, formerly the editorial page editor of the Las Vegas Journal Review, is a communications fellow with the Institute for Justice, a public-interest law firm active on various Indiana issues. He wrote this at the request of the foundation.

(April 4) — It's bad enough that police and prosecutors in Indianapolis pad their budgets with the proceeds generated by the cars, cash and other property they seize, often from people who are never charged with any crime. It's even worse that they do so in defiance of Indiana law.

The wording is clear. Article 8, Section 2 of the Indiana Constitution requires that money from "all forfeitures which may accrue" belongs to the state's Common School Fund, which provides grants and loans to help local school districts with construction costs, property tax shortfalls, technology programs, charter schools and other endeavors. But instead of adhering to the plain language of the state's guiding document, for years Indianapolis law enforcement officials have been siphoning off millions of dollars in forfeiture revenue for themselves.

The unfortunate result is a system that shortchanges school budgets while encouraging police and prosecutors to pursue forfeiture cases at the expense of more urgent priorities.

But now a handful of Indiana citizens — two of whom found themselves ensnared in the state's forfeiture machinery — have partnered with the Institute for Justice, a public-interest law firm based in Arlington, Va., to force Hoosier law enforcement officials to follow the state constitution and stop profiting from forfeited property. In February, they filed suit in Marion County Superior Court to ensure that the state's schools receive the money to which they are entitled.

"In 2011 and 2012, the Marion County prosecutor's office retained an average of almost $460,000 a year from the forfeiture pot."

Under Indiana's civil forfeiture statutes, police may seize property on a mere hunch that it is connected to a crime. The owner need never be charged with wrongdoing; instead, the asset itself is deemed "guilty." Once the government confiscates property and initiates forfeiture proceedings, an innocent, third-Party owner who seeks to recover his belongings must go to court and prove that the property in question was not involved in criminal activity —a complex and expensive task beyond the financial means of many innocent victims.

The practice of civil forfeiture dates to the 1600s and British maritime law, and was used in this country after the American Revolution to seize vessels seeking to dodge customs duties, which financed a majority of the federal budget at the time. Lawmakers expanded the application of such laws during Prohibition, but it was in the 1980s at the height of the Drug War that forfeiture statutes proliferated under the guise of ensuring that drug kingpins and other criminal overlords didn't profit from illegal activity.

Although 43 states allow law enforcement agencies to share in the revenue generated by the sale of forfeited property (an obvious incentive to pursue seizures), Indiana does not. Well, at least in theory. In practice, police and prosecutors in the Indianapolis area routinely pocket a hefty portion of the cash produced through their seizure apparatus. In 2011 and 2012, the Marion County prosecutor's office retained an average of almost $460,000 a year from the forfeiture pot, while the total amount awarded to law enforcement agencies in the county averaged about $1.5 million annually.

The Alice in Wonderland world of civil forfeiture is hardly limited to hardened criminals. Jeana and Jack Horner can attest to that.

The Horners live in Greenfield, a small town of 21,000 residents about 25 miles east of Indianapolis. In order to help Ms. Horner's son keep his job as a carpenter on work release, they let him use their two vehicles for work. But when he was arrested on a marijuana charge in August 2013, police seized not only the married couple's 2008 Jeep Grand Cherokee, which he was driving, but also their 2003 Ford F-150 pickup truck, parked at a friend's house.

"When I went to try to find my vehicles, nobody knew anything," Jeana Horner recounted, adding that she never would have allowed her son to borrow the vehicles if she had known he was carrying pot. Ms. Horner became so frustrated in her quest to find the trucks that at one point she asked a police representative if she needed to "file a theft report." Meantime, her disabled husband was left without transportation and had to rely on friends to take him to appointments. He eventually purchased another car for $2,500. "It's difficult to be stranded," she said.

Ms. Horner said she never got any notice from law enforcement officials about the seizures and learned that her property had been targeted for forfeiture only when the family went to court in Marion County. "That was the first time anybody ever talked to me," she said. "We couldn't believe that we could get caught up in all that."

The charges against her son were eventually dismissed. In April 2014 — nine months after the vehicles were taken — a judge ruled in favor of the Horners. But it took another three weeks for the police to return both the Jeep and the Ford pickup, one of which had been drained of its oil. According to Ms. Horner, there was "no explanation."

Unlike too many other Hoosier property owners, the Horners could actually fight for their property. Since the cost to hire an attorney is often greater than the value of the seized property, property owners typically are forced to walk away. Over the past five years, court records suggest that prosecutors in Marion County have initiated more than 2,700 civil forfeiture actions. The majority of cases were decided through default judgments, meaning the property owners did not contest the action, leaving the state to profit from the seized assets.

"To what extent are law enforcement agencies willing to risk eroding the public trust for the sake of padding their own budgets?"

Would police dealing with a minor drug crime bother seizing vehicles from innocent owners absent a financial stake that lets them keep the proceeds? "That is a very interesting question," said David Hennessy, the Indianapolis criminal defense attorney who represented Ms. Horner's son. "Yes, it's policing for profit. I think so."

Mr. Hennessy said his secretary spent 40 hours trying to find the Horners' cars, and that he'd been involved in a handful of other cases in which law enforcement officials seized and held for weeks vehicles owned by parents whose children had been accused of minor offenses. "I think what they do to people is wrong," he said.

His assessment rings true on a couple of levels. Not only is it wrong that innocent people can lose homes, cars, cash and other valuables without ever being criminally charged, but it compounds the injustice when Indiana law enforcement officials thumb their noses at state law and help themselves to the proceeds generated by their forfeiture activity.

As cover for ignoring the constitutional mandate directing forfeiture funds to state schools, law enforcement officials hold up a 1984 state law that allows the police to deduct "law enforcement costs" before forwarding money to the Common School Fund. In addition, they cite a 2011 advisory opinion written by Attorney General Greg Zoeller concluding that the directive in Article 8, Section 2 of the state Constitution applies only to funds derived from criminal forfeitures, which involve property seized from someone who has been convicted of a crime.

Neither defense holds up under even the most cursory scrutiny.

The language in the 165-year-old Indiana Constitution makes no distinction between criminal and civil forfeiture. Meanwhile, the 1984 law does not override it — and even if it did, Indianapolis law enforcement has misconstrued the "law enforcement costs" provision to justify keeping every penny of civil forfeiture proceeds. The "memorandum of understanding" between Marion County prosecutors and police agencies on this issue calls for a 70-30 split of forfeiture proceeds, with police pocketing the larger share. In every case, the Common School Fund gets nothing.

Marion County officials defend this approach, arguing that breaking down costs would be inconvenient and fail to reflect their overall efforts. This "cumulative" interpretation of the forfeiture statute means that in Marion County, law enforcement agencies maintain that the costs associated with civil forfeiture always exceed the proceeds it generates from the practice—leaving police and prosecutors free to retain the revenue without turning over a penny to the Common School Fund.

To highlight the absurdity of this, consider State v. Escuder, a 2012 forfeiture case pursued by the Marion County prosecutor's office. After police seized $40,000 in cash from an in-transit package at a local shipping facility, prosecutors filed a three-paragraph court complaint. When nobody bothered to show up to contest the forfeiture, the court granted a default judgment. The prosecutor's office asserted $12,000 in costs, while Indianapolis police claimed the case cost them more than the remaining $28,000. Both agencies got their money along the 70-30 split. As usual, the School Fund received nothing.

Not all Indiana officials have turned a blind eye to this charade. In 2011, then-Gov. Mitch Daniels vetoed a bill meant to rework the state law regarding forfeiture proceeds and law enforcement costs, saying that diverting money from the Common School Fund "is unwarranted as policy and constitutionally unacceptable." That came just a few weeks after the Indiana Supreme Court, while adjudicating an unrelated forfeiture issue, noted in passing that it was of dubious constitutionality for police and prosecutors to keep any forfeiture revenue, regardless of costs, and that the issue "invite[d] further scrutiny."

Officials with the Indiana Association of Public School Superintendents certainly agree. John Ellis, the group's former executive director, applauded the governor's comments in 2011. "I really appreciate that the governor recognizes the purpose of the dedicated fund," he told the Star. "It's just fantastic." He called the Common School Fund "a saving grace for poorer districts."

Indiana law-enforcement officials, however, are more focused on their own budgets. Losing forfeiture revenue would strain their ability to fight crime and prosecute wrongdoers, they argue. But that concern pales against the harm inflicted on the state by police and prosecutors disregarding the Indiana Constitution in pursuit of their agencies' financial gain. To what extent are law enforcement agencies willing to risk eroding the public trust for the sake of padding their own budgets? Good intentions cannot justify the law's willful subversion, particularly by those sworn to defend it.

