

County Tax Acceleration: Calling a Duck a Duck

In September 2004, legislators seeking to end a substantial budget deficit without spending cuts were running out of rocks to look behind.

They had taxed the smokers, gamblers and bad drivers. They had used up nearly all the accounting gimmicks. And still they were short \$183 million.

So the state Senate dug into the circular file and retrieved an idea that Gov. Jennifer Granholm had originally proposed in March: Shifting the state's county tax collection date forward from December to July.

The Senate passed the bill 23 to 12 on Sept. 8. The governor remained supportive, and the state House leadership embraced the idea.

But a funny thing happened on the way to the House: a duck quacked. The man who first heard

it quacking was Jack McHugh.

McHugh is a Mackinac Center legislative analyst. While following the Senate vote in early September, he had examined the arguments of various government officials regarding whether this proposal, which forced taxpayers to turn over their money earlier, was a tax increase. McHugh had an accounting background, and he quickly noticed that some basic accounting tools were missing from the public analyses of the bill.

So he adopted the perspective of double-entry accounting (a standard, private-sector analytical tool) and readily determined that the proposal was not only a one-time tax hike, but a hike whose rate could be quantified at 16.3 percent, even when one excluded "time value of money" calculations. Taxpayers would experience this tax as a decline in their net worth, since their liability for property taxes would suffer a one-time increase

see "County Tax Acceleration," p. 4



The governor took exception to the Mackinac Center's analysis, but offered no substantive rebuttal.



In Defense of Outsourcing: Bearding the Lion

September 2004 was a hard time to defend the outsourcing of service jobs to foreign countries. Presidential candidate John Kerry and Lou Dobbs of CNN had assailed the practice as killing the American Dream; national politicians had lambasted the chairman of the President's Council of Economic Advisors for saying outsourcing was "probably a plus for the economy"; and more than 30 state legislatures, including Michigan's, were considering policies to penalize the practice.

But the Mackinac Center recognized these political actions could hurt Michigan by destroying the trade necessary to the state's economy, so we responded head-on.

On Sept. 16 in Ann Arbor, Mackinac Center Adjunct Scholar and Cato Institute Director for Trade Policy Studies Dan Griswold debated

outsourcing with Mark Gaffney, president of the Michigan State AFL-CIO, at the Michigan Chamber of Commerce 2004 Future Forum. This high-profile debate followed Griswold's speech on outsourcing earlier that day at the state House Office Building during a Mackinac Center event that was attended by journalists, state policy staff and state legislators. The same morning, the Center had released a Policy Brief titled "Outsourcing Benefits Michigan Economy and Taxpayers," written by Griswold and Mackinac Center Adjunct Scholar Dale Buss.

Publication of the Policy Brief was accompanied by strong media outreach. A Detroit Free Press article the same day included Griswold's views on outsourcing and state job growth.

see "Outsourcing," p. 10

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"Last year, the Midland-based Mackinac Center — a highly respected think tank — did a 25-year assessment of the Headlee Amendment. Among its conclusions, 'Without the restraints put on government by the Headlee Amendment, Michigan workers and families would be struggling today to make do with less.'"

— Oakland Press editorial on the passing of Richard H. Headlee, Nov. 10

Impact: What Is Seen, and What Is Not Seen



Lawrence W. Reed
President

A major front-page story in an important daily newspaper prompted an enthusiastic supporter to phone me recently.

"What a great story that was!" he exclaimed. "All the right angles for a change! They didn't leave out the important stuff that usually gets ignored in the mainstream media. It read like the Mackinac Center wrote it. You've been almost alone in saying these things for years. But how come they never cited you in the story?"

I would answer his question by citing the inscription on a paperweight that I purchased years ago at the Ronald Reagan Presidential Library. The words are those of the late president himself: "There's no limit to what a man can do or where he can go if he doesn't mind who gets the credit."

Citations of the Mackinac Center are always nice, and they are something we value. We put them to good use when we get them, because they help us provide you with visible proof that we're having an impact.

But we're not in business to promote the Mackinac Center. Instead, we aim to move the climate of opinion among policy-makers, legislators, media and the public toward solving problems through less government and more private initiative. That work involves not just solid research, but personal persuasion that doesn't always put our name up in lights.

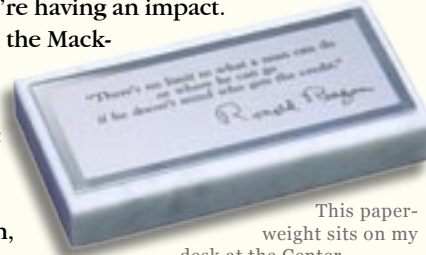
These unseen advances are both indispensable and effective. Yes, they may mean that someone *else* becomes the public champion or the quotable source for an idea that originated here, but the important thing is that the job gets done.

Think about it. The progress of any effort to influence opinion (and ultimately, policy and behavior) cannot rest exclusively upon a few. It must rely instead upon a steady percolation of ideas that become widely accepted and acted upon by many. Even the original source of those ideas is not important, since it's the ideas themselves that matter most.

Indeed, sometimes the best way to persuade someone is to simply and tactfully plant a seed. If they then proceed to the right conclusion thinking it through on their own, they will be more confident advocates than if you had beaten them up with "your" idea.

