

Policy Briefs Help Public Understand Ballot Measures, Spending Issues

H.L. Mencken once said, “Democracy is the theory that the common people know what they want and deserve to get it good and hard.” As amusing as that is, the Mackinac Center has always wanted something better for the people of Michigan.



So the Center enters the fall election season with the September release of two substantive Policy Briefs on proposals that have jockeyed to be front and center in the public debate. The issues these proposals raise, both on education spending and state spending, are likely to be with the state for years to come. At press time a third brief on property rights protection was scheduled for release in late September.

The first brief, 23 pages long and released

on Sept. 12, is “An Analysis of Proposal 5: The ‘K-16’ Michigan Ballot Measure,” by Mackinac Center Policy Analyst Kenneth M. Braun. Braun, who joined the Center in March (see Impact, Summer 2006), builds a careful, but powerful case that the “K-16” ballot initiative, which would guarantee annual inflationary increases in state government spending on primary, secondary and higher education, is most interesting — and problematic — in its details.

After all, the basic story of Michigan education spending is prosaic: It’s high, and over time, it gets higher. As Braun noted in the study, Michigan’s state spending on public elementary and secondary schools has generally been among the nation’s highest, and from 1995 to 2005 that spending increased by about 40 percent — well above the inflation rate. Per-capita

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Mackinac Center Analyst’s Idea Shakes Up Higher Education Funding Process

While pursuing a master’s degree from Central Michigan University, Mackinac Center Legislative Analyst Jack McHugh enrolled in a “Michigan Politics and Elections” class taught by Bill Ballenger, the Griffin Endowed Chair in American Government and a respected observer of the Michigan political scene.

Ballenger set a high bar for an experienced policy analyst, but McHugh exceeded it with a final paper that was a full-bore study of Michigan’s higher education funding formula, including two key reform recommendations: Phase in a standard per-pupil foundation grant across all state universities, and tie funding directly to the number of Michigan residents who attend each school in a voucher-like manner.

Ballenger posted the project on CMU’s Web site as an “Award Winning Paper,” and dedicated the entire Jan. 24, 2005 edition of his bimonthly



Jack McHugh

“Inside Michigan Politics” newsletter to the paper’s findings and recommendations.

Reaction came almost immediately. Rep. John Stewart, R-Plymouth, chair of the House Appropriations Higher Education subcommittee, called McHugh

to say, “No one should be on the subcommittee unless they have read and absorbed this report. I will insist that all committee members, Republican and Democrat, read this report.”

A good start!

The virtual adoption of McHugh’s recommendations as the “House position” was described in the Detroit News on May 11, 2005: “(U)niversities would receive state funding based on their enrollment, research activities

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"I Am Going to Arrest You"



Joseph G. Lehman
Executive
Vice President

I don't understand Swahili, but that did not keep me from recognizing that things were taking an unpleasant turn. The language of intimidation and corrupted authority transcends any language barrier.

Lawrence Reed and I listened intently to the tense verbal exchange between James Shikwati, our Kenyan host who was driving us to the Nairobi airport that night, and the government security officer who had stopped our car. The officer circled the car, aiming his flashlight into each of our faces, and ordered James to pull off to the side of the road. We were alone with the officer.

James did not allay our fears. "A good trip turning out badly," he quietly said in English.

The officer turned his attention from James and rapped at the back window where I was seated. He began questioning me, in perfect English, about American seat belt laws, and demanded to know why I wasn't wearing mine.

I truthfully told him that I'd forgotten to buckle up, at which point he interrogated me about my knowledge of Kenya's laws, keeping his flashlight pointed in my eyes. I did my best to respond with polite cooperation.

He paused and declared, "I am going to arrest you." Another pause. "And I am going to fine your driver."

I did not believe I would actually see the inside of a Kenyan jail, but I did think that whatever the officer did would be expensive and cause me to miss my flight. He ordered James to step out of the car and open the trunk.



The bumper sticker that kept me from being arrested or having to pay a bribe.

After a few tense minutes we heard the trunk close. James got in the car and resumed driving toward the airport.

James told us he had sized up the situation as a routine shakedown. While examining the trunk, the officer asked James his profession. Quick on his feet, James remembered that, in addition to being president of a free-market think tank, he was publisher of its magazine. "A journalist," he replied.

