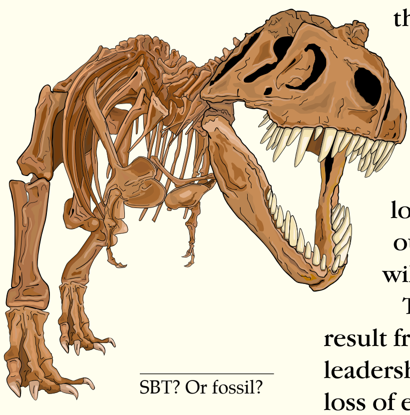
Mackinac Center IMPACT

The Newsletter of the Mackinac Center for Public Policy • www.mackinac.org • Summer 2006

Targeting the SBT: Tyrannosaurus Wrecks?



SBT? Or fossil?

The Single Business Tax is starting to look like a dinosaur. In November 1987, when the Mackinac Center first criticized this uniquely destructive tax, the odds of killing it were zero. In January 2005, when the Center mounted a concerted attack on the SBT, the odds remained long.

But in June 2006, as the Center looks back on months of strategic public outreach, the odds are good that the SBT will fall.

This historic policy victory would result from several factors, including a divided leadership in Lansing and Michigan's shocking loss of economic strength. The Center, however, has played a pivotal role in the drive to eliminate the tax — particularly in the deft public arguments of Legislative Analyst Jack McHugh.

McHugh's work is built on past research. In January 2005, Center President Lawrence W. Reed launched an assault on the SBT in a Lansing "state of the state" address, boldly proposing that the state eliminate the tax altogether. A detailed case for deep-sixing the tax was also spelled out that month in a hard-hitting Mackinac Center Viewpoint by Morey Fiscal Policy Director Michael D. LaFaive and Center Adjunct Scholar Dr. Gary L. Wolfram. The SBT had gained public attention at the time because of Gov. Jennifer Granholm's plan to "reform" the tax partly by cutting the SBT's rates for some businesses and raising its rates for others.

McHugh's opening gambit came in an April 5 Lansing State Journal Op-Ed: He simply proposed that the Legislature adopt the portion of the governor's plan that cut the tax, ignore

see "SBT," Page 4

Contents

Katz Roils Waters at U.S. Senate

The halls of the U.S. Senate echoed with new ideas on March 16, when Diane S. Katz, the Mackinac Center's director of science, environment and technology policy, testified to a Senate committee about the state of the Great Lakes. Katz marshaled an impressive array of scientific and public policy data to shed light on costly new legislation — and she politely but firmly stood her ground when challenged.

The legislative proposal, titled the Great Lakes Regional Collaboration Strategy, would provide $20 billion in new federal funds for the "restoration" of the Great Lakes. The U.S. Senate Committee on Environment & Public Works took testimony on the bill from Michigan Sens. Carl Levin and Debbie Stabenow; Ohio Sen. Mike DeWine; Stephen Johnson, administrator of the U.S. Environmental Protection Agency; George Kuper, president of the Council of Great Lakes Industries; Andy Buchsbaum of the National Wildlife Federation; and Katz, who was invited by the committee staff.

Among the witnesses, Katz was alone in challenging the bill's underlying assumption that the Great Lakes are on the verge of collapse. Citing a variety of scientific sources, Katz described dramatic improvements in Great Lakes water quality and wildlife recovery in recent decades.

Katz was also alone in challenging the notion that Congress and the states have failed to devote sufficient resources to Great Lakes protection.

see "Katz at U.S. Senate," Page 6

MACKINAC CENTER FOR PUBLIC POLICY

"We like many elements of the cost-cutting proposal offered by the Mackinac Center for Public Policy in Midland. Analyst Jack McHugh suggests more than $1.8 billion in savings, more than enough to cover the revenue generated by the SBT."

— Detroit News editorial entitled, "Here's how to trim state budget by $1.8 billion: Mackinac Center suggests cuts for replacing business tax," April 19, 2006

The Price of Abandoning Principle

Lawrence W. Reed
President

Many politicians make their time in office needlessly difficult for everybody. In a quest to "keep an open mind," they fill their heads with a litany of notions and proposals that conflict with each other. Adrift without a rudder in the stormy sea of politics, they waste time and resources foundering in waters they should have avoided in the first place.

A few principles go a long way in fixing this problem. That means standing for something more than what the voters will fall for. It means having a core set of beliefs that act as a compass — making it easier to stay on course and escape shipwreck.

Republicans won control of Congress in 1994 because they ran on a platform of ideas that clarified the distinctions between the parties. Proving that politics is a meat grinder when it comes to principles, it's increasingly hard to find anything the GOP really believes in other than spending whatever it takes to stay in power.

A recent Michigan case also shows where principles could have prevented trouble. In 2001, Gov. John Engler unveiled a plan to create a new state agency to spur the expansion of broadband (high-speed) Internet access in the state. His bill for that purpose passed by nearly unanimous votes in both houses of the Legislature in the following year.

At the time, the Mackinac Center for Public Policy was practically alone in warning what would happen if another state bureaucracy were cranked up. Those warnings, written by Diane S. Katz, Michael D. LaFaive and Dr. Donald L. Alexander, can still be retrieved on our Web site. When asked about our objections, the governor said, "If it were up to the Mackinac Center, there wouldn't be roads between Midland and Lansing."

> The state's broadband authority has been declared "one of the biggest flops in state government."

Well, a funny thing happened on the road to government-sponsored Internet access. Barely three years into the program, the state's broadband authority has been declared "one of the biggest flops in state government" by Senate Majority Leader Ken Sikkema, who was one of those original enthusiastic "yes" votes. Millions of dollars later, House Speaker Craig DeRoche says, "Out of the gate, this was a wrong-headed scheme." They cite fat salaries for an ineffective and overstaffed bureaucracy that simply gets in the way.

Both men are now saying that the expansion of broadband should be driven by the marketplace, not government, and they have moved to abolish the agency. Meanwhile, the market has done a pretty good job, thank you, of making broadband accessible in 99 percent of all Michigan zip codes.

