



For the inspirational story of the blinking lights of Warsaw, check your mail for our special year-end appeal.

Property Rights: Seizing the Initiative

When the U.S. Supreme Court issued its Kelo v. New London decision in June, Americans' property rights seemed to have reached a Waterloo. The court had approved government condemnation of private homes so that government officials could reassign homeowners' land to private developers in an effort to boost tax revenues.

But with the explosion of public outrage over the decision and with a spontaneous demand for the Center's guidance on how to fight back, it became clear that the battle had just begun.

Senior Legal Analyst Patrick J. Wright has been leading the Center's charge. Within hours of the Kelo decision, Wright fired off a news release and Web commentary that led to major media coverage (see Impact, Summer 2005).

Wright argued, "This decision ignores the Fifth Amendment's clear meaning that government taking of private property should be for public — not private — use." He also pointed out that allowing



Patrick J. Wright testifies before the Michigan House Committee on Government Operations.

government takings that aim to increase tax revenues "reverses the proper relationship between the people and the government," forcing the people to become the means to government ends. In Crain's Detroit Business, he observed, "I think that this decision is going to be met with quite a bit of hostility from the American public in general. And I think to the extent that any state changes laws ... it would be to enact more protections."

This proved prophetic. Within days, state Sen. Tony Stamas of Midland had announced he would sponsor a bill to ban public takings for the primary benefit of a private entity. In the next three months, five measures were introduced in the state Legislature to restrict the use of eminent domain. Three would disallow takings meant for primarily private uses, while two others would ban takings intended to enhance tax revenue.

By August, Wright was receiving regular calls from policymakers for guidance on takings under see "Property Rights," Page 4

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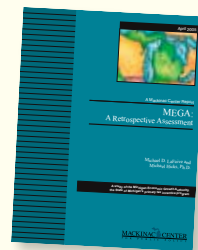
Budget Cuts Follow MEGA Study

In April, the Mackinac Center published a blockbuster 121-page analysis of the Michigan Economic Growth Authority, the state's primary "economic development" program (see Impact, Summer 2005, Page One). The study's release led to widespread media coverage and to legislative testimony concerning MEGA's ineffectiveness by study co-author Michael D. LaFaive, the Center's director of fiscal policy. Now the Michigan Economic Development Corporation, a quasi-governmental agency that supports MEGA, has received a budget cut for fiscal 2006, and the MEDC's job claims have been placed under the scrutiny of the state Auditor General.

In many ways, the budget hit was unexpected.

True, the state's budget has been pinched by Michigan's frail economy, but MEDC officials have typically used economic weakness to argue for budget hikes, claiming their agency can jumpstart job growth. MEDC officials have also been drawing media attention to the MEGA tax incentives it hasn't been able to offer businesses because of purportedly stingy legislative limits.

Yet this summer, at the very moment the MEDC might have expected an increase, the Michigan Legislature clipped a total of \$3 million from the MEDC's budget, with most of the cut coming from see "State Audit," Page 4



Are We Biased?



Lawrence W. Reed
President

How loaded a single word can be! In a vain attempt to dismiss hundreds of studies and commentaries and thousands of ideas and recommendations, a well-known community figure in a nearby town recently said of the Mackinac Center, "They're biased."

A moment's thought shows that such a statement hardly constitutes a refutation and is itself probably an indication of a bias. Nonetheless, it's an accusation that our opponents occasionally raise, and it therefore deserves some attention.

In this instance (and probably most others as well), the accuser's remark should be translated this way: "The Mackinac Center comes to conclusions I don't agree with."

The best way to prevent anyone from ever accusing you of bias is simply to keep quiet. Don't take a stand on anything. Examine the evidence and pronounce that it tells us nothing. Act as if we live in the Dark Ages, where the sum of study and experience leaves us as much in the dark as ever.

An intellectual shrug of the shoulders won't offend anyone, but it can hardly inform them either. We believe in certain core principles and have

always been candid in saying so: Limited, representative government is preferable to monarchy or dictatorship. Free people are more productive than unfree people. Market economies work better than command and control ones.

Those notions were not always widely embraced in the past, but they are now approaching settled truths. For the most part, the people who dispute them are peddling self-serving agendas, or they are impervious to evidence.

Informed by core principles, the Mackinac Center endeavors to demonstrate when and how free markets and free people can solve problems. We don't ignore evidence to the contrary, cook the books or make unsubstantiated claims. Our research and conclusions should be assessed on their merits.

The fact that they stand up to scrutiny is why opponents often dodge any serious challenge and simply toss out the "b" word. Those who

claim to approach every issue with a blank slate are often uninformed of what research and experience have shown — or are less than honest about their predilections.

If "bias" means we have an informed perspective, then we're guilty. But when I hear that charge, I immediately want to know what's flawed about the data or our interpretation of it. Where are the errors of fact or judgment? Our studies carry a "Guarantee of Quality Scholarship" that invites critics to identify mistakes of substance. In 10 years, I can count such findings on one finger.