Then the officer asked James about Larry's and my professions. James told him we were going to be writing about our trip to Nairobi. The officer asked what publication he wrote for, and James pointed to his bumper sticker that read, "The African Executive," his institute's weekly journal.

The tables turned. Not only was I not going to be arrested, we were not even going to have to pay a bribe. The officer released us and we made our flight.

For most of us, demands for bribes seem as foreign as Kenya. But we must not take this for granted. The fine line between civilized society and rampant abuse of government power is respect for the rule of law.

This story illustrates that even those who lack such respect still respond to the power of a free press. That is one reason the Mackinac Center will never stop writing and speaking about the ideals upon which our government was established, and where its policies fail to live up to them.

Joseph G. Lehman

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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

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Michael D. Jahr Editor
Daniel E. Montgomery Graphic Designer
Joseph G. Lehman Associate Editor

Two Center Scholars Testify on Economic Development



David L. Littmann
Littmann's written
testimony on economic
development is available at
www.mackinac.org/7880.

The practice of targeting tax relief toward favored or influential businesses came under fire when two Mackinac Center scholars provided testimony to the Michigan Legislature's Joint Select Committee on Economic Growth on Aug. 23. Sen. Nancy Cassis, co-chair of the committee, invited Mackinac Center Senior Economist David Littmann and Legislative Analyst Jack McHugh to explain the effects of selective tax breaks on economic development.

Several Michigan government programs grant subsidies and tax relief to select companies. McHugh said the largest such program, the Michigan Economic Growth Authority, generated a paltry 13,541 jobs over ten years, compared to a total of 600,000 jobs created and lost annually in Michigan's economy. A 2005 Mackinac Center study found that MEGA produces one temporary construction job for every \$123,000 in selective tax breaks.

Littmann's written testimony, later read into the record by Sen. Cassis, stated that broad-based tax relief is a better economic development tool than narrowly targeted tax credits and subsidies. "Otherwise," Littmann wrote, "we are viewed as a state that redistributes tax collections from the many to help the politically chosen few."

Responding to questions, McHugh also testified that economic growth in Michigan is hindered by overregulation and a "perception that we have what some view as surly unions."

Rep. Andy Dillon told McHugh, "Your rhetoric is dangerous." Sen. Alan Sanborn reminded Rep. Dillon that the Mackinac Center had defended itself against a lawsuit by a union. (He was referring to the Michigan Education Association, which attempted to obtain the Center's mailing list and prevent the Center from publishing the union president's public remarks. The lawsuit was dismissed in 2004.)

A week after McHugh's testimony, Detroit News columnist Daniel Howes wrote, "It's politically incorrect to ask Michigan politicians whether the state's image as a labor viper pit is an impediment [to economic growth]."

During the committee hearing, Rep. Dillon also asked McHugh why Michigan's Renaissance Zones, where most state taxes are temporarily waived, attract few investments. McHugh explained that taxes are only one factor. McHugh has also written that private investment decisions are based on long-term considerations, not just temporary tax breaks. **I**

Education Funding from Page One

and the number of degrees granted under a plan set to be announced this week by state House Republicans. (U)niversities would receive a set amount of state funding for each of their students, similar to the foundation grants that go to K-12 schools."

Not surprisingly, opposition came from status quo beneficiaries and union interests fearful of the proposal's real purpose: To inject into state universities the same cost-containment incentives that drive the private sector. As Ballenger described it, "Universities would be forced to compete on the basis of best value with a comparable amount of state funding, not 'best lobbyists,' or 'most committee chairmen in their hip pocket.'"

In response to a May 10 Detroit News Op-Ed by McHugh, the chief lobbyist for Michigan's public universities decried the reform as "a source of mindless budget cuts." A union opponent called it a "radical proposal" in the Aug. 24 Detroit News.

These criticisms also mischaracterized the proposal as "stripping" additional funding for the state's three "research" universities, the University of Michigan, Michigan State

University and Wayne State University. Not so. McHugh's Detroit News Op-ed clearly stated, "To promote transparency, (research project and medical school funding) should be separated into separate budgets and judged on their own merits, rather than co-mingled with operations funding."

A July 12 report by the daily Michigan Information Research Service newsletter described progress toward the recommendation: "The House used its funding formula (and) the Senate got its funding floor ... under a compromise budget that was formally adopted today."