If forcing law enforcement to turn over forfeiture revenue to the school fund as directed by the state Constitution creates a fiscal dilemma for the agencies involved, they must either re-examine their priorities or plead their case to the elected officials, policymakers and taxpayers who allocate and pay for police budgets.

In the meantime, the Indiana judicial system now has the opportunity to correct this ongoing injustice. The state Constitution is unambiguous: "All" funds — not "some" or "a small percentage after law enforcement takes its cut" — generated through forfeitures in Indiana must be channeled to the Common School Fund.

The courts should hold once and for all that Indiana's charter means what it says and henceforth all funds that accumulate from the sale of seized property must be directed to benefit Indiana's school children.

Backgrounders

by JASON ARP

The author, a financial consultant, represents the 4th District on the Fort Wayne City Council. He wrote this for the foundation.

Motive Matters in Annexation

(April 26) — My constituents are scratching their heads. They don't remember annexation being a topic of discussion during last year's municipal elections. There was discussion of riverfront development. There were whispers about an arena. But not a word about annexation. It's difficult, then, for a councilman to gauge citywide sentiment on the issue.

Many of my neighbors in the Aboite area of Fort Wayne still cringe at the word. For annexation is a big deal. It is incorporating people and property into much more than just a geographical area. And its impact is not just financial. It is extending authority over people.

It changes ordinances and laws under which people and property are subject. Places where smoking was permitted become places where smoking is prohibited. Places where people could burn leaves, discharge firearms, keep chickens and grow gardens suddenly become places where those things are forbidden. This new authority has the ability to plan, zone and use eminent domain.

And in the case of the annexation currently before the Fort Wayne City Council, this is all achieved without the input of those affected. Remonstrance was taken off the table by a waiver in the sewer-connection agreements of many neighborhoods. There will be no real consent, therefore. Indeed, we can be fairly certain this annexation could not be achieved voluntarily.

The financial aspects are pretty clear. Annexed residents will have to pay more in taxes to maintain the desired funding for the things being funded now. The majority of their property taxes will be redirected from their school corporations, libraries, township fire departments and county services to the city of Fort Wayne. Eventually, the school districts will have to schedule referendum votes in hopes of making up the difference.

What has not been openly discussed is the motive for this annexation. The current plan appears to raise $5 million in net new money for the city's general fund, and that is after the expense of extending the promised city services to the annexed area.

The city has not explained why it needs that additional $5 million. If the reason is related to basic city services, then this plan is untenable because we are extending those same services to a new area. If the problem is a backlog of road repairs in Aboite or Georgetown, it doesn't make sense to annex a new area that will someday have its own backlog of roads to repair.

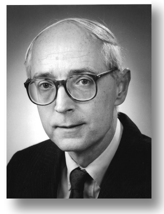
The unstated motive is to pay for economic "development" (that's code for enriching well-connected people). Nobody was shocked reading last Sunday's letters column to see the huzzahs for annexation from the Chamber of Commerce set. This is the same crowd pushing an unpopular arena and other publicly subsidized buildings downtown. Could the $5 million a year in net new revenue be used to pay the coupons on the bonds issued to finance vacant properties there?

Why these folks would ask the city to subsidize adding supply to a market with inadequate demand is a mystery unless, that is, the goal is to crush the prices of existing properties. If that is the goal, there is evidence of success. The eight-story Wells Fargo Indiana Building at Wayne and Calhoun sold for over $28 million in 2005. It was assessed at $11 million in 2013. It transferred to U.S. Bank in bankruptcy procedures at $6.5 million in December 2015.

So instead of doubling down and dragging additional residents into this speculative morass, maybe it's time for Fort Wayne proper to re-evaluate its strategy for economic "development." Perhaps we should explore utilizing the free enterprise system. It would be less expensive to the taxpayer, and the results surely couldn't be any worse.

by TOM CHARLES HUSTON

The author, an adjunct scholar of the foundation and an Indianapolis developer, is a former associate counsel to the president of the United States.



Who Was 'Leading' the Indiana GOP?

(May 5) — I made my guesstimate of the results of the Indiana primary before the first polling was done in the state.

My guess was Trump would carry the state and at least six out of nine congressional districts. I thought Trump would be strongest in Lake County and south of U.S. 40 and weakest in the upper reaches of the I-69 Corridor. I figured Kasich's only shot would be in the northern suburbs of Indianapolis. To the extent my assessment proved accurate, Cruz would carry the Second and Third Congressional Districts, Kasich would win the Fifth District, and Trump would sweep the rest.

As it turned out, I underestimated the breadth of Trump's electoral reach. He carried the state and each of the nine districts. I was correct, however, in relative terms. Trump was weakest in the Second and Third Districts: Cruz won Elkhart County in the Second and Allen (Fort Wayne), Adams, Whitely and Wells Counties in the Third. Except for tiny Union County along the Ohio border where Kasich won 13.8 percent with 203 votes, the Ohio Governor was strongest in Boone and Hamilton Counties in the Fifth District, pulling 11.3 percent of the vote in Boone (Zionsville-Lebanon) and 12.7 percent in Hamilton (Carmel-Westfield-Fishers).

Among the districts, Trump won his biggest victory as expected in the First District (Gary-East Chicago-Hammond) which George Wallace carried in the 1964 Democratic presidential primary, but among the counties he drew his largest share (68.3 percent) in Sullivan County in the "Bloody" Eighth District in the southwestern part of the state. In neighboring Vigo County (which has the distinction of having voted for the winning candidate in every presidential election since 1956), Trump took 63.6 percent of the vote.

The Trump sweep in Indiana raises the question of what it means to be a Republican "leader" in the state. With the exception of former Republican state chairman Rex Early, who chaired the Trump campaign, and one or two state representatives, no prominent Republican officeholder or party official endorsed Trump's candidacy. It is pretty hard to lead troops when 53 percent of them are headed in the opposite direction from you.

The Delegate System

(April 11) — Teddy White, reporting on the 1968 Democratic primary, noted that Indiana's political Party organizations belonged "in a Yellowstone National Park of primeval political fauna."

Over the past 48 years, Hoosier Democrats have made concessions to modernity, but the Indiana Republican Party has chosen to move in the opposite direction. Its method of selecting delegates to the GOP national convention is an embarrassment which should be embalmed and buried in the shadows of Stonehenge, a monument that reflects the mentality of the rock-heads who foisted off on the Republican voters of Indiana a fraudulent system of representation.

Indiana is entitled to 57 delegates to the 2016 Republican national convention in Cleveland. The state chairman, the national committeeman, and the national committeewoman are delegates by virtue of their positions in the state party apparatus. Three delegates are elected by each of the nine congressional district party committees, and the remaining 27 are elected by the State Central Committee. All of this occurs prior to the primary election in which Republican voters express their preference for the Republican presidential nomination. Not one of these designated delegates is appointed or elected by any person or group of persons for whom Republican voters have cast ballots.

This system did not exist when Teddy White was complaining about retrograde political institutions in the Hoosier State. In that Dark Age, Indiana's delegates to the Republican national convention were elected at the state party convention in June by delegates who had been elected by Republican voters in the primary election the previous month. Delegates awarded by congressional district were elected at district caucuses held the night before the convention opened. The at-large delegates were elected by majority vote as part of the business of the convention. The process was open, transparent, and afforded partisans of the presidential contenders the opportunity to field a slate of committed delegates who would stick by their candidate beyond the first ballot. It was a true representative system that was ultimately grounded in the direct votes of grassroots Republicans.

The present system is designed to exclude from consideration delegates favorable to candidates not approved by the party bosses (as several district chairmen unabashedly conceded in the recent Politico report). It enables the selection of persons who are unaccountable to actual voters and favors the political class at the expense of the grassroots (three of the designated delegates from Marion County are full-time lobbyists). This year it has skewed the ideological orientation of the delegation toward the most liberal and least representative elements of the Party. In its structure, its timing and its operation, the present system is anti-democratic.

Our electoral system has changed dramatically since 1960. In that year only a handful of states held primary elections, the most memorable and decisive of which were on the Democratic side in Wisconsin and West Virginia. In 1976, the primary calendar had expanded substantially and on the Republican side it was North Carolina that proved decisive to setting up a real contest for the presidential nomination. In recent elections, almost all states hold either primary elections or caucuses for the purpose of affording voters a direct say in the nominating process.