At almost any moment of any day at the Mackinac Center, people are working on a project or are engaged in a conversation that will never produce a news clip or a sound bite mentioning us by name. Nevertheless, they are generating impact by providing a reporter with information that helps shape a story; giving a local official a helpful tip that changes a policy outcome; supplying a student with perspectives that undo hours of biased harangues in the classroom; or providing a CEO with ideas for a speech that reaches an important audience. The examples are endless.

News stories, editorials, speeches and water-cooler conversations are regularly influenced by others who go unnamed. We don't mind being those "others," because we always try to remember what President Reagan's remark suggests: The advocates whose ideas go the furthest are the ones who do their work because they believe in it — not because they seek glory or recognition.



This paperweight sits on my desk at the Center.

Lawrence W. Reed

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A Giant of Michigan's Political History

Tuesday, Nov. 9, 2004, marked the passing of Michigan businessman and citizen-statesman Richard H. Headlee, whom Mackinac Center President Lawrence Reed described as “a giant of Michigan political history.” In comments made to the media that day, Reed observed, “Every state citizen who believes in limited, responsible and accountable government mourns the loss of a genuine hero.”

Dick Headlee left a deep imprint on the political affairs of late 20th century Michigan. He famously championed the 1978 state constitutional amendment that restrained taxation and unfunded mandates, giving Michiganders, as Reed wrote, “a powerful shield in the battle to restrain government excess.” He continued thereafter to encourage reform, and he was instrumental in the 1992 drive for term limits in state government. As Reed, a member of the 1993 Headlee Amendment Blue-Ribbon Commission, noted, “He lost a close race for governor in 1982, but in other ways, he governed much of Michigan politics for decades.”

The Center had heard of Dick's declining health in October, and as we pondered the loss

of a great man and a good friend, we became determined that the news of Dick's passing not be dominated by quibbling and bland summaries. So when the Headlee family called early on Nov. 9 to tell us the news, we were ready, issuing a news release and immediately posting Reed's tribute to Dick on our Web site.

Within hours, The Associated Press, Detroit's WJR, MIRS, the Detroit Free Press, and dozens of newspapers across the state were producing stories that included the Mackinac Center's appraisal. These stories, to our relief, captured the magnitude of Dick's civic achievements, his personal integrity and his deep love for people, regardless of their political philosophy. The Center also distributed comments from Dick's son Howard, at his request, providing the Michigan media access to the sentiments of Dick's family in Utah.

We'll remember Dick, in Reed's words, as “a living example of the ancient republican ideal: the citizen who sets down his plow to put right what is wrong and serve his community.” We once again extend our sympathies to the Headlee family — and we rejoice with them in a life well-lived. **I**



Richard H. Headlee

MEDIA IMPACT

Exposing a Hidden Tax Hike and Protecting the Economy:

Bad government policies resisted — and a good man remembered



Detroit Mayor Kwame Kilpatrick cited our research in a January televised speech explaining his proposed budget cuts: “The Mackinac Center for Public Policy did not mince words in 2001 when it said the Motor City must trim its bloated and wasteful budget.”

- An editorial in The Wall Street Journal took issue with the Detroit City Council's “African Town” proposal, which would have instituted race-based restrictions on municipal grants and incentives to local businesses. The editorial included a quote from Executive Vice President Joseph Lehman, who noted, “If you tried to design a policy to drive jobs and capital out of Detroit, African Town would be it.”
- Michael LaFaive was quoted in widely published reports criticizing the Michigan Economic Development Corporation's expenditure of \$250,000 for security costs at the Ryder Cup golf tournament. LaFaive called the taxpayer subsidy of the profitable PGA event “unnecessary and unfair.”
- The Flint Journal cited MichiganVotes.org as the source of its information for a review of the missed legislative votes of several members of the Michigan Legislature. MichiganVotes.org generated simi-

lar stories in other major state newspapers and periodicals and was dubbed an “excellent Web site” by a Detroit Free Press columnist. (*See related article on page 12.*)

- Michigan's recent economic performance was highlighted by the National Review Online Edition, which attributed the lackluster results to a series of tax increases and a failure to significantly cut state spending. Citing Mackinac Center research, an analyst for the National Review Online wrote: “Michigan's economic performance is a direct result of the state's failure to significantly cut state spending. Citing Mackinac Center research, an analyst for the National Review Online *see “Media Impact,” p. 5*

Legislative Analyst Jack McHugh generated a wave of media attention by demonstrating that Gov. Jennifer Granholm's plan to accelerate the collection of county property taxes was a tax increase. (*See related story on page 1.*) Among the more prominent examples of the Center's impact as this plan was considered in the Legislature were the following:

- Appearances on a number of talk-radio programs, including the Sept. 13 Frank Beckmann Show on WJR in Detroit.
- Publication of a Sept. 15 op-ed in The Detroit News definitively demonstrating that the proposal was a tax hike.
- Numerous citations in news stories and editorials, including support on the issue from the editorial pages of the Sept. 15 Detroit News and the Sept. 14 Oakland Press.
- The governor's pointed, explicit and public denial that the accelerated schedule amounted to a tax increase — a dubious assertion that generated front-page coverage in the Sept. 15 Detroit News and contributed to a public backlash against the proposal.