Ballenger gave a good appraisal of the reform's potential impact: "(It) could drive an immense change in the incentives that drive college administrators and boards ... (creating an) incentive for a school to cut its spending. Alternatively, it could seek ways to add value ..."

That's the idea. As McHugh put it in the News: "(In the private sector) consumers benefit from such incentives in delightful ways. Why shouldn't universities similarly seek to delight 'customers' (and taxpayers) with outstanding values?" Why indeed? **I**

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spending by Michigan public colleges and universities is similarly high compared to other states, and post-2001 recessionary budget cuts in state spending for these institutions have not been above average for state programs, especially given that the colleges and universities can tap other sources of revenue, such as tuition or local property taxes, to supplement their budgets.

If “K-16” schooling has managed well enough with the state treasury, what’s the driving force behind Proposal 5? “The real issue,” Braun remarked in a news release announcing the study, is one of the proposal’s lesser-known provisions “that state government cover the rapid cost increases in state education employee pension payments.” Michigan’s school employee pension benefits are posh even by the standards of government pension plans, and public school districts have increasingly struggled to pay annual contributions to keep the pension funds sound. Shifting the rapid cost increases in these employer payments to the state budget would reduce the districts’ payroll burden and make it easier to raise salaries or retain and hire staff.

Unfortunately, Braun notes, this shift would also encourage districts to increase their payroll liabilities and thus hike the pension burden on taxpayers further — like trying to put out a fire with gasoline.

The release of the study followed the Center’s publication of Braun’s July 3 Current Comment on the unexpected consequences for Colorado voters who in 2000 had approved a state constitutional amendment to provide above-inflationary state spending hikes for education. The commentary was later republished in two of the state’s largest newspapers, The Grand Rapids Press and The Oakland Press. The release of the Policy Brief was likewise mentioned by MIRS Capitol Capsule and Gongwer News Service, both of which featured Braun’s comments about the pension cost shift. With the election season now kicking into gear, Braun is ideally positioned to provide definitive insights on the K-16 proposal.

The Center’s second Policy Brief, also authored by Braun, shifted in importance just one week prior to its Sept. 20 release. The 21-page study provides a broad-ranging analysis of the proposed “Stop Overspending” Michigan initiative, but the measure failed to gain ballot status on Sept. 14, when the Michigan Supreme Court declined to hear an appeal of the state Board of Canvassers’ ruling that the initiative petition did not

contain enough signatures.

The Center forged on with the release of Braun’s analysis, however, believing that Braun’s findings on the “SOS” proposal showed the initiative’s ideas would have staying power.

While the proposal contains a number of local “Headlee amendment” tax provisions and a prohibition on state-funded pensions for legislators, the proposal’s most significant feature, Braun argued, was a provision that capped state spending growth at the sum of the percentage increases in state population and inflation growth. This provision was coupled with a requirement that any state revenue surpluses be divided between tax rebates and a state “rainy day fund” according to a prescribed formula.

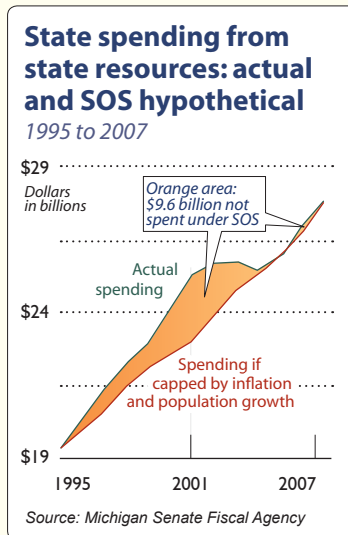
As a result, Braun remarked on the study’s release, “If the SOS proposal had been enacted in fiscal 1995, state spending from state revenues would have been \$9.6 billion less overall from fiscal 1995 through fiscal 2007. The proposal would have required the state to return about \$8 billion of this money to income taxpayers and place the remaining surplus in a ‘rainy day fund.’

That fund would now hold about \$2.5 billion.”

The contrast with the state’s actual spending record could not be more acute: Since 2001, the state has raised state taxes and fees by hundreds of millions of dollars in order to cushion the budget crash after lawmakers’ binge spending in the late 1990s. The state’s rainy day fund is essentially depleted.

Though the SOS proposal will not go before voters this November, Braun’s work on the issue may well suggest a public policy future for its best provisions. Even before publication of the study, he had landed commentaries on the proposal in the Detroit Free Press and The Oakland Press.