So if you hear someone pontificating that the Mackinac Center is biased, ask them to explain what their bias is. **I**

Lawrence W. Reed

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Navigating Wetlands to the Supreme Court

When the U.S. Supreme Court announced on Oct. 11 that it would hear two Michigan cases involving federal regulation of wetlands, the Mackinac Center burst into action.

The Center was well-positioned to influence the debate on the cases, *Rapanos v. United States* and *Carabell v. Army Corps of Engineers*, which involve challenges by Michigan citizens to the federal government's authority to regulate alleged wetlands on their property. Senior Environmental Policy Analyst Russ Harding had already visited one of the properties in question (see *Impact*, Fall 2004), and his skepticism about the government's case had already prompted media attention for the plight of developer John Rapanos, including coverage in *The Wall Street Journal*, *The Detroit News* and *The Washington Times*.

Following the court's announcement, Harding and Patrick J. Wright, the Center's senior legal analyst, issued a news release that observed, "The federal government's claim of jurisdiction on grounds that water from an otherwise isolated water source might somehow still reach a navigable water is ... too expansive. It gives the federal

government almost unlimited jurisdiction," which the Founding Fathers "did not intend."

Their comments were picked up by the Associated Press and Booth newspapers, and Harding received numerous calls from reporters outside Michigan. On Oct. 17, Harding and Wright were interviewed by Flint's Fox 66 TV News Central, and their subsequent Op-Ed on the cases was published in the Oct. 26 *Detroit News*.

Harding and Wright plan to follow this issue closely in the months before oral arguments, which are likely to come in 2006. By early December, Wright will submit an amicus brief to the Supreme Court analyzing the regulatory overreach of Congress and the Army Corps of Engineers in these cases. Harding and Wright are also developing an outreach campaign to national media, so that they can underscore the dangers to American freedom and democracy of unbridled federal power and of delegating key policy decisions to unelected bureaucrats. The Center's explosive start on these Supreme Court cases has thus laid the groundwork for a long-term educational campaign. **I**



Russ Harding fields questions from Flint's Fox 66 TV News.

Education Reform: Diligence Comes Due

The Center's education scholars always seek to improve Michigan schooling as quickly as possible, but their policy recommendations are often adopted only after years of diligence. Such was the case in two recent policy changes — one local, and the other statewide.

The first came in August, when Lakeview Public Schools Superintendent Sandra Feeley Myrand announced that the district would no longer contract its school employees' health insurance through the Michigan Education Special Services Association, an insurance administrator established by the Michigan Education Association. The district predicted its switch to a new administrator would save \$500,000 annually, and subsequently the school board raised teachers' salaries.

When Lakeview announced the change, Superintendent Myrand cited the Mackinac Center's seminal work on MESSA. Since 1993, the Center has shown in several studies and commentaries that MESSA drives up insurance premiums, draining money from the classroom.

The Lakeview school board's decision is right in line with the Center's policy recommendations. Given the district's willingness to stand firm despite organized protests from local and nondistrict school employees, the school board will serve as a

model for others across Michigan.

A second long-term policy shift came in September, when Gov. Jennifer Granholm announced that, in compliance with a law she signed in January 2005, the American College Testing Program would replace part of the Michigan Educational Assessment Program test for high school juniors. The change will take effect in 2007.

Two Mackinac Center studies published since 2001 have suggested the state consider using privately developed tests like the ACT. The ACT, after all, allows parents and educators to compare individual test results to those of the national student population, while the MEAP test allows comparison only to a standard approved by the Michigan State Board of Education. In addition, the Center noted that maintaining a stand-alone test like the MEAP exam is four times more expensive than employing a test like the ACT.

The Center's scholars would be even happier if the state had deregulated test-taking, rather than mandating a particular exam. Still, use of the ACT is a partial victory worth celebrating.

When it comes to helping Michigan's schools, sooner is better. But these victories only confirm the wisdom of a Russian proverb: The future belongs to those who know how to wait. **I**

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Michigan law, and in September, he was invited to testify before the Michigan House Committee on Government Operations regarding House Bill 5060, which would prohibit takings meant to enhance tax revenue. Speaking on Sept. 13 to the committee in a hearing broadcast on Michigan House TV, Wright said, “Despite the Michigan Supreme Court’s laudable ruling in *Wayne County v. Hathcock* (which prevented Michigan governments from taking land for nonpublic uses), further controls are needed to fully protect the people of Michigan from takings abuses.”

Wright then opened two new and important fronts in the fight against eminent domain abuses: overbroad blight measures, and regulatory takings.

Noting that blight condemnations have been used to destroy entire neighborhoods, Wright observed, “Homeowners who keep their homes in good shape should not have their property taken merely because a number of their neighbors do not.” Takings of this kind not only devalue the Constitution, but foster a disrespect for property that is the essence of blight in the first place.