Whatever made legislators think that government should be in the broadband business in the first place? It certainly wasn't any principles about the role of government that Republicans usually claim to support.

Standing for principle is one of the things you can count on from the Mackinac Center. We may be criticized, but policymakers need something to steer by as they sail their ship of state.

Lawrence W. Reed

MACKINAC CENTER FOR PUBLIC POLICY

Mackinac Center for Public Policy
140 West Main Street • P.O. Box 568
Midland, Michigan 48640
989-631-0900 • Fax 989-631-0964
www.mackinac.org • mcpp@mackinac.org

Mackinac Center IMPACT is a quarterly publication of the Mackinac Center for Public Policy, a nonprofit, nonpartisan, tax-exempt research and educational organization classified under section 501(c)(3) of the IRS code.

Michael D. Jahr, Editor
Daniel E. Montgomery, Graphic Designer
Thomas A. Shull, Associate Editor

State Park Sales: Treading A New Path?

The debate over selling 14 state parks has taken a new turn, but the Mackinac Center is using that twist to blaze a trail.

The sale was first proposed by Senior Environmental Policy Analyst Russ Harding, a former Michigan state park chief, in the Fall 2005 issue of the Center's Michigan Privatization Report. Harding observed that the purpose of state parks under Michigan law is to "preserve and protect Michigan's significant natural and historic resources," not to supply "an alternative to outdoor recreation opportunities provided by the private sector."

Michigan has 97 state parks, and Harding recommended selling14 that are not ecologically or historically significant, freeing state park managers to focus on unique properties like Ludington State Park. The proposal generated immediate media attention (see Impact, Winter/Spring 2006), including editorials endorsing park sales in The Oakland Press and The Detroit News. Some state legislators bridled, however, and the Michigan Senate passed a bill to make such sales more difficult by preventing the Department of Natural Resources from selling parks without the Legislature's approval.

Ironically, the bill gets it right. As Senior Legal Analyst Patrick J. Wright observed in a June Viewpoint distributed statewide: "While this legislation may impede the sale of unnecessary park land, it nonetheless represents a welcome recognition that important public questions should be decided by the people's elected representatives. Hopefully, the Legislature will not limit itself to land sales within the DNR, and instead will begin a systematic review of the powers being exercised by all administrative agencies."

Because of the parks debate, Harding has heard from several legislators who are interested in more broadly curbing the power of state agencies. Given that such power undermines democracy and feeds the growth of government, Harding welcomed the calls. Selling the parks remains a good idea — and the Center stands ready to guide the proposal along a new path to limited government. **I**

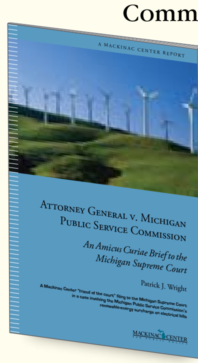
Snapshots

Michigan Supreme Court Justice Maura Corrigan spoke at the Mackinac Center's headquarters on June 14, discussing the impact that the breakdown of families has had on Michigan's court system. Her address was part of the Center's Distinguished Speakers series.

Center Legal Briefs: Twice More Unto the Breach

Even in America's raucous debates over freedom, some matters might seem to be settled: charter schools are public schools; there should be no taxation without representation. But in fact, freedom is never a settled issue.

Thus did Mackinac Center Senior Legal Analyst Patrick J. Wright find himself filing a "friend of the court" brief on March 27 in a case involving a May 2004 decision by the Michigan Public Service Commission to assess a 5 cent per-meter per-month "surcharge" on all Consumers Energy customers. The levy was meant to subsidize projects that produce so-called "renewable energy," such as wind power.



The Michigan Court of Appeals later declared the surcharge illegal on grounds that the MPSC lacked the statutory authority to levy the surcharge. Wright's brief to the Michigan Supreme Court, to which the commission had appealed, unequivocally demonstrated that the Court of Appeals was correct. But Wright also drew the court's attention to the larger legal issue that this "surcharge" was, in fact, a tax, rendering the MPSC's action unconstitutional. Fortunately, on June 23, the Michigan Supreme Court denied the MPSC's appeal, killing the tax.

Wright's second brief involves a case in which the Michigan Education Association is suing state officials for funding more than 30 charter schools authorized by Bay Mills Community College. The union contends the schools are not truly "public schools," and although its suit was dismissed in December (see Impact, Winter/Spring 2006), the union has appealed.

Yet as Wright noted in a press release after filing the Center's brief: "The union is basically presenting the same arguments that were filed against all charter schools in 1994 and rejected by the Michigan Supreme Court in 1997." Wright also presented a novel but powerful argument on a key question of whether the MEA has standing to sue as "a domestic nonprofit corporation organized for civic, protective, or improvement purposes." The union doesn't qualify, Wright noted, since its primary purpose includes "pecuniary profit or gain for its … members."

The MEA's attorney, clearly surprised, moved to have the Center's brief dismissed, but the court accepted it anyway. Transforming such lawsuits into potential new gains for freedom is a great reason to go many times more unto the breach. **I**

SBT from Page One

the portion that raised the tax and let the expected budget shortfalls create political pressure for budget reform. This strategy, he noted, had been used in 1993 to produce Proposal A of 1994, the landmark reform of the state's education finance system.

Ultimately, Gov. Granholm's proposal died of inertia. The state House and Senate took turns passing — and abandoning — a series of mostly small tax cuts, either phased in over lengthy periods or containing revenue "triggers" that forestalled the cuts if state revenues fell. McHugh exposed those triggers as self-defeating in an Oct. 18 Lansing State Journal Op-Ed, and the sheer littleness of the proposals helped deprive them of political momentum. In the end, the Legislature and the governor labored mightily to produce a mouse: a targeted tax cut measure benefiting just a handful of firms.

Oakland County Executive Brooks Patterson delivered a State of the County address in which he called the SBT a "damnable tax" and proposed a ballot initiative to end the SBT in the same burn-the-ships style McHugh had suggested earlier.