As this issue of Impact went to press, the Center was also preparing to release a Policy Brief by Mackinac Center Senior Legal Analyst Patrick J. Wright on Proposal 4, a proposed state constitutional amendment that would increase protections against the use of government domain for the purposes of so-called “economic development” and for bogus “blight” removal. Wright, who is intimately familiar with the proposed constitutional amendment (see Impact, Fall 2005), is an ideal author — and like Braun, just another strength the Center brings to an election-year discussion that will help ensure Michiganders get something they like from democracy this November. **I**



The shaded area between the lines represents \$9.6 billion that could have been returned to taxpayers or put into the state’s rainy day fund.

Free-Market News They Use

- In a **National Review Online** column on Michigan's economic doldrums, National Review Editor Rich Lowry cited Fiscal Policy Director **Michael D. LaFaive's** assessment of Michigan as "the France of North America." Lowry's commentary relied heavily on Mackinac Center economic statistics, including LaFaive's analysis of United Van Lines' data that shows Michigan is the number one state in the continental U.S. for outbound moves. The **Detroit Free Press** quoted LaFaive on Michigan's people drain on July 17, and a **Detroit News** editorial, "Michigan must stop stampede for border," cited his analysis on the same day. The press release announcing LaFaive's findings on resident departures was published in the **Dowagiac Daily News** on July 12 and the **Flint-Genesee County Legal News** on July 14.
- In a **Detroit Free Press** Op-Ed on July 3, Policy Analyst **Kenneth M. Braun** explained how a Stop Overspending — or SOS — ballot proposal would restrain state government spending during good economic times and allow taxpayers to keep more of their money.
- Director of Municipal Finance **Lou Schimmel**, in a July 1 Op-Ed in **The Oakland Press**, said Michigan needs new laws to address the financial woes of cities like Pontiac. In a July 19 article headlined "Schimmel to Pontiac: Sell off everything," the Press identified him as a "financial expert" and cited his ideas to help the city prevent insolvency. The following day, June 20, the Press editorial, under the headline "It would behoove Pontiac to follow Schimmel's advice," endorsed his plan. The editorial said Schimmel is "renowned as a fixer of financially broken cities."
- In a Guest Opinion, **Diane S. Katz**, director of science, environment and technology policy, explained the benefits of open and unfettered access to the Internet in the July 13-19 issue of the **Oakland Business Review**.
- Property rights remained a hot topic as Senior Legal Analyst **Patrick J. Wright** and Senior Environmental Policy Analyst **Russ Harding** responded to press inquiries regarding the U.S. Supreme Court rulings in the "Rapanos" and "Carabell" wetlands cases. The analysts coauthored an Op-Ed entitled "Congress must fix property rights mess" in the June 21 **Detroit News**. Both were cited in the June 19 **MIRS Capitol Capsule** and the **Midland Daily News** on June 20. Wright, who submitted the Center's "friend of the court" brief in the Rapanos case, was quoted by **Gongwer News Service** on June 19 and **The Macomb Daily** on June 20. Harding was quoted in **The Detroit News** and the **Commercial Property News** on June 20. A June 21 **Lansing State Journal** editorial titled "Water rules: Court leaves Mich. cases hanging; it's time for Congress to act," cited the Mackinac Center's call for Congress to clarify wetlands law.
- Legislative Analyst **Jack McHugh**, in testimony before the Legislature's Joint Select Committee on Economic Growth, argued again that the recently eliminated Single Business Tax should not be replaced. In testimony reported in the Aug. 23 **Gongwer News Service**, McHugh also pointed out to legislators the ineffectiveness of targeted tax credits.
- An **Ann Arbor Business Review** feature entitled "Rise & Fall" gave a down arrow to Michigan Education Association Executive Director Lu Battaglierri after the Center reported his salary at \$181,902. This amount, the Review reported, is "substantially above the \$56,970 earned by the average teacher in Michigan last year."
- A July 11 business story in the **Detroit Free Press** quoted Senior Economist **David Littmann** on the ability of governors to shape state economies.
- In a Sept. 1 opinion piece in the **East African Standard** (Nairobi, Kenya), John Mwazemba, editorial manager with Macmillan Kenya Publishers, cited an earlier commentary by **Lawrence Reed** on patriotism.
- The Detroit teacher strike is the result of an "outdated, industrial, union-based system for managing" public schools, Director of Education Policy **Ryan S. Olson** and Director of Labor Policy **Thomas W. Washburne** wrote in the Sept. 7 **Detroit News**. In a Sept. 14 News feature on "Lessons learned from Detroit teacher strike," Washburne noted that such strikes are likely to occur until the Legislature gives school boards a practical way to implement penalties.
- Central Michigan University President Michael Rao, in his June 20 **Detroit News** Op-Ed, wrote that "the Mackinac Center for Public Policy legislative analyst (**Jack McHugh**) is right that the way to improve state appropriations for public universities is to change to per-student funding."
- On Sept. 14, **Ryan Olson** and former Edmonton Superintendent Angus McBeath, who spoke at the Center's Sept. 13 Issues & Ideas Forum in Lansing, discussed public school reform on "**The Frank Beckmann Show**" on News/Talk 760 WJR.
- The Mackinac Center is "Michigan's free-market bastion," syndicated columnist John Hood wrote on **National Review Online**. In his August 8 article, Hood cited the Center's view that the repeal of the Single Business Tax should be offset with budget savings, not new taxes.
- In an Aug. 9 interview on WMKT's "**Greg Marshall Show**," **Lawrence Reed** and Center intern **Benjamin D. Stafford** recounted their interview with Nicholas Winton, who saved 669 Czech children from Nazi concentration camps in 1939. The **Midland Daily News** on Aug. 8 ran an article on their trip to England to meet the 97-year-old hero. Reed discussed Winton as a guest on WSGW's "**Art Lewis Show**" on Aug. 17.