Wright also noted that the U.S. Supreme Court has ruled that regulation that reduces the value of real property can constitute a taking when, in the Court’s words, it “goes too far.” Not surprisingly, this vague language, Wright observed, has led to ineffective property rights protection in cases that actually come before the courts. He then gave technical advice about better state legal standards and discussed the state of Oregon’s “Measure 37,” a 2004 ballot initiative that forces Oregonian governments to compensate landowners for any loss of property value as the result of new regulations.

Wright’s cogent House testimony and continued responses to policymakers’ requests led to an invitation to speak just two weeks later to the Senate Transportation Committee on Senate Joint Resolution E, which would permit a popular vote on a state constitutional amendment to

restrain takings for primarily private purposes. In his remarks, Wright again stressed his concerns about misuse of blight condemnations, and he referred the committee to “some useful guidelines” on blight that appear in Michigan’s Brownfield Redevelopment Act.

Wright subsequently testified again to the state House Committee on Government Operations, and he is optimistic that the House counterpart to Senate Resolution E will address blight takings, especially given the Senate’s 35-3 passage of Resolution E on Nov. 9. “Before being approved,” Wright says, “the Senate resolution was amended to shift the burden of proof in blight condemnations to the government, not the homeowner, and to a higher standard, known as ‘clear and convincing evidence.’ I think it’s fair to say that the Center’s emphasis on blight abuses alerted the Senate to the importance of this.”

If the House approves a similar resolution, Michigan voters will have the chance to add additional property rights protections to the Michigan Constitution next year. Wright has already begun educating the public on takings, having discussed the issue on several radio shows, including, on Oct. 4, both the Ron Pritchard show on the Michigan Talk Radio Network and the Jack Lessenberry Show in Ann Arbor.

This public exposure means that a constitutional amendment may be approved in Michigan soon. If so, Kelo could indeed prove to be a Waterloo — an apparent victory that turned to defeat for unlimited government power. **I**

SNAPSHOTS



Eric and Pam Schoen have been in limbo for more than a year and a half since the city of East Lansing notified them that it planned to seize their home, pictured above, to clear their neighborhood so that private developers could build new residences. The city’s planning department now tells the Center it will avoid the use of eminent domain, asking only for voluntary sales. Nevertheless, such potentially broad use of government’s takings power has become a focal point of the Center’s work.

State Audit from Page 1

the MEDC’s line item for “job creation services.”

The MEDC’s case can’t have been helped by LaFaive’s hour-long appearance before the Michigan House Commerce Committee in April. He described not only how econometric analysis has failed to detect any meaningful economic impact from MEGA’s programs, but how the agency’s job creation claims often appear to have been overstated.

One of LaFaive’s recommendations was that Michigan’s Auditor General “conduct regular, expanded audits of MEGA’s direct job counts.” The Legislature followed this advice in Public Act 156, requiring an annual state audit of “the

number of jobs claimed to be created by firms receiving (MEGA) grants, and all other MEDC claims of job creation. ...”

State Rep. Jack Brandenburg, a member of the House Appropriations Committee, credited the Center for proposing the new requirement: “The Mackinac Center’s findings helped us recognize specific shortcomings of the MEDC and MEGA. Given these problems, the Center’s recommended state audits only made sense.”

The audits should produce MEDC job figures that are more realistic. The Legislature will then be set to ponder whether a \$3 million budget cut should be only the beginning. **I**