2006 dawned with much of Lansing aware that little had been done to improve the state's dismal business climate. But in the months following McHugh's original Op-Ed, the Center had noticed several off-the-cuff media references by the state's pundits and legislators to "passing the good parts" of the governor's proposal and to a "Proposal A" approach to cutting the SBT — an indication that McHugh's original idea might be percolating.

Then it boiled over. On Feb. 8, Oakland County Executive Brooks Patterson delivered a State of the County address in which he called the SBT a "damnable tax" and proposed a ballot initiative to end the SBT in the same burn-the-ships style McHugh had suggested earlier. Two weeks later, state Rep. Leon Drolet introduced legislation to kill the SBT. With Patterson gearing up to collect signatures in a credible campaign drive that would constitutionally allow the Legislature to end the SBT without the governor's approval, McHugh had a flash of insight: It was time to discuss what should be done if the tax were actually eliminated.

Policymakers still spoke of replacing the SBT with another tax; even Patterson wasn't discussing budget cuts. But on Feb. 28, McHugh broke from the pack with a Mackinac Center Current Comment titled "How To Replace the SBT With Nothing." The piece spelled out 15 common-sense budget reforms that would save state government $1.85 billion — the amount the SBT collects — without damage to the so-called "social safety net."

This, too, was a variation on earlier Mackinac Center research. In calling for the SBT's elimination in January 2005, Reed had pointed to hundreds of millions of dollars in state budget savings identified by LaFaive in a Herculean state budget study in 2004. McHugh's list drew on LaFaive's, but had three virtues: It was new; it was timely; and it was short. People could read it in one sitting.

The proposal took off. The next day, March 1, popular talk show host Frank Beckmann interviewed McHugh about the spending cuts on News/Talk WJR 760, the state's leading radio station. On March 7, the piece was cited prominently in an Oakland Press editorial titled, "Let SBT go, cut salaries, cut schools, cut spending"; on March 11, The Grand Rapids Press reprinted the entire commentary.

And the proposal had staying power. On April 19, about two weeks after the Center distributed McHugh's commentary statewide as a monthly Viewpoint, The Detroit News' lead editorial featured the splashy headline, "Here's how to trim state budget by $1.8 billion: Mackinac Center suggests cuts for replacing business tax." A week later, McHugh was explaining the details of his 15-point plan at a Detroit-area seminar attended by key policy leaders, including the speaker of the Michigan House, the chairman of the Michigan Tax Tribunal, and tax experts from Ford, General Motors, EDS, TRW, Coca-Cola, Domino's Pizza, Marathon Oil, Consumers Energy, Ernst & Young and more. Most were enthusiastic.

By this time, the Legislature had passed a bill to kill the SBT. Gov. Granholm vetoed that legislation on March 31, but Patterson's ballot drive now looked likely to succeed. Just as important, policymakers were suddenly talking about budget reductions. In a series of press conferences held around the state on April 11, Patterson, Republican gubernatorial candidate Dick DeVos and Michigan House Speaker Craig DeRoche appeared together calling not just for elimination of the SBT, but spending cuts. A May 30 Gongwer News Service article reported that when Patterson submitted 372,000 signatures from his ballot drive, he said that he favored a net tax reduction and "that state government will have to look at some recommendations from the Mackinac Center for Public Policy to shed costs."

Neither the SBT's demise nor state spending cuts are certain. But the SBT debate has fundamentally shifted since the beginning of 2005, and the Center plans to help ensure that this dinosaur, once invincible, will fall — and that it will be the last of its kind. I

Setting the Agenda on Taxes and Telecom

- Michigan's anemic economy — and ways to improve it — was the subject of an Op-Ed by Senior Economist **David L. Littmann** in the June 13 **Investor's Business Daily**. On April 24, National Review cited **Michael D. LaFaive**'s description of Michigan as "the France of North America," while a March 15 **Detroit Free Press** article quoted Executive Vice President **Joseph G. Lehman** about how to turn around Michigan's economy.

"We like many elements of the cost-cutting proposal offered by the Mackinac Center for Public Policy in Midland," stated an April 19 **Detroit News** editorial. "Analyst **Jack McHugh** suggests more than $1.8 billion in savings, more than enough to cover the revenue generated by the SBT." Under the headline "Here's how to trim state budget by $1.8 billion: Mackinac Center suggests cuts for replacing business tax," the News argued that the onerous Single Business Tax could be eliminated without raising taxes elsewhere (see related story on Page One).

In an April 11 editorial, **The Oakland Press** also endorsed McHugh's plan. McHugh's original commentary, "How To Replace the SBT With Nothing," appeared in **The Grand Rapids Press** on March 11, the **Observer & Eccentric Newspapers** on April 6, the **Grosse Pointe News** on April 13, the **Niles Daily Star** on April 15, the **Saginaw Press** on April 21, the **Monroe Evening News** on April 23, **The Oakland Press** on April 23, the **Homer Index** on May 3 and the **Detroit Legal News** on May 10. In three separate **Gongwer News Service** stories (March 24, May 30 and June 2), McHugh's proposal was supported by the National Federation of Independent Businesses, Oakland County Executive L. Brooks Patterson and Americans for Tax Reform.

In a story that ran throughout Michigan and elsewhere, the **Associated Press** on May 27 cited the plan. On March 1, McHugh was interviewed on **"The Frank Beckmann Show"** on **News/Talk 760 WJR**. In addition, **The Detroit News** on May 30 published an Op-Ed by Center President **Lawrence W. Reed** calling for elimination of the SBT and improving Michigan's tax climate.

- In a March 8 **Wall Street Journal** letter to the editor, Center President **Lawrence W. Reed** debunked the myths surrounding socialist Upton Sinclair and his book "The Jungle." On March 2, **National Review Online** published a Reed essay on the destructive nature of federal emergency aid.