In this age, only a party apparatus as arrogant and corrupt as the Indiana GOP could argue with a straight face that its members ought to be disenfranchised and denied any say in the results of a multi-ballot convention. In a contested convention that goes beyond the first ballot, the system currently in place in Indiana sets up the potential for a candidate who did not win the primary election and, indeed, may not have been a candidate in the primary election, to steal votes from the favorite of the primary electorate, and the instruments for this steal are persons who have not won a single vote from any Republican electorate other than the professional political class.

Under these circumstances, the Indiana delegation to the convention in Cleveland will lack legitimacy. Having been appointed pursuant to a rigged, anti-democratic system, the credentials of the delegates should be challenged. By any measure of fairness, such a delegation should not be seated in a Republican convention.

Rule 40, a Living Document?

(April 2) — There has been a great deal of discussion among Republicans about Rule 40 of the temporary rules for the 2016 convention. Adopted in 2012 at the behest of the Romney people to keep the Ron Paul delegates from placing his name before the convention, paragraph (b) of Rule 40 provides that a candidate may not be placed in nomination without demonstrating support from a majority of delegates in eight delegations. At the present time, only Donald Trump has such support. Ted Cruz will likely meet this threshold prior to the convention while Governor Kasich most likely will not.

On Hugh Hewett's radio show this week, Karl Rove claimed that Rule 40(b) only prevents a candidate from being formally nominated if he doesn't have the requisite support in eight delegations; it does not prevent delegates from voting for whomever they want once the balloting commences. Under Rove's reading, the convention can nominate a candidate whose name has not been formally placed before the convention, which opens the door to Romney, Ryan, Walker or anyone else who could command a majority vote of the delegates.

Rove is wrong, and the question is whether he is simply lyin' or hasn't read the rule carefully. The latter option is implausible. Here is Rule 40(b) in its entirety:

> (b) Each candidate for nomination for President of the United States and Vice President of the United States shall demonstrate the support of a majority of the delegates from each of eight (8) or more states, severally, prior to the presentation of the name of that candidate for nomination. Notwithstanding any other provisions of these rules or any rule of the House of Representatives, to demonstrate the support required of this paragraph a certificate evidencing the affirmative written support of the required number of permanently seated delegates from each of the eight (8) or more states shall have been submitted to the secretary of the convention not later than one (1) hour prior to the placing of the names of candidates for nomination pursuant to this rule and the established order of business.

Note the last sentence. To qualify as a candidate for the nomination, evidence of the required delegation support must be submitted prior to "the placing of the names of candidates for nomination pursuant to this rule and the established order of business." The only reasonable reading of this provision is that "a candidate for nomination" must satisfy the paragraph (b) requirement before the call of the states for nominations the timing of which is specified in the "order of business" of the convention agreed upon when the convention first convenes.

Paragraph (a) of Rule 40 requires a roll call of the states for the purpose of both making nominations and voting for candidates. Paragraph (d) specifies that "when at the close of a roll call" a candidate for the presidential nomination has received a majority of the eligible delegate votes, "the chairman of the convention shall announce the votes for each candidate whose name was presented in accordance with the provisions of paragraph (b) of this rule." Clearly the only votes to be announced are those for candidates who have satisfied the requirements of paragraph (b); that is, have had their name presented for nomination prior to the first ballot after having satisfied the requirement for majority support in at least eight delegations.

What is Rove up to here? My guess is that he is quite deliberately laying the groundwork for a ruling by Paul Ryan as permanent chairman of the convention that Rule 40 does not mean what everyone understood it to mean in

2012. Such a ruling would have to survive a challenge, but Ryan might well be willing to brazenly ignore the objections from the floor that such a ruling would elicit from Trump and Cruz delegates.

The advantage of following this route to block Trump and Cruz from the nomination is that it avoids a fight over rewriting Rule 40 in the rules committee with a subsequent nasty public fight on the convention floor over adoption of the report of the committee. Trump and Cruz delegates will be united in opposition to any change to Rule 40, and the only way to effect such a written change in the face of this opposition would be to ram it through the convention on a voice vote with the chairman refusing to recognize a demand for a roll call vote.

"The delegates to the Democratic Convention of 1924 cast 102 ballots before they finally settled on the compromise candidacy of John W. Davis."

For Karl Rove's "new face" to come out of a contested convention an amendment to or a reinterpretation of Rule 40 will be required. It is possible that, notwithstanding the application of Rule 40 in accordance with the 2012 understanding of its effect, the convention could deadlock over the nomination. In such an event, the delegates could suspend the rules to open the race to a candidate who had not satisfied Rule 40. A motion to suspend the rules could not, however, muster the necessary votes unless either Trump or Cruz supported it. In that event, we would be in territory not seen by Republicans since 1880.

Of course, if Trump goes into the convention with at least 1,237 pledged votes for the first ballot, none of this worrying about the convention rules will have mattered in the least.

The Reality of our Political Situation

(March 26) — I have pointed out earlier that since 1856 there has never been a third-Party challenge mounted by disaffected Party elements against the regular Party nominee except when that nominee was the incumbent president. There are several likely explanations for this pattern, but a plausible one is pretty straight-forward.

Conventions of the Party of an incumbent president have historically been tightly controlled by a patronage-dependent Party apparatus loyal to the administration. This tended to lend itself conveniently to charges of "rigged" conventions and "stolen" nominations, and quite often such charges rang true. Since the founding of the Republican Party, the only successful challenge to the (re)nomination of a sitting president was that waged by Republican James A. Blaine in 1884 against Chester Arthur, who succeeded to the presidency on the death of James Garfield. It is not mere coincidence that the only other challenge to an incumbent that came within a few votes of victory was that by Ronald Reagan in 1976 against another "accidental" president.

Until the Eisenhower era, conventions in which no incumbent president was a candidate were fiercely contested and often required numerous ballots. The problem was exaggerated in the Democratic Party by a rule that until 1936 required the successful candidate to win the votes of a two-thirds majority of the delegates. The delegates to the Democratic Convention of 1924 cast 102 ballots before they finally settled on the compromise candidacy of John W. Davis.

Although incumbent presidents not seeking renomination occasionally sought to tilt the playing field in favor of a preferred candidate (Teddy Roosevelt overtly supported William Howard Taft as his successor), generally they operated with a light hand. In the modern era, incumbents have tended to support the ambitions of their vice-presidents (Truman was an exception), but none has irritated the Party faithful by attempting to impose his preference on the convention.

Over the years, contenders in a non-incumbent contest for their Party's nomination have accepted, however reluctantly, the decision of the convention. The orchestrated undermining of Barry Goldwater's candidacy in 1964 by the Rockefeller-Scranton wing of the Party has been the exception, not the rule. Even in that case the disaffected did not take the third-Party route. The senator would have been defeated by Lyndon Johnson in any event, but the liberal wing of the Party paid a steep price in 1968 for what conservatives regarded as abject betrayal four years earlier. Richard Nixon, on the other hand, resurrected his political career by strongly supporting the Party's nominee in a losing election.

The Republican nomination fight this year is unique in practically every aspect, but the most relevant difference for my purpose is the grounds on which the Trump and anti-Trump forces would justify a third-Party challenge against the Party's ultimate choice.

Although Trump has most recently said that he would not pursue such a challenge, his assurance on this score is not something many would take to the bank. If he were to renege on his word and willing to dig much deeper into his personal fortune, his justification would surely be that the Party establishment cheated him out of the nomination. This is the Teddy Roosevelt rationale of 1912, and it would seem plausible to his supporters.

The anti-Trump forces, on the other hand, would justify a third-Party challenge on grounds that the nominee was unfit for the presidency and his nomination amounted to a hijacking of the Party by the rabble. Not only would this justification be a hard sell to those who voted for Trump in the primaries, it would also be unprecedented.

While third-Party challengers have always had unkind things to say about their opponents, none has heretofore made such an extravagant claim. Moreover, such a claim would strike at the very purpose of political parties, which is to mobilize an electoral coalition behind a nominee determined in accordance with established Party rules. Unless the anti-Trump forces can demonstrate that the process leading to his nomination was abused, they would be pitting their judgment against that of the voters and delegates who acted in accord with rules the defectors put in place. While such an effort might well enhance the moral self-esteem of the rebels, It is difficult to see how they would have any subsequent standing to "save" the Party that they helped push over the cliff.