Advancing Property Rights and Promoting a Renaissance

NEWSMAKERS



Harding



Katz



LaFaive



McHugh



Washburne



Wright

THE WALL STREET JOURNAL

The Detroit News

The Grand Rapids Press

THE OAKLAND PRESS

Detroit Free Press

- The **Wall Street Journal's** Oct. 13 "Cross Country" column featured an essay by Senior Legal Analyst Patrick J. Wright describing the Michigan Supreme Court's principled approach to constitutional and statutory interpretation. The article was then reprinted in **The Grand Rapids Press**.
- Federal abuse of wetlands regulations received intense coverage following the U.S. Supreme Court's Oct. 11 decision to hear two Michigan wetlands cases, including that of John Rapanos, who was convicted of violating federal wetlands law after moving sand and other fill material on his property. Senior Environmental Policy Analyst Russ Harding was quoted regarding the cases in the **Booth Newspapers** and in an **Associated Press** article picked up by a number of Michigan media outlets, including the **Detroit Free Press**. Harding and Senior Legal Analyst Patrick J. Wright were subsequently interviewed in a segment aired by **Fox 66 TV News** in Flint. Harding and Wright also wrote an Oct. 26 **Detroit News** Op-Ed on the subject, challenging the federal government's usurpation of property rights and local prerogatives.
- With the sunset of Michigan's telecommunications law at the end of this year, Director of Science, Environment and Technology Diane S. Katz wrote an Op-Ed in the Sept. 1 **Detroit Free Press** proposing state telecom deregulation. Her letter to the editor on the same subject was published in the Oct. 13 **Detroit News**. The Oct. 3 **Milwaukee Business Journal** also carried an article detailing Katz's version of the Center's "Telecommunications Policy Primer" for the Wisconsin Policy Research Institute.
- Legislative Analyst Jack McHugh won an October doubleheader by landing two Op-Eds in two different newspapers in a span of three days. On Oct. 16, **The Oakland Press** published an analysis by McHugh indicating that the Headlee Amendment's limit on state revenues may no longer be restraining the growth of state government. Two days later, the **Lansing State Journal** carried a McHugh commentary that opposed making tax cuts conditional on the state's ability to maintain minimum spending levels.
- Director of Labor Policy Thomas W. Washburne authored an Oct. 23 Op-Ed for the **Holland Sentinel** concerning employee health care benefits, which has become the sticking point in contract talks between the Michigan Education Association and the Holland Public Schools. Washburne noted that the MEA has had a conflict of interest in the past on this issue, since it was the creator of MESSA, a common public school health care benefits administrator, and he called for a legislative requirement to report aggregate claims data that would make it easier for school districts to shop around for health care administrators. A similar reform was suggested by Director of Education Policy Ryan S. Olson in his Aug. 24 commentary for **The Detroit News**.
- **The Detroit News** has digested the significance of Director of Fiscal Policy Michael D. LaFaive's definitive 121-page study of the Michigan Economic Growth Authority. On Oct. 6, the paper cited the study in its lead editorial, where it argued that the tax breaks offered by MEGA are ineffective and may soon be ruled unconstitutional by the U.S. Supreme Court.
- Adjunct Scholar Dr. Richard Vedder's commentary on college tuition ran in several Michigan newspapers and was cited in an **Oakland Press** editorial calling on state universities to improve their cost management. The piece also prompted a number of radio programs, including **The Frank Beckmann Show** on Detroit's WJR-760, to interview Dr. Vedder on the subject.
- Adjunct Scholar Dr. Mark J. Perry wrote a Labor Day Op-Ed that ran in **The San Jose Mercury News** and several other **Knight-Ridder** newspapers describing the country's robust jobs creation, particularly over the past two years.
- Director of Labor Policy Thomas W. Washburne appeared in a televised news segment on **WDIV-TV** in Detroit analyzing the United Auto Workers' decision to provide financial support to striking airplane mechanics at Northwest Airlines.
- **The Mt. Pleasant Sun** and **Central Michigan Life** covered Senior Economist David L. Littmann's speech at a Chamber of Commerce forum in Mt. Pleasant, where he analyzed Michigan's anemic economy and dysfunctional public policies. Separately, Littmann was interviewed on the Oct. 25 **Frank Beckmann Show** on Detroit's WJR-760, where he discussed the nomination of Ben Bernanke as the next Federal Reserve Board Chair.
- **The Saginaw News** ran an essay on Oct. 10 by Senior Environmental Policy Analyst Russ Harding suggesting that the state of Michigan and its neighbors are better able than the federal government to decide the value of directional drilling and other Great Lakes environmental practices.
- On Sept. 2, **The Detroit News** published a piece by Director of Fiscal Policy Michael D. LaFaive offering a five-point agenda for economic and fiscal reform in the city of Detroit. The News ran a lead editorial the same day entitled, "Detroit should embrace Mackinac recommendations." **I**

Debate Workshops Shine With Enthusiasm and Spectrum of Ideas

Sometimes, you know that something you are planning will be good — and then it turns out even better. That's the exhilarating experience that Debate Workshop Director Amy Kellogg had at the Center's High School Debate Workshops in September.

"The kids were completely lit up about the speakers and the ideas," says Kellogg, who oversaw the

The mix of the panelists' views was clearly one of the workshops' strengths. One coach wrote, "This was the best program in 10 years; good balance; excellent points for both the negative and the affirmative sides; excellent speakers." Other written responses included phrases like "I will be back," "great way to start out each new debate season," and



one-day sessions in Livonia, Jackson, Grand Rapids and Traverse City. "They were actually pressing for even more time with the panelists, and some of the students were staying after hours, even though other kids had to leave at the end of the session when their buses arrived. Our supporters would have been delighted to see it."

This is why the Center has posted a video montage of the workshop sessions on its Web site (see www.mackinac.org/7431). The energy at the programs was palpable — and not only because of the controversial 2005 national high school debate topic: "Resolved: That the United States federal government should substantially decrease its authority either to detain without charge or to search without probable cause."

A key reason the sessions were so dynamic was the attendance: More than 300 students and coaches participated in the program. Another reason was the enthusiasm and expertise of the speakers. The panelists included Richard Edwards, a Baylor University communications professor who has authored the annual "topic introduction" issue of *The Forensic Quarterly* since 1972; Mike Winther, a regular lecturer at debate seminars and a debate coach for the past 30 years; and Gregory Rehmke, director of educational programs for Economic Thinking/E Pluribus Unum Films, and a perennial writer and lecturer on national high school debate topics.