- In an April 11 Op-Ed in **The Detroit News**, **Diane S. Katz**, director of science, environment and technology policy, argued that cable franchising by municipalities is an obstacle to competition in television services and to broadband investment. A week later, The News cited Katz in its editorial making the same point. Katz's testimony on municipal franchising before the House Energy and Technology Committee was reported by **Gongwer News Service** on May 24. Coverage of her participation in a Kalamazoo Valley Community College forum on cable competition appeared on Grand Rapids' **WOOD TV 8** on June 9, and in the **Western Michigan University Herald** on June 12.

- Thirteen members of the Legislature came under scrutiny in the May 22 **Detroit News**, the May 23 **Saginaw News** and the May 29 **Grand Rapids Press** when an attendance tally at **MichiganVotes.org** revealed that the lawmakers had missed at least 100 votes in the 2005-2006 session (see related story on Page 9).

- The Center's education research generated a variety of media coverage. The May 27 **Grand Rapids Press** and the June 4 **Oakland Press** ran an Op-Ed by Education Research Associate **Ted P. O'Neil** on the questionable scheduling of May school board elections. In **The Saginaw News** on June 11, an Op-Ed by Director of Education Policy **Ryan S. Olson** pointed out that increased education spending does not yield better results. An article in the April 10 **Detroit News** quoted Olson on the same topic. In a May 10 **Detroit News** Op-Ed titled, "Let money follow students, not lobbyists," Legislative Analyst **Jack McHugh** argued for an overhaul of the way state universities are funded.

- Morey Fiscal Policy Director **Michael D. LaFaive**'s testimony before a Michigan House subcommittee was cited in **The Ann Arbor News** on April 30 and May 4 and in **Crain's Detroit Business** on May 8 (see related story on Page 12). LaFaive had gained the attention of the Legislature with a commentary that questioned state funding of the arts by describing dubious films shown at the state-subsidized Ann Arbor Film Festival in 2005. LaFaive's commentary was picked up by the **Saginaw Press** on April 14 and the **Detroit Legal News** on May 2. A May 8 **Ann Arbor News** editorial encouraged organizers to replace state money with private financing.

- Center Labor Policy Director **Thomas W. Washburne** and **Michael D. LaFaive** made a compelling case for eliminating the Michigan Economic Growth Authority in a **Lansing State Journal** Op-Ed on May 21. A commentary on MEGA's ineffectiveness, coauthored by LaFaive and **Jack McHugh**, was published in the **Dearborn Times Herald** on April 19, **The Utica/Shelby Township Advisor** on April 23, and the **Big Rapids Pioneer** on April 25.

- Senior Environmental Policy Analyst **Russ Harding**'s proposal that the state sell 14 of its 97 state parks was endorsed by an April 15 **Detroit News** editorial (see related story on Page 3). His plan was also cited in the April 9 **Detroit News** and the March 27 **Grand Rapids Press**.

Schimmel and Hohman: Morey Fiscal Policy Multipliers

Lon Morey's $1 million contribution to the Mackinac Center last year has enabled the hiring of two important new fiscal policy analysts: Louis H. Schimmel Jr., the Center's new director of municipal finance, and James M. Hohman, fiscal policy research assistant. Schimmel and Hohman are certain to multiply the Center's impact many times over.

Schimmel comes to the Center as a widely respected authority on Michigan municipal finance. He is best-known as the court-appointed receiver for the tiny city of Ecorse, Mich., where from 1986 to 1990, he erased a seemingly intractable $6 million budget deficit (see Impact, Summer 2005). Schimmel also distinguished himself as a state-appointed emergency financial manager for Hamtramck, Mich., where he subdued a $2.4 million debt that had pushed the city to the brink of bankruptcy.

In both cities, Schimmel renegotiated union contracts, ended city sinecures and aggressively privatized city services. This experience with real-world politics equips him perfectly for his central role at the Center: advising distressed communities. As Center President Lawrence W. Reed noted when Schimmel signed on in May, "Lou can show local officials how to … keep their books balanced without demanding more money from taxpayers."

Schimmel's years in the trenches may seem a contrast to the shorter resume of new hire James Hohman, who arrives at the Center fresh from Northwood University. But the contrast is deceptive: For the past four years, Hohman has worked as a research intern for Morey Fiscal Policy Director Michael D. LaFaive.

Indeed, Hohman was part of the team that assembled the jaw-dropping statistics in Reed's 2005 "state of the state address," and Hohman helped compile raw data for last year's blockbuster Policy Study "MEGA: An Assessment." Hohman has also contributed regularly to the Center's Michigan Privatization Report.

Hohman will now serve as a research assistant and as managing editor of MPR. He thus joins Schimmel, LaFaive and Mackinac Center Senior Economist David L. Littmann on a powerful Morey Fiscal Policy team. Together, they plan to convert Lon Morey's million-dollar investment in the Mackinac Center into billions of dollars in new economic growth for Michigan. I

Katz at U.S. Senate from Page One

Recent Mackinac Center research has discovered the existence of more than 200 government programs to improve the Great Lakes ecosystem, Katz told the committee. The programs are not coordinated to maximize environmental improvements, she added, and most lack measurable goals.

"The shortcomings of the current approach stem not from any lack of regulation or resources," Katz testified. "On the contrary, the problem is the excess of well-intended but ill-conceived programs that fall under disjointed regulatory agencies at the international, federal, state, provincial and local levels. Unfortunately, the problem will not be remedied by more unwieldy and inefficient regulation."

Having delivered good news about the Great Lakes and bad news about government oversight, Katz offered recommendations for improving Great Lakes stewardship. Ironically, she had some difficulty in delivering this last, most important part of her testimony, because a senator temporarily presiding over the committee interrupted her before her allotted time was up. She nevertheless pressed for permission to continue, suggesting that Congress consider eliminating inefficient programs; using property rights and market-based incentives to revive designated "areas of concern"; seeking private-sector involvement in crafting policy; and developing a basinwide database of ecological conditions to help set restoration priorities.