County Tax Acceleration from page 1

that would never reverse itself.

Before going public with his conclusions, McHugh reviewed the analysis with respected economists at other organizations. David Littmann, chief economist at Comerica Bank said that this was “a completely accurate assessment” and suggested that McHugh share it with members of the press, who were “desperate to find a cogent analysis” of the proposal.

This was an understatement. McHugh’s analysis was complete on Friday, Sept. 10. He spoke to Michigan Public Radio the same day, and by Sunday, Sept. 12, The Detroit News was already alluding to the Mackinac Center’s conclusion that the proposal “represents a 16.27 percent county property tax boost over three years.” The next morning (Monday, Sept. 13), McHugh appeared on WJR radio’s Frank Beckmann show in Detroit, and his analysis was formally published on the Center’s Web site (“County Tax Shift: It Quacks, It Waddles; It’s a Duck”). Within the next 24 hours, McHugh was being cited in news stories around the state, and he was invited to contribute to a “pro-con” debate with a state senator over the proposal in the Wednesday, Sept. 15 editorial page of The Detroit News.

Thus, within days, state news coverage had shifted from describing the county tax acceleration as a “complex proposal” involving tax dates to a dispute over whether it constituted a property tax hike. The Oakland Press (Tuesday, Sept. 14) and The Detroit News (Sept. 15) ran editorials decrying the “16.3 percent tax hike,” and even those editors who favored the proposal began to acknowledge that citizens would pay more. McHugh’s analysis had swiftly become the yardstick by which the proposal was judged.

Lansing’s political establishment fought back. In an early salvo on Sept. 10, a spokesperson for the Department of Treasury publicly called McHugh’s analysis “accounting mumbo jumbo.” On Tuesday, Sept. 14, Gov. Granholm held a press conference and said McHugh needed “to go back to remedial math.”

Neither of these critiques contained a substantive rebuttal. Instead, the Granholm administration essentially argued that it would be hard to balance the budget without this proposal and repeated mantra-like, “It’s not a tax increase; it’s not a tax increase,” as if repetition would make it true.

On Sept. 15, a House roll call vote on the measure was going down in flames when the leadership “closed the board” and postponed further consideration. House members reported that their e-mail and phone lines were buzzing with angry citizens urging defeat. An informal Detroit News “Cybersurvey” found a whopping 94 percent of respondents opposed to the bill.

But bad ideas are hard to kill, particularly



in Lansing, where their consideration can be postponed to allow more arm-twisting. Although the Mackinac Center issued a news release listing straightforward spending cuts that would have closed the \$183 million budget deficit, the Lansing lobbying juggernaut went on full throttle, and on Wednesday, Sept. 22, the state House passed the tax hike by a single vote. To see how your representative voted, go to www.MichiganVotes.org.

Bad public policy is bad public policy, and it was hard to watch it become law. But only the Mackinac Center has both the well-placed resources and the spirit of “eternal vigilance” to have provided so much of the intellectual ammunition that alerted the public to the Legislature’s actions. Legislators who voted for this increase did so under close public scrutiny, and they paid a heavy political price for their decision. They will think twice before imposing new taxes — especially knowing that the Mackinac Center will always be there to call a duck a duck. **I**

The Detroit News' lead editorial supports the Center's position. It calls the county property tax acceleration a 16.3 percent tax increase — a Mackinac Center calculation — and echoes the Center's "duck" language.

The Detroit News' secondary editorial praises Frank Beckmann for his sustained focus on the county property tax issue. One of his earliest guests was Legislative Analyst Jack McHugh, and Beckmann's WJR Web site posted a hyperlink to McHugh's analysis for the Mackinac Center.

The Detroit News' "pro-con" debate on the county property tax issue features Jack McHugh taking the "con" position against the state senator who sponsored the legislation.

State Sen. Michael Switalski dodges McHugh's analysis, writing, "I will leave to others the sterile debate as to whether early collection is a tax increase."

Even the letters to the editor and the editorial cartoon were critical of the proposed county property tax acceleration. A Detroit News online "Cybersurvey" showed 94 percent of respondents opposed the plan.

Media Impact from page 3

Taxpayers Union estimated that the state lost almost 3,000 jobs in 2004 because of state government's six-month delay of a previously passed income tax reduction.

- An Atlanta Business Chronicle review of Georgia's property tax system referred to Michigan's experience with Proposal A and recorded Lawrence Reed's observation that educational reform is a broader and more difficult policy challenge than simply designating money sources for education.
- An Associated Press article that appeared in several newspapers around the state quoted Michael LaFaive pointing out that government-funded business assistance schemes "usually provide only short-term gains, and Michigan businesses would do better if taxes in general were lowered."
- Numerous editorials and

news accounts noted the passing of Richard H. Headlee, the prominent Michigan businessman who led successful drives for a state constitutional amendment limiting taxation in 1978 and an initiative mandating term limits for state officials in 1992. The Mackinac Center's early and focused media outreach helped ensure

Mr. Headlee's legacy was treated fairly by the media, and Mackinac Center President Lawrence Reed figured prominently in the coverage, stating Dick Headlee was "a man of character" and "a living example of the ancient republican ideal — the citizen who sets down his plow to put right what is wrong and serve his community." We mourn the loss of a true hero, and we extend our condolences to his family.