Joining Rehmke, Winther and Edwards at the Livonia and Jackson workshops was Kary Moss, executive director of the Michigan chapter of the American Civil Liberties Union. Moss raised a few eyebrows when she described the ACLU as "the most conservative organization in America," and her comments prompted some lively exchanges with the students.

"awesome." One student — a future Madison Avenue executive? — even wrote: "Need a 'kickstart' to your debate year? Attend one of the Mackinac Center workshops."

These comments are exactly the kind the Center seeks. "Our vision," notes Mackinac Center President Lawrence W. Reed, "is to provide students and teachers with informed and challenging perspectives that they are unlikely to receive in school or elsewhere. This goal was especially important with this year's topic, which balances two primary purposes of government — national defense, and the protection of individual rights."

Aside from a provocative topic, high school debaters had an added incentive to participate in the workshops this year: The Center has invited the student attendees to enter an essay contest on this year's national debate topic. Four winners will be chosen, and each winner will receive a \$1,000 scholarship from the Center to attend the college of his or her choice. The deadline for entering the essay contest was Nov. 1.

"It will be great to see what the students produce," says Reed. "We know that we're dealing with a bright group of kids, and we're excited to be helping some of the very best and brightest go on to higher education."

This year's workshops mark the 18th year the Center has staged its high school debate program, and they bring the total number of students and debate coaches who have benefited from the workshops to more than 8,000. The national high school debate topic is chosen each year by the National Forensic Association, a nonprofit association.

Next year's topic is still unknown. But if next year's workshops are anything like this year's, more surprises — and more enthusiasm — lie ahead. **I**



"Thank you very much for making the high school Debate Workshops possible."

-Debate coach,
Bishop Foley High School



"Thank you for the excellent seminar that you presented to our class. We received a lot of helpful information from your top-notch speakers."

-Student, Hudson High School



"I have utilized the Mackinac Center for Public Policy three years and counting and I continue to return with my students because of the wealth of knowledge the Center, and speakers alike, provide us."

-Debate coach,
Redford High School



"Thanks for the opportunity to be more prepared for the debate season."

-Student, Henry Ford High School

"As a first year debater, I think this program was a necessary experience for me before league starts in October."

-Student, Glen Lake High School



"As a first-year debate teacher, (I found) this conference incredibly helpful ... it will shape my instruction and understanding of the topic."

-Teacher, Rockford High School

"The atmosphere was great and the speakers and staff were very knowledgeable and helpful. Thank you very much!!"

-Student, Northview High School



"Not only did the speakers prepare me for debate season, but they also taught me a great deal about our liberties and rights as Americans."

-Student, Rockford High School

The Maguire Family: Restoring “Business as Usual”

As a member of the Mackinac Center Board of Directors, Joseph Maguire has fully supported the Center’s argument that taxes should be cut for everyone, not just select businesses. As co-owner of Spartan Oil Corporation, he has stood by that principle even in adversity.

In today’s political climate, that’s no small achievement. Spartan Oil is not just a successful family business; it’s precisely the type of company that is often plied with selective tax breaks by local governments. Spartan has been in business for 52 years; employs 70 people in the Lansing area alone; is headquartered in the heart of the city, rather than a trendy exurban industrial complex; and engages in vigorous interstate commerce as one of the largest sellers and distributors of lubricants in the Midwest.

Moreover, Spartan Oil suffered a high-profile setback in August 2004 when a fire broke out at its Lansing facility. Flames consumed two of the firm’s five buildings and badly damaged a third. Although Spartan’s products are not highly flam-



Joseph Maguire celebrates the opening of Spartan Oil’s rebuilt distribution facility in Lansing.

mable, Lansing firefighters, along with two extra fire trucks from Capital City Airport, worked for hours to quell the blaze.

Yet Spartan didn’t miss a beat. The next day, it was running at 90 percent capacity. And on Oct. 11, 2005, when Maguire, his brother, Bruce Maguire III, and his father, Bruce Maguire Jr., stood at a podium in Lansing to dedicate Spartan Oil’s rebuilt, modernized distribution facility, they thanked the city — but only for the usual services available to every Lansing resident: fire, police, wastewater and municipal planning.

The company never put its hand out. Maguire notes: “We’ve practiced what we’ve preached with this project. We neither

sought nor received any subsidies or tax breaks, and we didn’t shop our project around searching for them. We never have. We believe in limited government and lower taxes — the same for everyone.”

It’s a simple rule, but it’s harder to live by in a crisis. To the credit of Maguire and his family, they’ve shown what restoring “business as usual” should mean. **I**

A Head Count for Liberty

With the holidays upon us, it’s time to take stock of our blessings. I, for starters, can count 23 of them in the picture on the facing page — perhaps 24, but I reserve judgment on the fellow standing fourth from the right in the back row.