During the question-and-answer session, Katz encountered hostility from two of the senators, who claimed that she was misguided and who invited other witnesses to challenge her. Katz deftly defended herself, however, and cited verifiable scientific sources for her conclusions. "That part was easy," she notes, "since on this issue, I was right, and they were wrong."

The overall reaction to Katz's testimony was highly favorable. Her remarks particularly impressed the committee's staff members, who invited her to submit written testimony in response to additional questions posed by the committee members. Her second submission, replete with charts and references to peer-reviewed scientific research, also drew praise, with a senior committee staff member writing Katz: "Diane, this is great! Thank you so very much."

Both rounds of Katz's testimony have been posted to the Center's Web site (visit www.mackinac.org/7651 and www.mackinac.org/7700). Katz plans to track the progress of the legislation and weigh in as necessary — but whatever the bill's outcome, it's unlikely the Senate committee will forget her testimony. I

Members of the U.S. Senate Committee on Environment & Public Works

Max Baucus, Montana
Christopher S. Bond, Missouri
Barbara Boxer, California
Thomas R. Carper, Delaware
Lincoln Chafee, Rhode Island
Hillary Rodham Clinton, New York
Jim DeMint, South Carolina
James M. Inhofe, Oklahoma
Johnny Isakson, Georgia
James M. Jeffords, Vermont
Frank Lautenberg, New Jersey
Joseph I. Lieberman, Connecticut
Lisa Murkowski, Alaska
Barack Obama, Illinois
John Thune, South Dakota
David Vitter, Louisiana
George V. Voinovich, Ohio
John W. Warner, Virginia

Seminar Provides a 'Kelo' of Prevention

Kelo v. New London is a rare thing: a U.S. Supreme Court decision almost universally reviled. The court's ruling that the government can, by providing "just compensation," forcibly transfer citizens' land to businesses that will pay more taxes has reawakened Americans' appreciation of property rights. Expanding that appreciation — and informing it — was the goal of the Mackinac Center's inaugural property rights seminar, held May 17 in East Lansing.

Joseph G. Lehman, and speakers Scott Bullock, Patrick J. Wright, Nancy Kurdziel and Russ Harding

More than 70 people gathered for the event, including Michigan Supreme Court Justices Clifford W. Taylor and Robert P. Young Jr., state Rep. Leon Drolet, legislative staff members, city officials and community members. The forum featured a panel of four experts, and the first of these to speak was Scott Bullock, the lawyer who represented Susette Kelo.

Bullock, a senior attorney at the Washington-based Institute for Justice, made it clear that the Kelo decision has emboldened governments to use eminent domain to rearrange the landscape at will. In Freeport, Texas, the city is seeking to replace seafood businesses with a marina; elsewhere, cities are planning to replace houses with condominiums and shopping malls.

Mackinac Center Senior Legal Analyst Patrick J. Wright spoke next, focusing on Michigan. Wright observed that although the state Supreme Court has ruled that Kelo-style takings are unconstitutional in Michigan, state and local governments can accomplish the same ends by applying vague definitions of "blight" to entire neighborhoods and using eminent domain to redistribute the land to developers.

The reality of this threat was underscored by Nancy Kurdziel, president of Prime Housing Group Inc., a family business fighting a proposed "blight" taking by the city of East Lansing. Kurdziel compellingly described how several years ago the city decided to change its business profile and labeled as "blighted" a respectable part of town that included well-maintained Prime Housing properties. "We have invested our pocketbooks and our lives into this business," said Kurdziel. "Yet we have spent the last six years defending that property because the city decided they have other ideas for it."

Mackinac Center Senior Environmental Policy Analyst Russ Harding then addressed a final form of eminent domain: "regulatory takings," in which land-use restrictions or other regulations diminish a property's value. "Supposedly," Harding observed, "environmental or land-use restrictions provide a benefit to the public in general. The problem is that those restrictions are imposed on private property, and the cost of those benefits entirely are borne by individuals, the landowners." The U.S. and Michigan constitutions suggest that the landowners should be compensated for their loss, but the courts have rarely awarded damages.

Citizens do have recourse. Wright noted that abusive "blight" takings could be limited by requiring the government to demonstrate the existence of blight on a parcel-by-parcel basis — a requirement that is part of a proposal being submitted to Michigan voters this November.

Michigan Supreme Court Justices Clifford W. Taylor and Robert P. Young Jr. with Center President Lawrence W. Reed

Harding observed that a successful Oregon ballot initiative recently mandated that the state's governments pay compensation for regulatory takings.

Judging by the audience's reaction, the seminar was a resounding success. Rep. Drolet asked for 300 copies of "Restoring Our Heritage of Property Rights," a Mackinac Center booklet provided to everyone who attended. The same day, MIRS Capitol Capsule published an article on the symposium.

The Center is planning similar seminars in Oakland County, Western Michigan, Traverse City and, on July 18, Bay City. The new meetings will come none too soon. As Kurdziel warned: "If they can do it to us, then they can do it to you. It's time to protect our property rights now." I

Snapshots

The Mackinac Center's Ted P. O'Neil hands a check for $1,000 to Catherine Leiber, one of four high school students to win the Center's 2005 Debate Workshops scholarship contest. Leiber received the award during a spring assembly at Catholic Central High School in Grand Rapids.

Greeley and Bobsy: Wellsprings of Freedom

A picture may be worth a thousand words, but there is much it can't describe.

Consider the iconic image of the flag-raising at Iwo Jima: It shows American troops hoisting an American flag in bitterly contested Japanese territory, but it doesn't explain how the men got there. That story involves millions of courageous choices on behalf of freedom — and it includes two unassuming heroes: Greeley and Bobsy Wells.

Greeley was a junior in college when Pearl Harbor was attacked on Dec. 7, 1941. Shortly afterward, and despite his marriage to Barbara (Bobsy) the previous June, Greeley decided to join the Marines. Bobsy gave her blessing. They never wavered in their commitment, and after an accelerated college program, Greeley left for war.