"A serious third-Party challenge by either Donald Trump or a rump element of anti-Trump neoconservatives would be the first of its kind since the days of Andrew Jackson."

History is no guarantee of subsequent events, but it is a reasonable guide to their likelihood. On that basis, then, there is a case to be made that whatever the pros and cons of a third-Party challenge this year, the odds of one being successfully launched are remote.

Third-Party Woe

(March 16) — Third-Party campaigns can have an effect in national elections. The Populist uprising west of the Mississippi cost the Republicans control of Congress in 1890 and Benjamin Harrison his bid for reelection in 1892. The Progressive insurgency in 1912 which led to a three-way race among President William Howard Taft (R), New Jersey Governor Woodrow Wilson (D) and former president Theodore Roosevelt (R) gave the Democrats their first presidential victory in 20 years.

The most recent election in which the outsider played a decisive role was, interesting enough, in the centennial year of Harrison's failed reelection effort. Self-funded and erratic, the wild-card candidacy of Ross Perot in 1992 was enough to oust George H. W. Bush from the White House. The extent to which the contest for the Republican nomination launched by Patrick Buchanan in the early primaries influenced the outcome of the general election is unclear, but the deep division in the Party resulting from Bush's breach of his promise not to raise taxes undoubtedly contributed to the sharp falloff in the Republican vote from four years earlier.

The three-Party elections of 1892, 1912 and 1992 involved reelection bids by a sitting president, and in two of them the third-Party candidate was motivated in some measure by personal spite. Theodore Roosevelt was the only one among the challengers to win votes in the Electoral College. He humiliated Taft by winning six states with 88 electoral votes to two states for Taft with a paltry eight electoral votes. Those results were, however, the sideshow. Wilson carried 40 states with 435 electoral votes thanks to the division within Republican ranks.

Other third-Party candidacies have not had a demonstrable effect on the outcome. Republican Senator Robert La Follette of Wisconsin was the Progressive candidate for president in 1924. His opponents – incumbent president Calvin Coolidge (R) and former Ambassador John W. Davis (D) – were both conservatives. The progressivism of La Follette rang hollow with an electorate enjoying the good times of the Roaring Twenties. He won his home state, Davis carried the states of the old Confederacy plus Oklahoma, and Silent Cal won the remainder with 54 percent of the popular vote.

Twenty-four years later, former Vice President Henry Wallace led the Progressive ticket to an ignominious defeat in a four-candidate race. He carried no state and won a little more than two percent of the popular vote. The fourth candidate – South Carolina Governor Strom Thurmond – running on a State's Rights platform carried four Deep South states. Incumbent Harry Truman won slightly less than half of the popular vote, but that was good enough to win 303 electoral votes.

The third-Party candidacy of George Wallace in 1968 did not tip the election, but it did set the terms of much of the debate in the campaign and generate plenty of angst in both major parties. The five states that Wallace carried – all in the Deep South – would by most accounts have gone to Nixon in the absence of the Wallace candidacy. Be that as it may, President Nixon didn't leave that to chance four years later. Of the six presidential campaigns in which third Party candidacies played a role, all but that of 1892 were a result of fissures within the governing Party. Although Benjamin Harrison had been challenged for renomination by James G. Blaine, the unsuccessful Republican candidate in 1884, his loss in the general election was not so much a reflection of Party division as it was of the populist rebellion which crossed Party lines and led four years later to the disruption of the Democratic Party and the nomination of William Jennings Bryan.

On first glance, the election of 1968 is the only one of the six contests that did not involve a challenge to a sitting president from within his Party.

Probing deeper, however, it may be argued that the candidacy of Democrat George Wallace was initiated in anticipation of a reelection bid by the sitting Democratic president, Lyndon Johnson. On this analysis, the Wallace challenge conformed to the historic pattern.

A serious third-Party challenge by either Donald Trump or a rump element of anti-Trump neoconservatives would be the first of its kind since the days of Andrew Jackson.

If history is any guide, it would likely assure the election of Hillary Clinton and engender a level of intra-Party bitterness not seen since the election of 1912. The odds are, however, that it would not change the trajectory of the political forces that have led us to this point.

Of course, those waging the battle will see it as a pivot point of History, a noble struggle for the good of humankind. Teddy Roosevelt set the tone for such ennobled challenges when he closed his address to the Progressive national convention of 1912 by assuring his followers,"We stand at Armageddon, and we battle for the Lord."

He lost, the country survived, and the Lord seems not to have noticed.

A Pre-Revolutionary Environment?

(March 12) — Under what constitutional or democratic theory is it legitimate to deny political opponents access to the public forum? How do you conduct democratic elections if political rallies are shut down and candidates are silenced by partisans of the other Party?

The answer from the Left is that some candidates simply don't have a right to speak if what they say, in the opinion of the shut-them-up crowd, discomforts or disrespects constituencies of the Democratic Party. In the case of Donald Trump, it seems that his opponents believe that as a consequence of his rhetoric he "has it coming" if his rallies are disrupted by hecklers determined to drive him from the stage.

"Blaming Trump for inflammatory rhetoric would make sense if his followers were roaming the streets attacking passers-by."

John Hinderaker at Power Line observes that "Blaming Trump for inflammatory rhetoric would make sense if his followers were roaming the streets attacking passers-by, or infiltrating Clinton and Sanders rallies and attacking Democrats. But they aren't. Not a single such instance has occurred. On the contrary, every violent or disruptive event has involved people associated with the Democratic Party trying to prevent Trump from being heard. Whose inflammatory rhetoric has inspired them? Certainly not Trump's."

Trump's critics focus on the entirely predictable and occasionally inappropriate response by his partisans to the antics of the protesters and not on the question whether disruption is per se anti-democratic and inimical to the constitutional process by which we select our leaders.

Minor heckling at campaign events goes with the political territory, but this sort of irritant is distinguishable from an organized effort to silence a candidate. The latter is associated with pre-revolutionary environments, not routine elections in a constitutional republic.

The Chamber Mirage

by RYAN CUMMINS

(April 15) — Can our troubled small businesses find encouragement in the hope that powerful lobbying organizations, their local and state Chambers of Commerce, are fiercely advocating on their behalf? Hardly, I'm sorry to say. The Chambers are a mirage; they look substantial from a distance but disappear as you draw near, as the foundation's Fred McCarthy detailed in a dedicated issue of this journal.*

So it is not incidental that the officers of my company are members of neither the local nor state Chambers. Why? Because these organizations work day in and day out to collude with economic-development bureaucrats to pick winners, and therefore losers, among our business community. Indeed, most small-business owners end up in the latter category. Why would anyone pay dues to an organization that works against them?

I spent eight years on my local city council in very much the minority. This "outsider" experience gave me uncommon insight into the property-tax system and the economic-development scams cheered on by my local Chamber.

"Hardware stores don't only compete with other hardware stores. They compete with every other provider of any product or service."

Two of the most notorious are tax abatements and TIF (tax increment finance) districts, with the economic-development income tax or EDIT close behind. Again, the fan of these schemes is almost always the local Chamber of Commerce, backed up by the state organization.

What Chambers never mention is something so fundamental in business that it is truly puzzling they are never forced to acknowledge its existence. It is something that every business owner who manages to stay in business more than a few years figures out, usually the hard way — to wit, that every business competes with every other business.

Hardware stores don't only compete with hardware stores. They compete with every car dealer, machine shop, grocery store, florist, insurance company, law firm and so on — in short with every other provider of any product or service. Hardware stores don't sell cars, so how do I claim they compete? Because they need customers to spend money with them, they need good employees, they need sources of financing, they need land on which to operate, they need infrastructure to conduct business, they need everything every other business needs.

Because all these resources, including customers, are finite at a given moment, businesses compete for all of them with every other business. If asked, the hardware-store owner wants everyone to above all paint, remodel, fix and improve your property and buy the stuff from him or her. The car dealer, though, wants you to forgo those things and buy the really nice car and then service it at his dealership, trading it in every couple years. He is OK if you don't repaint your house.

The comparison holds with other businesses. A local or state Chamber is supposed to advocate for all it's members. The only way to accomplish that is to ardently support free markets, property rights and limited government. But Chambers don't do that. Again, they prefer the power rush of picking winners and losers, mostly losers, in cooperation with government and calling it economic development. Most dues-paying members seem fine with this. I'm not.

Let me offer a personal example. My business hires mostly entry-level people. We primarily look for a good work ethic and ability to deal with the public on a daily basis. Later, we train our new hires in higher-level skills. One of these skills is safely operating a forklift. I hired a young man, just starting out, and spent money, time and effort training him on the forklift.