- Another Associated Press report appearing widely in newspapers described the state of Michigan's efforts to sell a parcel of land to Toyota Motor Corp. for \$9 million despite receiving a \$25 million bid for the property from a Detroit-area developer. The sale required approval from the Legislature and the governor, prompting Michael LaFaive to ask, "How often are we going to pass a special law for a single company's benefit?"
- Senior Fellow in Education Policy Andrew Coulson authored an op-ed that appeared in the Detroit Free Press and described how private schooling in India is increasingly popular, especially among lower-income families. These schools, Coulson noted, are producing India's increasingly well-educated, English-speaking workforce, which has prompted U.S. firms to outsource jobs, particularly in information technology. The Center then posted an expanded version of Coulson's essay on its Web site, and the piece was subsequently published in The Oakland Press. **I**

SNAPSHOTS



Speaking in September, Executive Vice President Joseph Lehman opened the inaugural Asian Resource Bank meeting which was attended by nearly 100 free-market think tank leaders. Pictured in Hong Kong (left to right) are Manh Cuong Nguyen (Vietnam), Lehman, Ellen Cain (Philippines), Jargal Dambadarjaa (Mongolia), Parth Shah (India), and Bienvenido Oplas, Jr. (Philippines), all alumni of the Mackinac Center's biannual Leadership Conference.

Debate Workshops: Better Vision for the Future

An ancient Sumerian riddle asks, “What is a house where one goes in blind and comes out seeing”? The answer is simple and timeless: a school.

For each of the past 17 years, the Mackinac Center has set up schools that provide a supercharged day of powerful, new perspectives that sharpen and broaden the vision of some of Michigan’s finest high school students as they prepare for the annual national high school debates. The 2004 workshops were held in September in Grand Rapids, Jackson and Livonia with 279 enthusiastic sophomores, juniors, seniors and high school debate coaches from schools across the state. This year’s national debate topic — chosen by The National Forensic Association — was “Resolved: That the United States federal government should establish a foreign policy substantially increasing its support of United Nations peacekeeping operations.”

The speakers at the 2004 workshops were ideally suited to the discussion:



June Arunga, director of youth outreach at the Inter-Regional Economic Network in Kenya. Arunga has had first-hand experience with U.N. peacekeeping troops, and she wrote and presented a British Broadcasting Corp. documentary entitled “The

Devil’s Footpath,” which explores why so many Africans leave the nations of their birth.



Doug Bandow, senior fellow at the Cato Institute, a prominent think tank in Washington, D.C. Bandow is a widely published columnist who has written a number of studies concerning U.S. foreign policy and the United

Nations. He was a special assistant to the president during the Reagan administration. He is also the author of a forthcoming book about North Korea.



Gregory Rehmke, program director at Economic Thinking/E Pluribus Unum Films, a nonprofit organization in Seattle. Rehmke is also editor of EconomicThinking.org and FreeSpeaker.org, and he speaks and writes annually on national

high school debate topics.

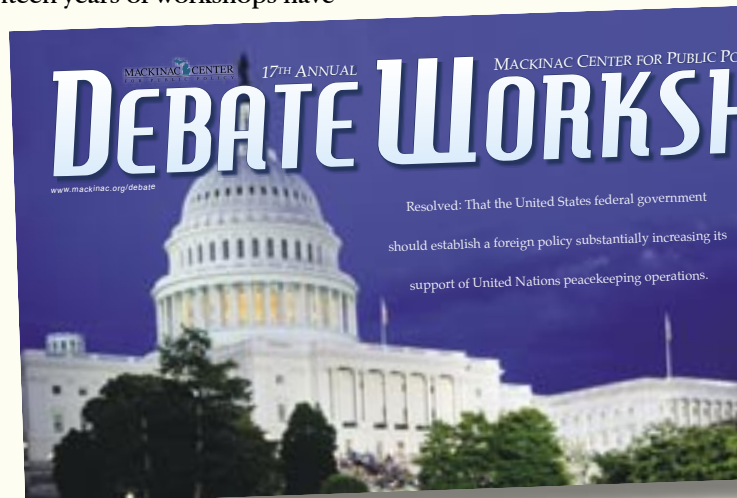
“I was delighted with the quality of this year’s

speakers,” said Michael D. LaFaive, director of fiscal policy and workshop coordinator for the Mackinac Center. “We had perspectives from Africa, Washington, D.C., and the state of Washington, and each panelist is a keen thinker accustomed to the give-and-take of public debate.”

Each workshop included hard-to-find resource materials and in-depth discussions of the topics with the speakers. Arunga addressed the impact of peacekeeping troops in Africa based on both scholarly research and her personal experiences. Doug Bandow, author of a forthcoming book on North and South Korea, addressed United Nations work in both countries and the Baltic nations. Debate Workshop veteran Greg Rehmke addressed overarching themes of economics and free trade, as well as the value of individual liberty in facilitating good relations among nations.