And so it was that in February 1945, Greeley Wells adjutant, 2nd Battalion, 28th Marine Regiment, 5th Marine Division, carried the American flag that was first placed on top of Mt. Suribachi, Iwo Jima's highest point. When the flag was raised, it became the first U.S. flag to fly on wartime Japanese territory, and a shout went up from the thousands of Marines on the island. The flag was later removed for safekeeping, and when a second flag was hoisted to replace it, the famous photograph of the flag-raising at Iwo Jima was taken.

Bobsy and Greeley Wells with Director of Advancement Justin W. Marshall

Greeley wasn't in that shot, but he'd played his part. At the end of the war, he returned home to Bobsy, who'd supported his call to duty the entire time he was away.

Together, Greeley and Bobsy still fight for freedom through their generous support of the Mackinac Center for Public Policy. "You are doing what it takes to keep this country together," says Greeley.

We are proud to count Greeley and Bobsy Wells among our friends. They help extend the landscape of freedom, and without them, any picture of the Mackinac Center — or the United States of America — would be incomplete. I

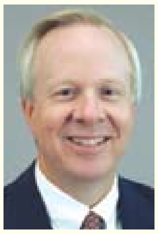
Good Business — and Good Work

"You guys should be more 'pro-business,'" someone told me at a recent social gathering. I'd just said that I worked for the Mackinac Center, and the speaker was a government affairs official for one of Michigan's largest employers.

The situation was ironic. I'd recently been appointed the Center's vice president for advancement, and although I'd spent almost two years as the Center's director of communications, I'd joined the Center after a 20-year business career. In fact, both my bachelor's and master's degrees are in business administration. I tend to think of myself as a "pro-business" kind of guy.

But this gentleman was referring to the Center's analyses of the selective tax credits disbursed by state officials to a limited number of favored companies. The Center has criticized such credits, and on this topic, his "pro-business" views and my "pro-business" views diverged.

The Center's research indicates that selective tax credits do not produce a stronger economy. Indeed, the process of granting the credits can encourage government interference in the economy, undermining the freedom a vibrant business sector needs.



Christopher F. Bachelder, Vice President for Advancement

But I think there's more. Business research shows that the most effective enterprises offer their employees intrinsic reasons for superior performance. A classic example appears in the book "The Right Stuff," when author Tom Wolfe describes how astronaut Gus Grissom was asked to "say a few words" to the workers at a rocket production facility. Caught by surprise, Grissom blurted out, "Well … do good work." The workers immediately grasped the humorous subtext — Grissom, after all, was going to ride on top of their rocket — and they responded with thunderous applause. Afterward, they hung a huge banner above the factory floor saying, "Do Good Work."

Businesses forced to plead for special tax breaks are distracted from the intrinsic motives to "do good work." That's one important reason why the Center's equal-opportunity defense of economic freedom is truly "pro-business."

That's also why we thank you. Your principled and generous support doesn't just enable us to strive for excellence. Intrinsically, it encourages us daily to "do good work" on behalf of freedom — and that's "pro-everyone." I

MichiganVotes.org: Supplying What Was Missed

State Rep. David Law

With a revolutionary technology like MichiganVotes.org, small changes can lead to big results. Consider the Web site's "Missed Votes Report," which may have helped spawn a March proposal to amend the Michigan Constitution.

The "Missed Votes Report" is simple, but powerful: It provides a count of the roll-call votes that state legislators have failed to cast over a specified period, and it details which votes each legislator missed. The service was launched in February 2004, shortly after MichiganVotes.org Editor Jack McHugh discovered that with some quick tinkering, the missed votes data could be displayed using the Web site's existing database.

The report gave birth to a new era of legislative accountability. In the past, only the Republican and Democratic caucus leaders in the state Legislature tracked attendance and roll calls. They shared the tallies with legislators, who rarely announced bad results. Citizens had no easy way to learn the truth.

So the Missed Votes Report caught on quickly, inspiring news stories and providing fodder for election campaigns. Then, on March 30, state Rep. David Law sponsored a constitutional amendment in the Michigan House to dock the pay of state legislators who miss scheduled sessions without a legitimate excuse. The next day, a Gongwer News Service story on the proposal cited a single data source for legislators' missed votes: MichiganVotes.org. On May 22, in a front-page Detroit News story, Rep. Law specifically cited MichiganVotes.org in discussing the poor attendance record of 13 state lawmakers.

The News' article indirectly underscored the authoritative nature of MichiganVotes.org in a brief "due-diligence" paragraph, stating: "The Mackinac Center's tally was spot-checked for accuracy by The Detroit News. The News called the office of each lawmaker listed with 100 or more missed votes, giving them the opportunity to refute it; none did."

The amendment's future — and potential effectiveness — is still unclear. But by tapping the power of the Information Age, MichiganVotes.org has encouraged legislators to demand more from each other — a big change that everyone can welcome. I

Braun and Walker Address Ballot Proposals and Paradigm Shifts

Kenneth M. Braun

Bruce Edward Walker

The Mackinac Center opened two new policy fronts in March and April with the hiring of analysts Kenneth M. Braun and Bruce Edward Walker. Their assignments involve two complementary policy targets: breaking issues with long-term consequences, and broader issues with immediate implications.

Braun's portfolio is a handful, involving economic and constitutional proposals that could appear on the state ballot this November. These proposals include abolishing the Single Business Tax; limiting state spending; curbing the use of eminent domain; and requiring a guaranteed annual increase in state school spending.

Braun is well-prepared to handle these diverse issues. He arrives at the Center after five years as chief of staff for a Michigan state representative, and he is accustomed to converting fiscal analysis into trenchant media commentary. Braun's current focus is on the proposed state spending limitation and the school funding guarantee. "These two measures," he observes, "would affect how state government spends money for years to come, and both proposals have antecedents in Colorado." Braun will explore the lessons from Colorado in forthcoming Center publications.

Walker, in turn, is editor of the Center's forthcoming quarterly, Michigan Science Report, which will break ground on science, environment and technology issues critical to Michigan. Walker is trained in literature — he even wrote the CliffsNotes study guide for "Alice's Adventures in Wonderland" — but he has spent years writing extensively about water rights, land use, alternative-technology vehicles and other environmental topics.