Shortly after training this young man, a manufacturer up the road received a tax abatement (we, on the other hand, paid our property taxes in full). The manufacturer advertised for additional help. Our freshly trained forklift operation saw an opportunity and went to work for them. Chief among his qualifications was that he had demonstrated with us his ability to safely operating a forklift. The manufacturer was able to pay him more, not a lot more but more than our sales and profits allowed us to pay.

Was the manufacturer able to offer more because he paid less in tax thus freeing up that money to hire qualified personnel? Money is fungible, after all, and when it comes to competing for resources, every little bit can help or hinder.

My local Chamber enthusiastically supported the use of abatement in this and every other situation. I don't fault the young forklift driver. I do fault organizations and government that continually and destructively tilt the competitive field to the advantage of some at the detriment of many others.

On another issue, most local Chambers, mine included, were at the front in the movement for local income taxes.

At one time, my county was one of only seven in the state without a local income tax. It seemed a great advantage in persuading a company to locate, expand or hire. Think about it: Your employees could make 1.25 percent to as much as 2 percent more working in our county and it didn't cost your business a dime.

Enter local government officials and the Chamber beating the "invest in ourselves" drum. Although sold as property-tax relief, it was nothing of the sort. It was simply new money for government to spend.

When Chamber officers and local officials use the word "investing," it does not mean what you think it means, which brings to mind another example. A friend of mine operates a local grocery store. It is well liked, he built a new store, and business was good. Markets being what they are, his business attracted competitors, in this case a new Super Walmart.

My friend knew he could compete but also knew he needed to up his game. In the meantime, him and all his employees were paying the new EDIT tax and naively assumed it would be used for "real" economic development, i.e., "investment in ourselves."

The property owner where the new Walmart was being built wanted a bigger, nicer road leading into his development but wasn't keen on paying for it. Enter the local government and their new pot of EDIT money: "Heck yes, we'll pay for it. That's economic "development."

A half-million dollars later, there was a nice road leading to the new Walmart, part of it courtesy of my friend and the hard-working employees of his local grocery store.

Now, if you ask the mayor or the local Chamber if they intended to force a local business to subsidize the new Walmart, they would have answered with an indignant "no." Yet, that is exactly what was done. My friend still does a good business but finds he and his staff have to work a little harder.

I wonder if they know why.

* *Fred McCarthy. "Reawakening the Chamber." The Indiana Policy Review. Fall 2011.*

by PATRICK OETTING

The author, a Fort Wayne native, is the Strategy and Engagement Manager for the PovertyCure initiative at the Acton Institute. He travels across the United States and Latin America speaking on this issue.

The Cure for Poverty Is Right Next Door

(April 6) — Historically, the less fortunate in the United States have depended on their neighbors, local churches and civic institutions for the extra care needed to make ends meet. This approach embodies the notion of "subsidiarity," which the Cambridge English Dictionary defines as, "the principle that decisions should always be taken at the lowest possible level or closest to where they will have their effect, for example in a local area rather than for a whole country."

Alexis de Tocqueville saw this strong civil society present in American culture when he first visited the United States in 1831. He rightly pointed out then that it is precisely what made America exceptional.

Over the past century, our society has traded these communal social ties in favor of a welfare system that requires heavy state involvement. The correlation between government involvement in the welfare system and the decline of civil society is no coincidence. As central authorities, characterized by a striking lack of local knowledge, hand-down aid, the need for community involvement decreases. As a result, charity becomes less and less personal.

"The correlation between government involvement in the welfare system and the decline of civil society is no coincidence."

And government intervention is not the only problem. Private giving has also become less effective over the past half a century. Dr. Marvin Olasky, the social reformer, states: "The crisis of the modern welfare state is a crisis of government, but it is more than that. Too many private charities and foundations dispense aid on the basis of what feels good rather than what works; they end up providing, instead of points of light, alternative shades of darkness."

A century ago, charities practiced a high amount of discernment. Inherent knowledge of local situations afforded them the wherewithal to resist laying blanket solutions on unique problems. I love these two quotes from the New Orleans Charity Organization Society: "Intelligent giving and intelligent withholding are alike true charity" and "If drink has made a man poor, money will feed him not, but his drunkenness."

Though both statements were made in 1899, we have much to learn from them today. They remind us that if we do not dispense our charity carefully, we could easily perpetuate —or worse, exacerbate — our social problems.

The way to reduce this trend and break systemic cycles of poverty is to reduce the role of the state and return to the principle that still works as well as it did in 1831 — subsidiarity, that is, let those closest to the issue, such as churches and private charities, determine the needs in their community before we allow state involvement.

Again, we now have a federal government that has largely crowded out private charities. As Russell Roberts states, ". . . with the dramatic increase in public aid during the Great Depression, which began in late 1929, private charities were 'crowded out.' They could no longer successfully compete for donations with a federal government that could compel 'donations' via the tax system."

If government were to reduce its role — or at least slow the growth of programs — churches and private charities could in turn fully assume the role that they were created for, i.e., to help those in their community. Some argue that this may result in less money dedicated to the poor. I counter that any reduction would be offset by the targeted nature of the benefits. Subsidiarity works because locals have access to specifically local information. Benefits are designed specifically to address the specific needs of specific people in a specific community. Simply put, local givers give more efficient gifts — especially when compared with the current, bloated, top-down approach in which one size is assumed to fit all.

In addition, it's harder to fool your neighbor than a stranger you'll never see again. Thus, subsidiarity provides fewer chances for fraud and abuse. The many layers of the state and federal charity bureaucracy serve only to identify and prosecute fraud could be dramatically diminished.

Robert Woodson, founder of the Center for Neighborhood Enterprise (CNE), has developed an innovative approach to identifying potential "change-agents" already embedded in poverty-stricken communities. I like to call his method, subsidiarity in practice.

When CNE enters a community they invert the questions commonly asked by scholars, government employees and many professional non-profiteers. CNE does not ask, “How many children have dropped out of school, committed a crime, or succumb to drug addiction?” Rather, it asks, “Who has raised children who have not dropped out of school, committed crime or succumb to drug addiction?” Once CNE identifies these families, it educates and trains them so they can take a leadership role and positively influence their community. The result is true and lasting community transformation from the inside out.

When individuals take control of their own development — serve as protagonists in their own story — lives are changed for the better. But for this sort of development to take hold we need to ensure that our charity and aid efforts are supporting rather than undermining local institutions. We need to place our social focus on subsidiarity.

Are we satisfied with our current welfare system, with the allocation of large sums to projects that promise results they almost never deliver? Are we satisfied with giving over our right to help our neighbor to a government that has seen little change in the number of fellow Americans living in poverty?

I believe the majority would say no. The majority recognizes that the U.S. poverty rate has not declined since Lyndon B. Johnson started the war on poverty more than five decades ago. The majority recognizes that far away efforts have failed where local initiative once succeeded.

We need to move away from a government that engages in paternalistic giving and return to a system that puts the power in the hands of those closest to the problem. Just as Robert Woodson is putting into practice in communities around the U.S., I’m confident that lives will be transformed, but only if we get out of our own way.

by T. NORMAN VAN COTT, Ph.D.

The author, an adjunct scholar of the foundation, is professor emeritus of economics at Ball State University. He wrote this for Foundation for Economic Education.

Merely 'Creating Jobs' Will Hurt the Economy

(May 5) — How many jobs would the Keystone Pipeline project create? Supporters argue that the Keystone XL pipeline would create tens of thousands of new jobs. But critics claim those numbers are wildly inflated.

Both sides assume a higher number would make the project better for the economy. Both sides have it backwards. Pipeline proponents who note a large number of required jobs are unwittingly arguing against the project, just as opponents who cite a small number of jobs are unwittingly arguing in its favor.

This is easier to grasp at the most domestic level: your own home. Being a homeowner isn't easy. Among other things, you always seem to have more chores to do than time to do them. The chores are not ends in themselves. Rather, they are means to an end — in this case, making a home and yard more livable or aesthetically pleasing.

Opting to do a chore yourself — "insourcing" in current parlance — isn't costless. You lose the opportunity to enjoy the fruits of your other labors. For example, you could tackle different chores, spend more time with your family or work extra hours in the marketplace, increasing your income. Hiring someone else to do the chore — that is, "outsourcing" — isn't costless, either. It means you can't buy other things. Costs represent sacrificed alternatives.