The response to the seminars from students and coaches was terrific, with many writing letters to express their appreciation (see nearby). Their attendance at the workshops means that more than 8,000 students have heard Mackinac Center debate lectures from top free-market scholars on everything from health care to weapons of mass destruction and environmental protection. The workshops have been helping teachers and students hone their forensic skills since 1987 — the same year this year’s high school seniors were born!

The 2005 national debate topic is reported to involve civil liberties, a topic to which the Mackinac Center is perfectly matched. But whatever the specific debate resolution, the Center will continue to stage its debate workshops, reaching out to many of tomorrow’s public leaders to broaden their perspectives and heighten their insight in an intellectual competition that annually involves more than 100,000 top students nationwide. Seventeen years of workshops have shown us that opening the eyes of high school debaters is an investment in a better vision for the future. I





MACKINAC CENTER FOR PUBLIC POLICY

Midland | Monday, September 20
Grand Rapids | Tuesday, September 21 NEW VENUE!
Jackson | Wednesday, September 22
Livonia | Thursday, September 23

The Debate Workshops
 The date is set! You get to choose from a variety of topics to debate. The topics are: ...

Registration
 The date is set! You get to choose from a variety of topics to debate. The topics are: ...

The Speakers
 We have a great lineup of speakers for this year's debate workshops. ...

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09/21/04
MACKINAC CENTER FOR PUBLIC POLICY

Dear Contributor,

Thank you for funding this event. I think I speak for all of us when I say that we really appreciate it. All three speakers were really great. Their speeches provided a lot of information and really helped out. I know I have a much better understanding of this year's debate topic after listening to them. Once again, thanks. I hope Future Students will also be able to have this experience.

Sincerely, Stephanie
 Northern Public Schools

MACKINAC CENTER FOR PUBLIC POLICY

Dear Contributor, 12/31/04

I thank you on behalf of my school and every other person at this conference for graciously donating to the Mackinac Center. While rigorous, the day has been insightful and has taught me as a teenager more about an international community that affects you, as well. Your donation has gone towards the education of many.

Thank You,
 Adam
 GR Catholic Central

MACKINAC CENTER FOR PUBLIC POLICY

Dear Contributor,

I would like to sincerely thank you for your continued interest in our students and educational well-being.

This is my second year attending the Mackinac Center for Public Policy Debate Workshop and have found it very informative, also non-biased as one of our next shows and topics are. I also enjoyed the speaker, Jane Arago and her first hand account of activities and conflict being place in Africa.

Again thank you and may you continue to support us!

Jo-Christina
 Coach @ Redford High School, Detroit 48209

MACKINAC CENTER FOR PUBLIC POLICY

Dear Contributor,

Thank you very much for making the High School Debate Workshop possible. It allows students to see, hear, and talk to experts about the topic they will be debating this year.

Sincerely,
 Mary Louck, Pichey Foley H.S.
 Thomson AHE

MACKINAC CENTER FOR PUBLIC POLICY

Dear Contributors,

Thank you for the information you shared with debate students and coaches at the 10th workshop. We received some useful tools for the Michigan position, and a few ideas for Affirmative cases as well. We look forward to including this information in our debate files.

Thank you!
 Matthew
 Jackson High School

MACKINAC CENTER FOR PUBLIC POLICY

Dear Contributor,

Thank you for the excellent debate seminar that you provided to our class. We received alot of helpful information from your "top-notch" speakers.

We hope you continue with this program, because it was very helpful for us. Thanks to you, we have a better understanding of our annual debate topic.

Sincerely,
 Eriana
 Fudson High School

The Rieckers: Exemplars of de Tocqueville's America

At a gathering of approximately 100 guests on September 30, the Mackinac Center for Public Policy dedicated its boardroom to John and Margaret Ann “Ranny” Riecker. John and Ranny are well-known throughout the state of Michigan for their civic and philanthropic efforts, and they are longtime supporters of the Center.

“The Rieckers’ contributions to our mission are too vast to adequately describe,” said Lawrence W. Reed. “We hope only that by naming the boardroom for them, we might begin to honor their fundamental leadership role and their pivotal efforts to help us construct our building, which has meant so much to our organization.”

The gathering included state leaders, Mackinac Center supporters, the Rieckers’ invited guests, and executives from Wolverine Bank, The Amerisure Companies and Central Michigan University. A string quartet provided music, and a letter of congratulations from U.S. Congressman Dave Camp was read aloud, with Camp praising the Rieckers’ “lifelong commitment to high principles, both in words and in deeds.”



John and Ranny Riecker

In prepared remarks to the gathering, John Riecker commented, “In the current milieu of American intellectual thought and teaching, Ranny and I look upon the Mackinac Center as an anchor to windward, a seeker of true

economic and political principles, a producer of clear and unambiguous articles and an objective investigator of the deconstructionist and revisionist efforts to alter the history of this nation.” The complete text of his speech can be found under “An Anchor to Windward” on the Mackinac Center Web site.