Walker sees the Center's new science periodical as a forum for exploring "objective scientific criteria to inform public policy." But he also views the quarterly as providing context for two paradigm shifts that could determine Michigan's future: "a shift in economic utility from labor and materials to information and technology; and a shift in society's perceptions of better production methods — from environmental threat to environmental boon."

Following proposals and paradigm shifts, Braun and Walker will help the Center forge a new vision for Michigan's future — a vision with consequences for both today and tomorrow. I

What Detroit Can Learn From Bangalore: Remove Destructive Taxes

(The following is an edited excerpt from an article originally published in the June 2006 issue of Reason magazine.)

Bangalore has benefited not just from the central government's efforts to reduce onerous bureaucracy and red tape, but from its radical reform of the federal tax system, once among the most punitive and complicated in the free world. Now Indian states also have started to simplify their tax schemes, something neither Michigan nor Detroit has found the will to do.

At its peak in the 1970s, India's top marginal corporate income tax rate was 93.5 percent. This, combined with an 8 percent tax on wealth, meant those who played by the rules could count on effectively handing over their entire profits to the government at the end of the year.

The 1991 reforms dramatically changed this situation. India not only lowered the marginal income tax rate for corporations and individuals to between 30 and 35 percent (not counting deductions); it slashed the wealth tax to 1 percent and abolished the estate tax. The reforms are ongoing and are not limited to the national government: Last year 21 of India's 29 states joined hands — a major political miracle — to end a bewildering system of multiple state-level sales taxes that even seasoned accountants couldn't fathom.

Tax reforms, coupled with trade liberalization that exempted all exports from taxes and slashed duties on imported goods, gave a big boost to the information technology industry. The Indian government, acting on the theory that information technology would propel broad-based economic development in the country, has given the industry targeted tax breaks as well. Around 1999, New Delhi declared a 10-year holiday from corporate income taxes for all companies registered in its official software technology parks program.

But special tax breaks, notes Arvind Panagariya, an economist at Columbia University, have at best helped the industry at the margins. "If it were up to me, I'd end them today," he bristles. The fundamental reason for the software boom, in his opinion, was that India abandoned its import substitution approach and made it easier for the information technology industry to acquire cheap equipment from abroad and combine it with cheap, high-skilled labor at home to produce cost-effective global exports.

Like India, Detroit knows how to use the tax code to play favorites. Nearly every large company that has moved to Detroit in the last decade, including Compuware and General Motors, has done so only after being promised hefty tax breaks. But what the Indian central and state governments are also doing — and Detroit and Michigan are not — is reforming the overall tax climate to make it more friendly to enterprise.

Bangalore's Vidhana Soudha is the seat of the Karnataka state Legislature.

According to the Mackinac Center for Public Policy, Michigan is one of just a handful of states that levy a sales tax, a personal income tax and a business tax. The last, called the Single Business Tax, has the most pernicious effect on entrepreneurship and job growth because it taxes firms on their costs and investments, rather than their profits. If a company adds employees, its SBT goes up. If it raises wages, its SBT goes up. If it buys new equipment, its SBT goes up.

Political leaders from both parties have long recognized the perversity of this tax, but they haven't been able to muster the political will to wean the state off it. (At press time, reformers were making a renewed push to scrap the SBT.) Michigan's political pusillanimity contrasts sharply with the bold reform of the state sales taxes in India, where leaders divided by language, religion, class and caste managed to unite behind a single tax scheme, even persuading local politicians to forgo what they have long regarded as their God-given right: selectively handing sales tax exemptions to favored groups to build their fiefdoms.

On top of all the state taxes, Detroit adds several of its own, including a 5 percent tax on residents' utility bills (which goes, bizarrely, to the police); a 2.5 percent personal income tax on residents; a 1.25 percent personal income tax on people who work in Detroit, but don't live there; and a 1 percent corporate income tax. As if that were not bad enough, the city charges such a high assessment on property when it is sold that few buyers are willing to pay it, freezing the real estate market and forcing owners to burn or abandon their houses. For a family of four making $50,000, Detroit is the eighth highest-taxed city in the nation.

Radical tax cuts along with deregulation awoke the world to Bangalore's information technology potential. It is unclear where Detroit's potential is; only a free-market discovery process can reveal it. But whatever it may be, it will remain hidden so long as Detroit's onerous tax burden and regulations keep scaring businesses away from the city. I

Shikha Dalmia is a senior analyst at the Los Angeles-based Reason Foundation and an adjunct scholar with the Mackinac Center for Public Policy.

Viewpoints

Government Golf: Unfair Competition Hurts Business, Taxpayers

February 2006 V2006-04

Government-owned golf courses are unnecessary, expensive and harmful to private-sector owners and taxpayers alike.

Government Broadband: Unnecessary and Unfair

February 2006 V2006-05

Municipalities that are financing or managing broadband networks in competition with private firms should leave telecommunications to the private sector, which is far better equipped to provide such services.

Banks and Credit Unions: The Unlevel Playing Field

February 2006 V2006-06

Federally chartered credit unions enjoy tax and regulatory advantages over their banking competitors. Policy reform should attempt to level the playing field between these essentially similar businesses.

A Supreme Court To Be Proud Of

March 2006 V2006-07

As the composition of the U.S. Supreme Court changes, we should recall the career of 19th century Chief Justice Melville W. Fuller, whose decisions were grounded in the actual text of the law and the Constitution, rather than the "needs" of the moment.

Change To Win What?

March 2006 V2006-08

The rift in the U.S. labor movement, with unions representing more than 6 million members splitting from the AFL-CIO, presents labor leaders with a historic opportunity to refocus their strategies to more effectively address workers' interests.

Michigan's Russian Roulette

March 2006 V2006-09

In her State of the State address, Gov. Jennifer Granholm emphasized government planning, not empowering Michigan's market economy. This approach will not improve Michigan's dismal economic performance; in particular, it will not help the urban and rural poor.