The rule when it comes to home ownership isn't rocket science. Tackle those chores whose ends you value more than their cost. If your water softener breaks, and you value having softened water more than what it would cost either you or the plumber to repair it, then hire the plumber if his cost is less than what it costs you to fix it yourself. (Don't forget to count the work time you'll be giving up to act as your own plumber.)

By outsourcing the repair work, you will have "lost a job," but your standard of living will be higher. By how much? The difference between your cost and the plumber's cost.

Added household chores — that is, "gaining jobs" — is anything but a blessing. Chores represent hurdles between you and that more livable, aesthetically pleasing home and yard. Each job represents something you're going to have to give up before your house is the way you want it. "Gaining jobs" to achieve a given objective is synonymous with worsening your situation, not improving it. What is rocket science for many is the ability to recognize that the rule for individual households extends to the national household, as we can see in the case of the Keystone Pipeline controversy. The project, which has been a political football for several years, would transfer oil from Canada to the Texas Gulf Coast. The project's desirability is associated with the number of jobs required for the pipeline's construction and maintenance. The more jobs created, the more desirable the pipeline, it would seem.

All involved in the discussion fail to apply lessons for individual households to the national household. Pipeline jobs are part of the cost of getting oil from Canada to the Texas Gulf Coast. They are not part of the benefits. The fewer jobs created, the better. Indeed, in the best of all worlds, there would be zero jobs required to transfer oil from Canada to the Texas Gulf Coast. That way, we could get the oil transferred without having to give up anything.

This failure to apply the simple rules for individual households is not restricted to the Keystone Pipeline issue. It pervades economic, business and political discussions. Government programs come packaged with estimates of the number of new jobs the programs will supposedly create. The more jobs, the merrier. That's the political refrain. Likewise, state and local economic development bureaucrats tout the number of jobs associated with business relocations or expansions.

One has to wonder whether those who peddle this "more jobs" nonsense apply it to their own households. I bet not. Fewer chores, not more, make their homes more enjoyable. National households are no different. Or as Adam Smith put it in his classic, "The Wealth of Nations," that which "is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom."

Why We Say 'Thank You'

(March 30) — Next time you're shopping, eavesdrop on conversations between checkout clerks and the customers ahead of you. You'll probably hear clerks say something like, "Thank you for shopping Acme," as they give customers change and receipts. What about customers? More often than not, they'll respond with another "thank you" — not "you're welcome" or even "no problem," but another "thank you."

To hear "you're welcome" in a public setting, listen to the exchange when someone in a wheelchair is trying to open a door and another person offers to hold the door open. I've been confined to a wheelchair for the last three years, and I can assure you that my "thank you" has always evoked a "you're welcome" — or at least a "no problem."

Perhaps the reciprocity at the checkout counter is a rote social convention, but why don't we see the convention outside the marketplace?

Really caring is nice, but it only works in a family setting or maybe a small commune — and at a tremendous cost in living standards.

For one thing, most thank-you situations have a clear-cut benefactor and beneficiary, but voluntary commercial exchange benefits both sides. Sellers don't gain because buyers lose, nor do buyers gain because sellers lose. On the contrary, buyers and sellers both expect to gain in any transaction. That's why both say, "Thank you!"

Does this mean that the marketplace is an economic love fest in which buyers and sellers are motivated by compassion for their counterparts? Hardly. Buyers and sellers enter the marketplace with conflicting objectives. Buyers hope to pay as low a price as possible, while sellers prefer as high a price as possible.

Buyers search for the providers most able to sell at lower prices. Since costs inform us of sacrificed alternatives, buyers' actions minimize what is given up to procure any particular product. And that means having more of other things. For example, when lower-cost producers provide watermelons, we can all have more of, say, green beans. A "free lunch?" No, just bigger helpings. And more reciprocal thank-yous at the checkout counter, too.

Sellers' simultaneous search for high-paying buyers also leads to more reciprocal thank-yous. Texas cattlemen will try to sell to National Football League training camps long before they contact American Vegan Society (AVS) conventions. Does that mean vegans lose out? No. Vermont's bean curd producers' search for top-dollar tofu buyers leads them to AVS conventions. We end up with more steaks and more tofu — and more thank-yous all around.

Even though buyers and sellers pursue contradictory agendas, all must act as if they cared about their counterparts in the marketplace. Self-serving buyers, in other words, must offer terms of sale to sellers that benefit sellers. Ditto for self-serving sellers: they must offer terms of sale to buyers that benefit buyers. Absent this as-if behavior, buyers don't buy and sellers don't sell.

Over my many years of teaching economics, I've heard numerous students claim that such "as if" behavior is not admirable. They claim that it's hypocritical. We should really care, shouldn't we?

My response? Really caring is nice, but it only works in a family setting or maybe a small commune — and at a tremendous cost in living standards. At the mention of lower living standards, most of these naysayers retreat from their moral posturing.

The market may not fit the selfless version of morality we were all taught as children, but reciprocal thank-yous hint at the gratitude we owe to the vast commercial network of as-if benevolence. We are all wealthier because of it.

by FRED McCARTHY

The author, an adjunct scholar of the foundation and editor of Indytaxdollars, represented various taxpayer and business organizations before the Indiana General Assembly for 40 years, being awarded a Sagamore of the Wabash by two governors along the way.

Political Decisions or Scams?

I have written about the report that the new mayor of Indianapolis wants to jump into downtown development by taking over the disposal of the old Coke bottling plant. We were raising the question of the "tradition" of mayors showing more interest in downtown development than the wants and needs of the great majority of taxpayers

One of the options under consideration in the Coke plant deal is outright purchase by the city. We don't know the estimated price of the building and land but it obviously will rise into the multi-million dollar *financial stratosphere*. We use that phrase intentionally to make a point. The business newspaper tells us that the city can afford only $3 million a year to work on sidewalk problems — 1/250th of the estimated total cost.

But also in the news is that the City-County Council has approved a preliminary step toward a tax increase for the proposed Red Line and other public transportation fixes. The same issue carries an editorial which includes this statement with regard to the Coke plant:

> "Politicians who run for mayor typically prioritize neighborhood development and question subsidies for private development projects downtown. Post-election, the necessity of guiding and spurring downtown projects becomes clearer" (read "guiding and spurring" as "controlling").

Are there any readers who have doubt about the timing of "clarity" of development projects? What becomes clear to any newly elected incumbent is the need to remember who helped financially to get him elected. It wasn't those folks out there who put their lives in danger by traveling sidewalks and streets needing repair.

The question must certainly arise in this specific instance as to where in the current budget are these millions of dollars available to speculate in real estate. There are, of course, TIF (tax increment financing) dollars to be dealt out and contracts to be signed and grants and abatements to be approved.

It's not hard to understand how the politician-mayoral candidate can be so "flexible" as to promise hard-to-pay-for sidewalks, for instance,but make an unbudgeted real-estate purchase and, probably, deliver millions upon millions of tax dollars to some downtown real estate developer.

The basic problem, of course, is that we keep electing the type of politician who will follow this questionable practice. Do we do so because we don't know any better? Are we victims of misinformation? Do we really just not give a darn?

Someone needs to bring to light the amazing similarity of this long-practiced municipal tradition to the old bait-and-switch scam, that is, "sell 'em one thing, deliver another."

'Free' Rides to the Bread and Circus

(March 23) — Are we about to see just how gullible local taxpayers are? The morning paper tells us "Voters may get a say on bus plan" in Indianapolis. The big spenders on the City-County Council there must put a tax referendum on the ballot this fall.

As usual, the pitch will start with intentionally misleading referendum wording so the voters "can have their say." After 56 words of blather about more taxes needed for "improving," "establishing," "connected network" and so on, we get the final sentence: ". . . and implement three new rapid transit lines."

Is there anyone else who thinks it is strange that the first construction priority, the Palladium-to-Stadium line, falls among those "afterthoughts" mentioned?

The truth is Indianapolis might get access to nearly $100-million "free" federal transportation bucks (to put the carrot out front). But after that amount is blown, the local taxpayer will be told on cue by the medias: "It would be foolish to stop here; get out your wallets."

When the dollars fall short, who is left standing on the curb looking for needed transportation? Certainly not the individual who, along with professional sports, benefits by the presence of new rapid transit directly to the front gate of the football field and basketball court.

Why else does the route come nearly downtown on College Avenue and then veer to the west to wind up at Capitol Avenue and Maryland Street? Will the bus then backtrack toward College Avenue to find its way to the multi-million dollar bus station (or fieldhouse?) before heading further south?