The Rieckers’ own help in “anchoring” the Center seems a natural extension of their exceptional participation in community life. Reed, having read aloud an impressive list of the Rieckers’ activities, alluded to Alexis de Tocqueville’s “Democracy in America” and observed: “John and Ranny Riecker personify civil society. If de Tocqueville were with us today, I could see him writing a *second* book on just the Rieckers — as a way to bring to life the point he made in his first.” **I**

“In the current milieu of American intellectual thought and teaching, Ranny and I look upon the Mackinac Center as an anchor to windward, a seeker of true economic and political principles.”
— John Riecker

The Visionary and the Reactionary

History offers powerful examples of officials who were unwilling or unable to think imaginatively. They resisted innovation and could not perceive what would later be obvious.

Consider the battle of ideas between U.S. Secretary of War Newton Baker and U.S. Army General Billy Mitchell. In 1921, Mitchell proposed to prove the effectiveness of airpower by sinking old battleships through aerial bombardment. Although it’s hard to imagine today, the early proponents of airpower were believed to be crackpots by many, and Baker thought Mitchell a nut. Baker even stated, “That idea is so damned nonsensical and impossible that I’m willing to stand on the bridge of a battleship while that nitwit tries to hit it from the air.”

Mitchell, however, was confident in his vision and knew that a successful demonstration would firmly establish the effectiveness of airpower. His bombs found their mark on that historic day, and the ships sank quickly. Baker, who had reconsidered his boast and watched from a safe distance, suffered damage only to his reputation and his ego.

History honors Mitchell as a visionary. Baker, however, is remembered differently.

Now think about recent advances in public policy, and consider today’s “Newton Bakers.” They have disparaged reforms in welfare policy, vilified tax cuts and belittled school choice. They inexplicably remain the moribund proponents of big government.

The Mackinac Center has always pushed for innovations in public policy, and our opponents have often called our ideas “radical” or “risky.” But when they do, I encourage you to visualize the expression on Newton Baker’s face as Billy Mitchell’s airplanes sunk those battleships — and reflect on how Mitchell and his colleagues must have felt at that same moment.

Thousands of people have supported the Mackinac Center over the years. They, too, are visionaries, because they see the importance of persistently advocating good ideas — and of supporting our common cause in the face of criticism and opposition, until success has been won. **I**



John Coonradt,
Vice President
for Advancement

Judge Paul Gadola: A Win for the Federalists

During the ratification debates over the U.S. Constitution, the Antifederalist “Brutus” objected to the proposed powers of the Supreme Court, writing, “They are to give the constitution an explanation, and there is no power above them to set aside their judgment. ... They are independent of ... every power under heaven. Men placed in this situation will generally soon feel themselves independent of heaven itself.”



U.S. Supreme Court Justice Antonin Scalia (left) is pictured here with Judge Paul Gadola and his wife Falding at a Nov. 15 Federalist Society dinner honoring Gadola's achievements.

... They are independent of ... every power under heaven. Men placed in this situation will generally soon feel themselves independent of heaven itself.”

The criticism sometimes seems prescient; Americans often must rely on the self-restraint of federal judges in the courtroom. The Mackinac Center therefore feels a special surge of pride that U.S. District Judge Paul Gadola, Vice Chairman of our Board of Directors, has been honored with The Federalist Society's prestigious Joseph D. Grano Award.

The Federalist Society, composed of distinguished conservative and libertarian legal scholars, presents the Grano Award annually to a

Michiganian who has, among other things, “exhibited in his or her life a great respect for the rule of law, a belief in the separation of powers, (and) a firm conviction that the judiciary should be applying the law, rather than creating it.” Judge Gadola was honored on Nov. 15 at a Society dinner, where U.S. Supreme Court Justice Antonin Scalia appeared as the special guest speaker.

Daniel Grano — son of the eponymous Joseph Grano — presented the award, lauding Judge Gadola for embodying “the principles set forth by our founding fathers” and his desire to “remain faithful to the original purpose of our government.” Grano observed that Judge Gadola “has always taken time to educate others in his belief in integrity in life and law” and promoted his ideals by “living and working in a manner to stress that the law is what the legislature's original intent is, not what a judge says it should be.”

Judge Gadola's many contributions to Michigan — lawyer, judge, Mott Community College trustee, Mackinac Center director — have already distinguished him. That a group advocating limited government has recognized him as a man to whom power can be entrusted may be the highest compliment of all. **I**

Ann Arbor Trailblazers

The Mackinac Center examines law and public policy because improving them will enable the genius of free people and associations to flourish. Leaders of civil society do most of humanity's real work, and the Center is always

proud to honor them — especially when they are among our own.

Joseph and Beth Fitzsimmons, two of the Mackinac Center's closest friends, were recently named the Washtenaw County Distinguished Citizens of the Year by the Boy Scouts Great Sauk Trail Council. The Trail Council feted the Fitzsimmonses at a special dinner, emceed by U.S.



Mackinac Center Board members Joseph and Beth Fitzsimmons were honored at a Dec. 8 dinner in Ann Arbor.

Congressman Mike Rogers, on Dec. 8 in Ann Arbor, where they were honored for their dedicated community service and support of scouting.