Protecting Art From Politicians

April 2006 V2006-10

State Sen. Shirley Johnson wants to impose a new tax to raise approximately $50 million for state arts and culture promotion. But using tax dollars to subsidize art is not in the public interest and is ultimately detrimental to the arts themselves.

How To Replace the SBT With Nothing

April 2006 V2006-11

Contrary to the conventional wisdom in Lansing, eliminating the state's destructive Single Business Tax is quite feasible. Reducing annual state spending by the $1.855 billion the tax collects could be achieved in ways that most citizens would not even notice.

An Alternative to Green Orthodoxy

April 2006 V2006-12

Proposed legislation would encourage Michigan students to pursue energy savings and a "Green School" designation by caulking windows, inflating bus tires and dusting refrigerator coils. Such proposals represent a failure to craft sound environmental policy.

Averaging Our Way to Average

May 2006 V2006-13

The Michigan Education Association supports a proposal to change the way that enrollment is used to determine school district funding. The proposed modification would weaken schools' incentives to improve.

Great Values, Great Movies

May 2006 V2006-14

Although Hollywood routinely produces movies that denigrate individual liberty and responsibility, some films celebrate the virtues of freedom.

42 Days of Infamy?

May 2006 V2006-15

A study claiming employer misconduct during union organizing campaigns is being cited by union leaders to support changes in labor law. But any change that denies workers the right to a secret-ballot election would probably be opposed by union members themselves.

Journals

Michigan Education Report

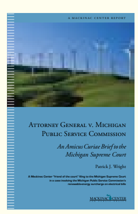
Winter/Spring 2006 $3.00

Key stories: School districts wrestle with high health care costs. The MEA loses a lawsuit against Bay Mills' charter schools. Labor struggles continue for Lakeview school district. State charter schools see enrollment increases. Ironwood students caught in labor dispute ask, "What about US?" Kent County Intermediate School District "guarantees" diplomas. These articles appear with numerous others. 12 pages.

Studies & Reports

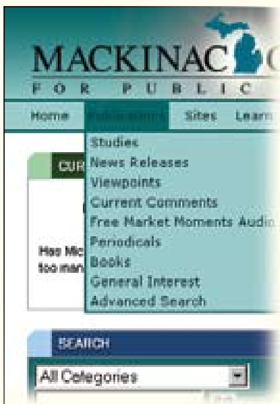
Attorney General v. Michigan Public Service Commission

June 2006 $10.00



This study reproduces a "friend of the court" brief filed by the Mackinac Center with the Michigan Supreme Court in a case involving the Michigan Public Service Commission's dubious renewable-energy surcharge on electrical bills.

WEB



You can access electronic versions of the publications that appear in Free-Market Library. Simply go to www.mackinac.org, click "Publications," and select "Viewpoints," "Periodicals" or "Studies."

How to order

All publications are available at no charge via the Internet at **www.mackinac.org**.

VIEWPOINTS: Viewpoints on Public Issues are two-page commentaries on current Michigan policy issues. Three are published each month. Individual Viewpoints are 50 cents each. Please call for bulk discounts.

For telephone orders, please call the Mackinac Center at 989-631-0900. The Center accepts Visa, MasterCard and Discover/NOVUS for your convenience. Please have your card and item titles handy when calling.

Center's LaFaive Critiques Arts Subsidies

When state Sen. Shirley Johnson introduced a bill in February to levy a 5 percent ticket tax on sports stadiums, theaters and other entertainment venues, she wanted much of the revenue to go to the arts. She probably didn't expect her proposal to promote the not-so-gentle art of policy jujitsu.

Michael D. LaFaive testifies at a March 28 hearing of the Michigan House Appropriations Subcommittee on History, Arts and Libraries.

But Morey Fiscal Policy Director Michael D. LaFaive had been digging into obscure state budget items as part of the Center's budget analyses, and he had discovered that the state subsidized the Ann Arbor Film Festival, a venue for films most state taxpayers knew nothing about. He decided to change that, hoping to respond to Sen. Johnson's proposal by underscoring the dubious nature of government subsidies for inherently subjective activities like art.

On March 14, the Center Web-published LaFaive's Current Comment "Entertaining Art: To Tax or Not to Tax — That Is the Question." The piece described material from the 2005 Ann Arbor Film Festival and included film titles, a hyperlinked film clip and links to Web sites describing material shown at the festival. The descriptions and titles contained repeated sexual references; the Center even felt compelled to post warnings near the essay's hyperlinks to inform readers that the linked Web pages might "be deemed offensive by the viewer."

The essay was posted without fanfare, but within days, it had been spotted by state Rep. Leon Drolet, who issued a press release condemning state tax support of the festival. His release quickly prompted a special March 28 hearing of the Michigan House Appropriations Subcommittee on History, Arts and Libraries. LaFaive testified at the hearing, expanding on his arguments. A representative of the Michigan Department of History, Arts and Libraries also testified, and he conceded that one of the Ann Arbor films may have violated state guidelines.

Both the Michigan House and Senate have since included language in the proposed state budget to prevent state subsidies for similar events. The Ann Arbor Film Festival, meanwhile, might choose to forgo state subsidies for at least two years. The Ann Arbor News has covered the controversy extensively, publishing a May 4 front-page story, a column and an editorial on the subject. "The absence of state funding should be taken as a call to arms," the News opined on May 8, "marshaling individual or corporate donors who believe strongly that this type of art should have a venue."

In other words, finance this art privately. That's a good start.

Snapshots

On May 21, Mackinac Center President Lawrence W. Reed gave the commencement address for the high school students at Thomas Jefferson Independent Day School in Joplin, Mo. Reed's message was simple: "Character makes all the difference in the world."

MACKINAC CENTER
FOR PUBLIC POLICY
140 West Main Street • P.O. Box 568
Midland, Michigan 48640

FEATURED

Don't miss this brief, accessible pamphlet about property rights threats and solutions!

See Page 7, or go online to www.mackinac.org/7789.