That picture really is worth a thousand words, but I want to take a moment to explain it anyway. In 1988, the Mackinac Center’s first full year of operation, we had just two employees and worked in an office with a concrete floor behind a pizza parlor. A photo of the staff would have been a close-up of Larry Reed and one other employee.

Not so today! The Center is blessed with 23 full-time staff members, and, as you can see, we struggle to fit them all in. Six members of the staff have been with the Center for more than 10 years.

Executive Vice President Joseph Lehman suggested in the last issue of *Impact* that the most important form of capital is human capital. As the picture clearly shows, we’ve developed a gold mine of human capital from the tremendous support of the Center’s donors, multiplying their

investments many times over.

The Center’s first-rate staff, both past and present, have produced the many policy victories we’ve enjoyed over the years, and the Center’s contributors have made that possible. That support leaves us deeply grateful. It is a blessing that each of us at the Center remains aware of every single day.

You have probably received our annual year-end appeal in the mail, so you know that we’re asking you to send us a special year-end contribution in 2005. We mailed this appeal partly because Michigan still faces many challenges, and the Center must square off against tens of thousands of friends of big government.

But we’ve also sent the appeal because we wanted to achieve even more “to secure the blessings of liberty” for which the Founders fought. We know that you, like each of us at the Center, already treasure those blessings — and that we would all like to count more of them each holiday season. **I**



John Coonradt,
Vice President
for Advancement

A Picture, With a Thousand Thanks



1. Sharon Millerwise
2. Justin Marshall
3. Daniel Montgomery
4. Jack McHugh
5. Dale Anderson
6. Ted O'Neil
7. Diane Katz
8. Lawrence Reed
9. Ryan Olson
10. Kendra Shrode
11. Michael LaFaive
12. Steve Frick
13. Patrick Wright
14. LeAnn Hadley
15. Thomas Washburne
16. Bruce Beerbower
17. Thomas Shull
18. John Coonradt
19. Michael Jahr
20. Russ Harding
21. Pat Benner
22. Joseph Lehman
23. Jan Eurich
24. Chris Bachelder

Not pictured:
Sarah Grether
James Hohman
Amy Kellogg
Kara Malkowski

Center Unveils Labor and Education Project

The tremendous support of the Mackinac Center's contributors during the past 18 years is a central reason the Center has become one of the nation's most reliable and prolific sources of policy analysis. That contributor support has now helped the Center launch a cutting-edge initiative on a vital issue for Michigan: unions in public education.

The Mackinac Center's Labor and Education Project was inaugurated in September with the hiring of two key personnel. Thomas W. Washburne is the new director of the LEP, counsel to the Mackinac Center and director of the Center's Labor Policy Initiative. He has organized a unique, four-tiered approach for the LEP: educating teachers about their rights in relation to their union; educating school boards about effective collective bargaining; educating policymakers about optimal education labor policies; and educating taxpayers about the effects of union involvement in public education.

This process was jump-started in October by Washburne with a timely and powerful Holland Sentinel Op-Ed that alerted teachers, taxpayers and policymakers to a potential waste of money



Michael Jahr (left) and Thomas Washburne

resulting from the Michigan Education Association's insistence on exceptionally costly health care benefits in the Holland Public School district's tense labor negotiations. Washburne is well-suited to the role of analyst and policy strategist, having spent the past decade dealing with public policy and education issues in Washington, D.C., both as counsel and chief of staff

for two Indiana congressmen, and as director of the National Center for Home Education.

Also firing up the Labor and Education Project is Washburne's colleague, Communications Specialist Michael D. Jahr. Jahr is managing the LEP's outreach efforts by drawing upon 10 years' experience as communications director for U.S. Rep. John Hostettler, as well as his background as a copy editor with National Geographic and a writer for The Ann Arbor News and for a newswire covering the Middle East.

"It's always exciting when a catalytic program like the LEP receives support and goes airborne," says Joseph G. Lehman, the Center's executive vice president. "But when you find such talented and experienced professionals to guide it, you know the impact is going to be big. It's just a matter of time." **I**

The First Phase of the Great Depression

(The following is an edited excerpt of Mackinac Center President Lawrence W. Reed's essay, "Great Myths of the Great Depression," which was updated and reissued by the Center this fall.)

Old myths never die; they just keep showing up in economics and political science textbooks. With only an occasional exception, it is there you will find what may be the 20th century's greatest myth: Capitalism and the free-market economy were responsible for the Great Depression, and only government intervention brought about America's economic recovery.

To properly understand the events of the time, it is factually appropriate to view the Great Depression as not one downturn, but four consecutive downturns rolled into one. These four "phases" are "Monetary Policy and the Business Cycle"; "The Disintegration of the World Economy"; "The New Deal"; and "The Wagner Act." The first phase covers why the crash of 1929 happened to begin with.