The odds are against a realistic transit system that would benefit those who really do need it. The poor guy/gal still standing on that corner does not have funds to buy a ticket to the ball game, much less make the necessary political payoff that has become standard operation in Indianapolis.

by CECIL BOHANON, Ph.D.

The author, an adjunct scholar of the foundation, is a professor of economics at Ball State University. He recently published, "Pride and Profit: The Intersection of Jane Austen and Adam Smith."

Trumpism Explained

(March 21) — I do not support Donald Trump. I will not vote for Donald Trump.

He is a protectionist, I support free-trade. He is for strict restrictions on immigration, I am for more open immigration with the proviso that means-tested entitlements not be available to immigrants until they become citizens. Trump's budget plans don't add up and would inevitably add to the federal deficit — in this way he and Bernie Sanders are quite similar. Both wave their hands and say their policies will somehow magically generate unprecedented economic growth and save the day. Sander's magic is naïve Keynesianism, Trump's magic is his own personality.

In both cases, I don't buy it.

I have worked on a college campus for a long time and know lots of people on both sides of the political aisle. (Yes, there are conservatives and classical liberals on college campuses—a minority, but we are here) Some of my more leftward colleagues are for Sanders. However, I don't know any of them left, center or right; who are for Trump.

So how is he getting 40 percent of the vote in GOP primaries? I think Wall Street Journal columnist Peggy Noonan is on to something when she says that Trump's rise is the rise of "the unprotected." Voters who are concerned about terrorism, who do not have job security, who feel threatened by foreign competition, who live in unsafe neighborhoods, who think they are looked down upon by social and cultural elites and believe the government is not looking out for them are attracted to Mr. Trump.

Here is some corroborating evidence. The courts have ordered Apple Computer to write software so that the government can de-encrypt the phone of the San Bernardino terrorist. The government is arguing for the order on the grounds of national security, Apple is objecting on the grounds of protecting privacy. The more I learn about the controversy the less I believe it about safety versus privacy, but for better or worse it is easy to boil it down to such a tradeoff.

A recent poll indicated among the general population 50 percent are on the government's side of the issue, 36 percent are on Apple's side and 14 percent don't know. Among those with less than a high school education, the percentage of those on the government's side is 58 percent, while it is only 46 percent among those with graduate degrees.

Classical liberals and progressives and even some conservatives reflexively take the side of Apple. I know I do. I also know I live in a safe neighborhood, have a steady job and good prospects for a comfortable retirement, as do most all of my academic colleagues. And I will defend my opinion that privacy trumps security. But I become obnoxiously condescending when I say that those who don't see it my way are simply poor, uneducated and insecure weaklings who are willing to give up freedom in exchange for security. I am also obnoxiously condescending when I say Trump is Mussolini and his supporters are fascists blackshirts- though at times I fear they may be.

More to the point, do those of us who oppose Trump really think we will persuade those who are for Trump to change their minds by insulting them? Or is it that those of us with college degrees think we can shame our less-educated fellow citizens into renouncing Trump?

No wonder Trump's appeal expands.

by JOHN PICKERILL

The author is chairman of the Montgomery County Republican Party and a graduate of Purdue University and the Navy Nuclear Propulsion Program. Pickerill retired from the U.S. Navy with the rank of Commander.

What Would a Legitimate GOP Convention Look Like?

(April 28) — By now everyone paying attention to national politics is going crazy about what is wrong with the Republican National Convention process. Trump supporters are ballistic about how the GOP establishment might swindle their candidate out of the nomination. The Republican establishment leadership is trying to convince the world that it is the Party that gets to decide who the Republican nominee will be, not the popular vote

Actually, they both have it wrong because no one is bothering to ask the most important question: What is the purpose of a political party convention?

I would suggest to you that the purpose of a convention is to express the will of the Party's general membership, not merely the will of the Party's leadership but of the entire membership. A legitimately run convention would provide the opportunity for a majority of its members to override Party leadership. A legitimately run convention would put the general membership in control to write the Party's platform and rules, and to select the Party's nominees for the upcoming general election. The general membership would select delegates to represent them at the convention. When the delegates are assembled, they are the convention. And while the convention is in session they are supposed to be the decision-making body of the Party.

The convention process put together by today's Republican National Committee has failed this purpose. First, the general membership has not been allowed to select their national delegates. In Indiana, not even the state delegates were allowed to select its national delegates this year. Only Party officers (county chairmen and vice-chairmen) were allowed to vote for national delegates. The national delegates today do not represent the will of the Republican general membership from whom they were sent to represent.

Secondly, even if the Indiana state delegates were allowed to freely select Indiana's national delegates — and I'm not talking about the 2012 method of merely voting yes or no to the not-amendable/non-debatable slate conjured up by GOP district officers in a smoke-filled room — and even if we had a truly open state convention where state delegates could nominate candidates for national delegate from the floor of the convention, there's still a problem.

State delegates aren't really elected by the general membership of the Republican Party in Indiana. That's because there is no enrolled "general membership." Any member of the public, even those hostile to the principles of the Republican Party, are allowed to participate in the Republican primary in May and therefore influence who is elected as a Republican state delegate. As a result the election of Republican state delegates is heavily infiltrated by liberal authoritarians. This would be unheard of in any other community organization. Members should be enrolled in the Republican Party just like any other organization (Rotary, Kiwanis, American Legion, Fraternal Order of Eagles, etc.) Otherwise, it violates the basic right of association. Yes, this would take a change of the state's primary election law. But if the Indiana Republican Party made it a priority, the Republican super-majority in the General Assembly would follow.

Third, the Republican National Committee and state committees now routinely change the convention rules on their own without the legitimate authorization of the general membership. The will of the Republican general membership is not reflected in the Party's rules. In other words, the Party rules are a result of top-down dictatorship instead of a bottom-up process the Republican Party leadership claims to use.

Fifth, because the general membership should be allowed to determine for themselves who the Republican nominee will be, in a perfect world the national delegates (duly chosen by the general membership of the Republican Party) should be free to vote for whichever candidate they think best furthers the principles of the Republican Party. But for some reason we now allow an open primary election process in which non-Republicans are allowed to vote to bind how a national delegate must vote on the first ballot at the Republican National Convention.

Sixth, the Indiana General Assembly (totally and completely dominated by the two major political parties) has passed state laws granting the Republican Party and Democratic Party special privileges and immunities. Specifically, these two parties are given complete control of our election system. This makes it almost impossible for third parties to compete with them. If this weren't the case, you would likely see a mass exodus of people from these two corrupt parties into other political parties who would actually welcome their participation.

If we had a legitimate convention process, there would be no problem letting that process determine who becomes the Republican nominee for President of the

United States or any other office. As it is, the voices of the Republican general membership will be drowned out regardless if its presidential nominee is chosen by this year's national delegates or this year's primary election results. Both Mr. Trump and the Republic National Committee have it wrong.

The Two-Party Cartel

"The General Assembly shall not grant to any citizen, or class of citizens, privileges or immunities, which, upon the same

(March 17) — The state of Indiana no longer follows its own Constitution. It routinely passes laws violating it, specifically when it comes to state election laws. Hoosiers have stood by and allowed our General Assembly to grant special privileges to the top two political parties, special privileges that all-but-guarantee leaders within those two parties will maintain a stranglehold on political power in our state.

State law defines a Major Political Party (MPP) as one of those two parties that received the most votes in the last election for Secretary of State. State law then hands entire control of our election system to these two parties. Only MPP (i.e., Republican Party and Democratic Party) members are allowed to serve on the Indiana Election Commission and be employees of the Indiana Election Division. These are the very organizations that enforce election laws. MPP county chairmen pick every County Election Board member and every poll worker. Only MPP members are allowed to be members of a Recount Commission, even if one of the candidates in the recount is a non-MPP candidate. Is it any surprise that every statewide office is held by an MPP member?

If that weren't bad enough, Indiana law grants a special privilege to political parties who receive at least 10 percent of the Secretary of State vote: They get a taxpayer-funded primary election to select their nominees. Because primary elections give free publicity and media coverage to their candidates, and give the impression of greater legitimacy compared to all other parties, this makes it almost impossible for other parties to compete. And finally, only major political parties get the special privilege to fill an office vacancy by precinct committeeman caucus. This guarantees if a MPP officeholder is removed, resigns or dies that his MPP gets to replace him with one of its own. But not true for any other Party or independent. For example, if a Green Party county councilman resigned, the Green Party wouldn't be allowed to pick his replacement. No, instead the other six county councilmen get to decide it. The flawed system encourages independents and third-Party candidates to be weeded out. So much for a diversity of opinions. No other political Party or independent stands a chance whenever the two major political parties form a cartel and decide to shut them out. This two-Party cartel has complete power over the election process and organization.