Joe and Beth rank among the Center's most loyal supporters. Joe joined our Board of Directors in 2004, and both Joe and Beth serve on the Center's Ann Arbor Board of Advisors. The Boy

Scouts dinner honoring them was a truly special event, with around 200 people attending, including Mackinac Center President Lawrence Reed and Mackinac Center Advisor Steve Dobson, an Ann Arbor business leader.

The Fitzsimmonses were “roasted” from the podium by their children and friends, and among the salutes was an eloquent and gracious tribute by Dobson, who hailed Joe and Beth for exceptional commitment to a wide variety of worthwhile community causes. Addressing Joe, he said, “In a time when we have far too few genuine heroes, and when most of those we do have soon prove to have feet of clay, you measure up in every sense of the word.”

Joe and Beth have assumed a number of leadership roles in addition to their work with the Boy Scouts and the Mackinac Center. Joe, who was named “Citizen of the Year” by the Ann Arbor News in 2001, is the former CEO of University Microfilms and past president of the Rotary Club of Ann Arbor. Beth was recently appointed by President Bush to chair the National Commission on Libraries and Information Science, and she sits on committees and boards for the University of Michigan Libraries and the YMCA. **I**

Limit Government; Don't Run It Like A Business

Michael Heberling, Ph.D.

With increasing budgetary shortfalls at the local, state and federal level, government agencies are seeking to emulate the operating practices of private businesses in order to address their fiscal problems. This approach obviously has merit, but it's limited by fundamental differences between the incentives that public and private sectors face.

In the private sector, there are three primary incentives that force efficiency and cost control into business operations: financial reward, competition and survival. Unfortunately, these three incentives are, for all practical purposes, absent with government agencies.

FINANCIAL REWARD

In the private sector, organizations produce a service or product that customers are willing to buy. The more customers value this product or service for its cost and quality, the better the opportunity for financial reward for the business owners and employees.

Government agencies are not producers in this sense. Instead, they buy products and services from the private sector, but with very few exceptions, do not continue the process of selling products and services. They are more like a final consumer, and there is no accompanying financial reward to taxpayers, administrators, or civil servants — i.e., the people who might be considered business owners and employees — if citizens value the quality and cost of the work a government agency does. Without this immediate financial reward, there is far less incentive to force efficiency and cost control into the government operation.

In fact, a well-disciplined government budget may have negative consequences for government workers. The frugal government administrator who has funds left at the end of the fiscal year may lose these surplus funds and even find his or her budget reduced by the same amount in the following year. In contrast, a private-sector manager who under-runs his or her department's budget will tend to be encouraged and rewarded, since the cost savings will help the company make more money.

COMPETITION

Competition in the private sector — whether in the sale of automobiles, telecommunications or toothpaste — drives businesses to meet the varied wants and desires of the consumer better than their rivals do. Businesses that succeed in this competition earn better financial rewards, even as they offer lower prices, better quality and more choices for consumers.

Unfortunately, there is rarely competition

within or between government agencies to force efficiency, lower cost and better customer service into government operations. If we do not like the cost or service quality when our state issues a driver's license, we cannot go to another government agency across the street to get a better deal. In the absence of such a choice, we are often forced to endure the inefficiency, poorer service, higher costs and limited hours of a government monopoly that lacks competition.

SURVIVAL

This final incentive results in the complete, unmitigated transformation of a private company's operations. When a business's inability to compete for financial rewards threatens it with bankruptcy, the company has no choice but to rapidly and effectively re-engineer its business practices to focus on the customer's desire for quality goods, efficient service and lower cost. Bankruptcy is a last-resort makeover that punishes business owners and employees with lost money and lost jobs.

In contrast to the private sector, government agencies rarely face a genuine threat of bankruptcy. A state government will usually continue to have a Department of Natural Resources no matter how poorly it does its job or satisfies citizens. No DNR employee worries that his or her place of business will disappear like Eastern Airlines.

Politicians who focus on making government run more like a business, rather than on reducing it to its proper role, are forgetting the inevitable effect of incentives. They are being penny-wise and pound-foolish. **I**

Outsourcing from page 1

Michigan Government Television Network taped Griswold's speech in Lansing and rebroadcast it numerous times. Media and audience response to the state Chamber of Commerce debate led the Center to schedule a reprise of the Griswold-Gaffney face-off on March 21 in Grand Rapids.

The Center is proud of the Policy Brief and its arguments — that outsourcing is a natural evolution of free trade; that it accounts for only 2 percent of total job losses, far less than opponents claim; and that Michigan benefits because foreign firms outsource jobs to domestic companies. But most of all, the Center is proud to have bearded the lion in his den, bringing its arguments straight to policymakers and opinion makers at a time when overheated rhetoric and special interest pressures threatened the economic welfare of Michigan's citizens. **I**

Dr. Michael Heberling is president of the Baker Center for Graduate Studies in Flint, Michigan and a member of the Mackinac Center Board of Scholars. Baker's master's degree program in business administration is the largest in Michigan.

VIEWPOINT COMMENTARIES

Why Socialized Health Care in Canada Is Not the Model to Follow

October 2004 V2004-28

Canadians are discovering that they spend large sums on health care and receive worsening services in return. The costs to the country's citizens and its economy are staggering, even when they are hard to measure.

Did Anybody Really Know What Time It Was?