CENTRAL PLANNERS FAIL AT MONETARY POLICY

A popular explanation for the stock market collapse of 1929 concerns the practice of borrowing money to buy stock. Many history texts blithely assert that a frenzied speculation in shares was fed by excessive "margin lending." But Marquette University economist Gene Smiley, in his 2002 book "Rethinking the Great Depression," explains why this is not a fruitful observation:

"There was already a long history of margin lending on stock exchanges, and margin requirements — the share of the purchase price paid in cash — were no lower in the late twenties than in the early twenties or in previous decades. In fact, in the fall of 1928 margin requirements began to rise, and borrowers were required to pay a larger share of the purchase price of the stocks."

The margin lending argument doesn't hold much water. Mischievous with the money and credit supply, however, is another story.

Most monetary economists, particularly those of the "Austrian School," have observed the close relationship between money supply and economic activity. When government inflates the money and credit supply, interest rates at first fall. Businesses invest this "easy money" in new production projects and a boom takes place in capital goods. As the boom matures, business costs rise, interest rates readjust upward and profits are squeezed. The easy-money effects thus wear off and the monetary authorities, fearing price inflation, slow the growth of, or even contract, the money supply. This manipulation is enough to knock out the shaky supports under

the economic house of cards.

Reckless money and credit growth constituted what economist Benjamin M. Anderson called "the beginning of the New Deal" — the name for the better-known but highly interventionist policies that would come later under President Franklin Roosevelt.

However, other scholars raise doubts that Fed action was this inflationary, pointing to relatively flat commodity and consumer prices in the 1920s as evidence that monetary policy was not so wildly irresponsible. Substantial cuts in high marginal income tax rates in the Calvin Coolidge years certainly helped the economy and possibly ameliorated the price effect of Fed policy.

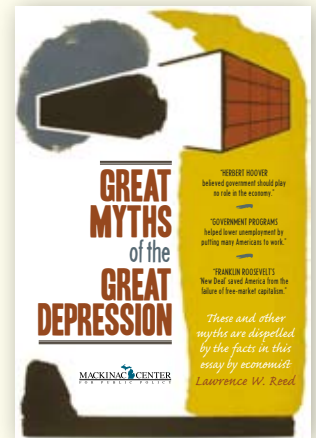
Free-market economists who differ on the extent of the Fed's monetary expansion in the early and mid-'20s are of one view about what happened next: The central bank presided over a dramatic contraction of the money supply.

THE BOTTOM DROPS OUT

The most comprehensive chronicle of the monetary policies of the period can be found in the classic work of Nobel Laureate Milton Friedman and his colleague Anna Schwartz, "A Monetary History of the United States, 1867-1960." Friedman and Schwartz argue conclusively that the contraction of the nation's money supply by one-third between August 1929 and March 1933 was an enormous drag on the economy and largely the result of seismic incompetence by the Fed. The death in October 1928 of Benjamin Strong, a powerful figure who had exerted great influence as head of the Fed's New York district bank, left the Fed floundering without capable leadership — making bad policy even worse.

At first, only the "smart" money — the Bernard Baruchs and the Joseph Kennedys who watched things like money supply and other government policies — saw that the party was coming to an end. Baruch actually began selling stocks and buying bonds and gold as early as 1928; Kennedy did likewise, commenting, "Only a fool holds out for the top dollar."

The masses of investors eventually sensed the change at the Fed, and then the stampede began. The distortions in the economy promoted by the Fed's monetary policy had set the country up for a recession, but other impositions to come would soon turn the recession into a full-scale disaster. As stocks took a beating, Congress was playing with fire: On the very morning of Black Thursday, the nation's newspapers reported that the political forces for higher trade-damaging tariffs were making gains on Capitol Hill. **I**



Lawrence W. Reed is president of the Mackinac Center for Public Policy. His complete, updated, 16-page essay "Great Myths of the Great Depression" is now available from the Center.

Viewpoints

Responding to Michigan's Population Slide

July 2005 V2005-19

U.S. Census Bureau data indicates that Michigan is losing ground to other states in population. Michigan should change this trend by emulating the policies of low-tax states, which are increasing in population.

Bad Food at a Good Price!

July 2005 V2005-20

A restaurant that offers a good food value will be more successful than one that gives coupons to select customers for mediocre fare. Michigan's policymakers should apply this insight and cut taxes for everyone, not just some.

Granholt's Task Force Report: Wrong Prescription, Critical Disease

July 2005 V2005-21

Gov. Granholt's Medicaid task force balked at forcefully recommending reforms that would encourage wealthier seniors to pay for their long-term nursing home care and forgo the use of Medicaid, which is intended for the poor. This failure could sink Michigan's Medicaid budget.

Survey: School Outsourcing Grows

August 2005 V2005-22

More than 35 percent of the Michigan's school districts outsource food, janitorial or busing services — an increase from the past two years.

The Sound of Freedom

August 2005 V2005-23

"The Sound of Music," which celebrates its 40th birthday this year, is more than a big-screen musical. It is a story of tyranny and freedom that inspired a lifetime vocation for Mackinac Center President Lawrence W. Reed.