Today, the Republican Party and Democratic Party pretend to have opposing views, but when you look past all the rhetoric there's little significant difference in what they are really supporting. Neither Party is serious about reigning in the size of government to constitutional constraints. Neither enacts anything more than token protection of civil liberties and economic liberties. Both create new schemes to interfere with the economy and enact more and more government programs. The fact that the Republican Party has held a supermajority in both Houses of the General Assembly and controls the governor's office, but has enacted little legislation supporting its own platform, should be a red flag to all of us that we have a two-Party cartel. The same lobbyists control both parties. Political principles now take a back seat to the mountain of lobbyist campaign cash.

The Indiana Constitution demands that no political Party be granted special privilege that isn't also given to every other political Party, or any other class of citizens. Of course, there is little chance of the General Assembly fixing this on its own since it's made up entirely of major political Party members. The only chance to root out this two-Party cartel is to find a non-partisan judge and jury with the courage to rule these special privileges unconstitutional. Only then can we restore a free and equal election system.

A political Party should have to win voters over with the best ideas, not by rigging the system. "All elections shall be free and equal," says the Indiana Constitution, Article 2, Section 1.

by TYLER WATTS, Ph.D.

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Who Took What Jobs?

(Feb. 29) — Demagogue politicians love to play on popular fears that low-wage foreigners are “stealing” good paying American jobs by way of outsourcing and globalization. The claim is made by nativists and protectionists of all political stripes, whether leftists complaining of a “rigged economy” or rightists speaking of other countries “beating” us economically.

A sound economic analysis of the claim about job losses due to international trade should address two questions: First, is it true that the U.S. has lost jobs due to trade (or other factors)? Second, is this phenomenon good or bad overall for the US and world economies?

On the first point, it can appear as though the U.S. has lost jobs. For example, manufacturing employment in the U.S. has declined by about 2 million from pre-Great Recession levels, and is down by over 7 million, or 37 percent, from the all-time high reached in 1979.

“Unlike the Great Depression, which took a full decade just to recover its loss of 10 million jobs, the latest recovery gained back the 8.7 million jobs in less than seven years.”

So indeed, the U.S. has been losing manufacturing jobs for decades, giving prima facie support to the demagogues’ arguments about the link between outsourcing and the so-called de-industrialization of America. But manufacturing is just part of an enormous U.S. economy. What do we observe when we look at employment in the entire economy?

First, we’ll note a painful loss of 8.7 million jobs from peak to trough of the latest recession (December 2007 to February 2010), a decline rivaled only by the Great Depression of the early 1930s. However, unlike the Great Depression, which took a full decade just to recover its loss of 10 million jobs, the latest recovery gained back the 8.7 million jobs in less than seven years, and has to date now added a net 5 million new jobs.

Payroll employment in the United States now stands at an all-time high of 143 million. Pundits and economists may argue that the rate of job growth has been weaker recently than prior economic recoveries, and perhaps that’s the case. I’m certainly not here to argue we live in the best of all possible worlds; I’m simply pointing out that there has by no means been a net reduction in employment in America, notwithstanding the big drop off in the manufacturing sector nor the massive recession we endured in 2008-2009.

The good news gets better, though: Not only have we gained jobs on net but jobs have grown faster than the population over time. Since the 1979 peak in manufacturing employment, the U.S. adult population grew by 53 percent, whereas employment grew by 59 percent.

So, broadly speaking, there are plenty of jobs out there to go around. Despite these generally positive facts, the demagogues will contend that we’ve replaced “good” manufacturing jobs with lousy service sector jobs. Well, of course, it must be true that, if we’ve lost manufacturing jobs but gained jobs overall, then all of the job gains must have come from non-manufacturing sectors. And indeed the service sector, broadly defined, has seen employment growth of 90 percent since our 1979 benchmark.

But beware making hasty earnings assumptions about a sector that employs nearly 124 million people. To see whether the newly created service-sector jobs really don’t pay as well as the vaunted manufacturing jobs, we need to drill down into the employment and earnings data. What we’ll find is that a large majority of the new service-sector jobs pay just as well or much better than manufacturing jobs.

This might come as a surprise to the anti-globalization crowd: despite the loss of 7 million manufacturing jobs (and some mining, logging and utilities-sector jobs), we’ve seen a net increase of nearly 53 million total jobs. Of these net new jobs, fully 62 percent of them feature, as of January 2016, average hourly earnings equal to or greater than current average hourly manufacturing earnings. In other words, most of the 53 million new jobs pay the same or better wages than the demagogues’ benchmark “good” manufacturing jobs. So we lost 7 million good jobs, only to gain about 32 million equal or better-paying jobs, along with about 19 million lower-paying jobs (about 38 percent of net new jobs pay less than manufacturing).

We’ve established that, despite a major decrease in employment in the manufacturing sector, we’ve gained many more jobs than we’ve lost in the past 35 years or so, and that most of these new jobs pay better to boot. Economic changes, while painful in the short run, have brought gains in output and employment not only for the U.S, but also for the rest of the world as well. Overall, this is good news for the US and world economies.

But the demagogues might still argue that, even though high-paying service sector jobs have more than replaced lost factory jobs, "we don't make things here anymore" and we should lament this. This oft-heard refrain is patently false. We don't make certain things, such as garments, toys or electronics, because global free trade and technological advances tend to shift America's output into those industries in which our comparative advantage is greatest. But Americans do indeed make things, quite valuable things.

The U.S. Industrial Production Index for the de-industrialization period shows that after the expected steep decline following the Great Recession of 2008-2009, U.S. manufacturing has slowly bounced back and is now producing more products, in value-added terms, than ever before. Indeed, this index, which consists mainly of manufacturing, has grown by over 100 percent since the 1979 peak in manufacturing employment.

"U.S. manufacturing creates 100 percent more value with 37 percent fewer workers."

From an economic perspective, nothing could be better news. U.S. manufacturing creates 100 percent more value with 37 percent fewer workers. Creating more value with fewer workers means we're more efficient than ever, or put another way, more productive than ever.

These awesome productivity gains have many sources, especially in the form of technological advances in areas like software, robotics, and communications. Globalization and outsourcing have also played a role, as they allow American workers a greater degree of specialization in those sectors where our productivity edge is largest.

Regardless of the relative importance of technology vs. outsourcing in driving these changes, the broader point still stands: the U.S. economy is both more productive and has more job opportunities than ever before.

As the campaign season heats up, let's not be misled by baseless arguments about America "losing" jobs or other countries "beating" us at trade. It is a positive-sum game, and the benefits for both the U.S. and world economies are, shall we say, "yuge."

The Reality Check

Q. Would you start or expand a small business today?

NO: 54% **YES: 46%**

"It is frightening that all my hard work in creating a new business could be taken away for not complying with any of a thousand different government regulations, or not paying huge amounts of taxes."

"Life would be easier working for someone else. But if one seeks ease in life then being a business owner is not the way to go. I prefer to control my own destiny."

"It is still better than working for 'the man.'"

"I believe that a business can still be successful in this day and age although it gets more difficult with each passing year due to all of the regulations from the various levels of government. We are not at that tipping point at this time, though."

"Democrats will destroy anyone and anything they don't like. We are living under the first stage of leftist dictatorship."

"Traditional retail, in our experience, is a dying business concept. Most younger people wrap themselves around their 'devices' and shut out the world. They shop online, they don't venture out to shop and they are selfish with their time."

"It's harder, but the opportunity is there for service businesses."

"While the U.S. is more stable than the rest of the world, in an absolute sense we have unstable rule of law (particularly contracts) and of property rights."

"Yes, if I thought that I'd found a niche that could succeed. No, due to all the red tape that goes into starting and building a small business. Of course, the term 'small business' covers a huge territory. Cottage industry on the small size and up to 200 employees on the larger scale."

Thirteen of the 77 members contacted completed this quarter's opinion survey for a response rate of 17 percent. The survey was conducted May 6-7.

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 thoughts on this and that.

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 soul, must reach out to each one of us down through 200 years with his answer: "No."

"The Battle of Cowpens," painted by William Ranney in 1845, shows an unnamed patriot (far left) saving the life of Col. William Washington.