October 2004 V2004-29

Michigan had at least 27 different local times before the adoption of standardized time zones. The zones were created in 1883 by America's privately-owned railroads to facilitate interstate commerce — a move the federal government did not sanction for 35 years.

"Milking the Cow" of State Development Departments

October 2004 V2004-30

State economic development subsidies have become so extensive that businesses treat them as just one more market opportunity. The result is more government spending and a lower level of economic growth than broad-based tax relief would bring.

Should You Fear School Choice?

November 2004 V2004-31

People are hesitant to embrace school choice because they believe it is new and untested. But successful school-choice programs have existed throughout history — a point demonstrated by the 87-year old school-choice program in the Netherlands.

Mental Health Care Reform Should Put Patients First

November 2004 V2004-32

Reforms to the state's mental health care system should ensure that individual patients or their guardians are empowered with money and choices for effective care. State mental health boards should no longer be the major recipients of state money for the mentally ill.

The Golden Calf of Democracy

November 2004 V2004-33

While democracy involves important values like the right to vote and government accountability, it can also mean unshackled majority rule. America's founders rejected undiluted democracy and established a republic with a limited government.

The Changing UAW

December 2004 V2004-34

The UAW has adapted to increased global competition with savvy arrangements like its recent acceptance of a "two-tier" wage structure. This is a more realistic approach than the confrontational tactics of the union's local chapters.

New Year's Resolution: A Taxpayer Bill of Rights

December 2004 V2004-35

Michigan government would have avoided many of its current spending and debt problems if the Michigan Constitution had included a "taxpayer bill of rights" similar to Colorado's. The Legislature should let Michigan's citizens vote on a similar measure.

Profit Has a Role in Public Schools

December 2004 V2004-36

Some decry the role of profit-making management companies in Michigan's charter schools, but they ignore the fact that conventional schools regularly benefit from the excellent goods and services of profit-making companies.

JOURNALS

Michigan Privatization Report

MPR 2004-02 \$3.00

How much could the state save by privatizing prison management? How common is private contracting for noneducational services among public schools? How could the city of Detroit use privatization to improve the financial performance of Cobo Hall? What cities could benefit from Ann Arbor's experience in outsourcing operation of its parking facilities? These questions and others are answered in this issue of Michigan Privatization Report. 16 pages.



STUDIES & REPORTS

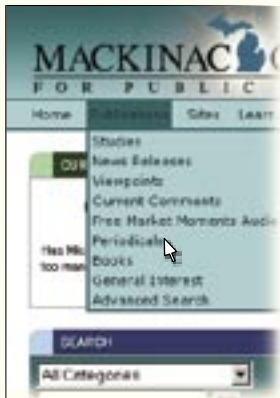
Outsourcing Benefits Michigan Economy and Taxpayers

S2004-06 \$3.00

Mackinac Center Adjunct Scholars Daniel T. Griswold and Dale D. Buss perform an economic analysis of the costs and benefits of foreign outsourcing. They observe that outsourcing is essentially an evolution in international trade from an exchange of goods to an exchange of labor and services. They conclude that restrictions on the practice would reduce employment growth and raise the cost of state government activities for Michigan citizens.



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Multiplying the Power of Informed Citizens

From the first, MichiganVotes.org has been acclaimed as the tool that brought democracy into the Internet Age. But the site has recently made it easier than ever to track our state representatives' performance — and news media across Michigan have seized the chance.

MichiganVotes.org is the innovative Mackinac Center Web site that provides free, searchable, plain-English descriptions of every vote by the Michigan Legislature. The site's recent upgrades now enable Web visitors to look up a Michigan legislator's voting record in dozens of issue categories and to determine which roll call votes — and how many — a legislator has failed to cast. Other new features include links to analysis of legislators' campaign contributions, as well as a new "Public Act" search tool that makes it possible to browse only those bills that have been signed into law.

The media were quick to see the implications. In October, The Flint Journal reported that a candidate for the state House was criticizing his opponent for missing 77 votes. The incumbent responded that the omissions occurred when she had gallbladder surgery. The newspaper was able to consult MichiganVotes.org to discover that this legislator had apparently had the surgery three times, because her missed votes came during three periods that were several months apart.

The Detroit Free Press recently cited MichiganVotes.org in a column describing the parting speech to the Legislature of a term-limited Detroit representative who had missed 645 votes

during the 2003-2004 legislative session — easily the worst record of any legislator. In December, The Grand Rapids Press and the Michigan Information & Research Service used MichiganVotes.org to compare a number of legislators on their failure to vote.

MichiganVotes.org has now become the leading source on legislative voting records for influential audiences such as journalists, lawmakers, lobbyists, local government officials, and grass roots activists. Respected news outlets like Bill Ballenger's "Inside Michigan Politics" and MIRS have used the site in the past year to prepare nonpartisan analyses of voting records. Organizations as diverse as the Michigan Conservative Union and the Detroit NAACP are using MichiganVotes.org to prepare their legislative voting record guides and scores.

MichiganVotes.org has, from its birth, produced a quantum leap in the potential power of informed citizens. Its success has led to the development of similar Web sites in Minnesota and Washington state. And with our site's recent upgrades, it remains the leader of the pack. **I**