Supreme Court Ruling Shows Telecom Regulation Should Be Abolished

August 2005 V2005-24

The Supreme Court recently upheld a Federal Communications Commission ruling that cable companies should not be forced to provide their competitors with access to their networks. The decision is correct, but its questionable reasoning shows that federal telecommunications regulation should be abolished.

Michigan Supreme Court Ruling on "Beachwalking" Erodes Property Rights

September 2005 V2005-25

The Michigan Supreme Court has ruled that the public can walk recreationally across privately owned beachfront property as long as people

remain below the "high-water mark." Unfortunately, the ruling involves a vague standard and misapplies the public-trust doctrine. The resulting loss of property rights will ultimately affect us all.

Tuition Hikes at Michigan Universities Demonstrate Need for Reform

September 2005 V2005-26

Tuition increases at Michigan's universities have vastly outpaced inflation because they do not face private-sector incentives to restrain costs. Public funds would be better spent as vouchers to students, not as subsidies to institutions.

Improving Michigan's Regulatory Environment

September 2005 V2005-27

The importance of regulatory policy to the state's economic health is often overlooked. A series of regulatory reforms could improve the state's business climate without harming Michigan's environment.

Journals

Michigan Privatization Report

MPR2005-01 \$3.00

How many public schools outsource ancillary services? What progress has Hamtramck made under its emergency financial manager? Will Amtrak subsidies ever end? How could privatization help Michigan's public libraries and state parks? These and other questions are answered in this issue. 16 pages.

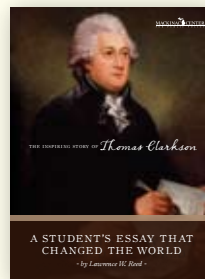


Special Items

The Inspiring Story of Thomas Clarkson

SP2005-01 \$1.00

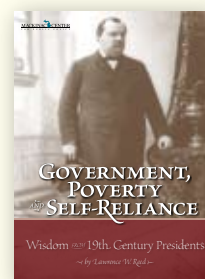
Mackinac Center President Lawrence W. Reed recounts how in 1785, 25-year-old Thomas Clarkson entered a student essay contest that began his lifelong — and breathtakingly successful — mission to end slavery in the British Empire. 12-page monograph.



Government, Poverty and Self-Reliance

SP2005-02 \$1.00

Mackinac Center President Lawrence W. Reed reflects on how the views of 19th century U.S. presidents on limited government and self-reliance contrast with the 20th century's "War on Poverty." 16-page monograph.



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Center's Detroit Recommendations Endorsed by The Detroit News

On Aug. 30, the Mackinac Center received a note from The Detroit News asking what reforms the Center would recommend for Detroit city government. It was good timing. Chance favors the prepared.

Michael D. LaFaive, the Center's director of fiscal policy, already had been preparing a multi-point list of advice to Detroit officials. An abbreviated version of this list has since been published on a business card, so that people can distribute it easily, but LaFaive quickly responded to The News with an extended draft of his policy ideas. The editor of The News' editorial page, in turn, asked LaFaive to submit the ideas in an essay for publication.

On Sept. 2, The News printed LaFaive's Op-Ed under the headline, "Detroit can't postpone economic reform." LaFaive detailed five major recommendations: cutting the city income tax, privatizing city services, radically reducing the city's bureaucracy, selling underperforming assets

and reducing business regulations. Several photographs illustrating his policy prescriptions accompanied the commentary.

And to the Center's deep satisfaction, the newspaper's own lead editorial, published across from LaFaive's Op-Ed, was titled, "Detroit should embrace Mackinac recommendations: Center outlines sensible fixes for city's ailing economy." The editorial read in part, "We urge the candidates for mayor and City council in the November election to embrace the (Center's) ideas and make them part of their campaign platform."

The Center's policy analysts have urged Detroit to adopt market-oriented reforms for many years now, and The News' prominent endorsement was a milestone. The commentary was scrutinized even in Lansing, where state Rep. Jack Brandenburg, who is proposing changes to Detroit's city council elections, cited LaFaive's figures concerning Detroit's unusually large city bureaucracy.

The Center will soon distribute business cards that contain LaFaive's recommendations. Now that Detroit's mayoral election is over, the city has one more chance to avoid bankruptcy and take the steps the Center has recommended for so long.

Of course, after decades of decline, even aggressive fiscal and economic reform is no guarantee of success. But in Detroit as elsewhere, as LaFaive can attest, chance will favor the prepared. **I**



The Center's recommendations for reversing Detroit's economic decline have been printed on a handy card.

SNAPSHOTS



Nov. 13 marked Michael D. LaFaive's 10-year anniversary at the Mackinac Center. Congratulations, Mike!

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FOR PUBLIC POLICY

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Telecom Impact
More Fiscal Policy Initiative