These images are from the Mackinac Center's free booklet, *Restoring Our Heritage of Property Rights*

Property Rights Forum Sails Into Bay City

Citizen interest in safeguarding property rights remains heightened more than a year after the U. S. Supreme Court's *Kelo* decision, an unpopular ruling that allowed government to take private property for economic development projects. More than 150 people attended the Mackinac Center's second property rights seminar of 2006 to learn about threats to property rights, a proposal to better protect those rights in Michigan and public policies that could secure their property from unjust government takings in the future.

Three experts addressed these issues at the July 18 event in Bay City. Nancy Kurdziel, president of a family business fighting a "blight" designation in East Lansing, Mackinac Center Senior Legal Analyst Patrick J. Wright and Center Senior Environmental Analyst Russ Harding recapped the principal themes of an earlier property rights forum in East Lansing (see *Impact*, Summer 2006).

More than 100 attendees submitted feedback cards at the event. The president of a small business wrote "Getting control of DEQ (Department of

Environmental Quality) is most important to me. So quick to take control and so hard to get our rights back."

A college student wrote, "I enjoyed the presentation. Came out of general interest and want to learn more." A Midland resident wrote, "Thank you for 'fighting the good fight.' We will try to help spread the word." Another wrote, "This event has been very effective at creating/increasing awareness."

Several attendees were members of Save Our Shoreline, a nonprofit citizen group dedicated to preserving property rights along the Great Lakes. SOS assisted the Mackinac Center in publicizing the event.

At press time, a third Mackinac Center property rights forum was scheduled for Traverse City on September 20.

Growing concern over the erosion of property rights has prompted citizen efforts in at least seven states to place measures on their statewide ballots to compensate owners when regulations reduce the value of private property. Oregon voters have already approved a similar proposal. **I**



The citizen group Save Our Shoreline assisted the Mackinac Center in publicizing the property rights seminars in Bay City and Traverse City.



Court Restrains One Federal Wetlands Excess, But Opens Door to Abuse

On June 19, the U.S. Supreme Court delivered one “welcome victory” in a closely watched wetlands case involving two Michigan property owners, while at the same time opening the door to future abuses of property owners’ rights.



Litigant John Rapanos in his cornfield deemed a wetland by regulators.

Image credit: Pacific Legal Foundation.

Mackinac Center Senior Legal Analyst Patrick J. Wright, author of the Center’s amicus brief in the case, said the decision included a “welcome victory that curtailed federal regulators’ overbroad reading of their wetlands regulatory powers.” But he warned that “the ruling also sets an ambiguous precedent that could leave few checks

on federal agencies’ power to regulate private property.”

The 5-4 ruling — in the first case heard by Justice Samuel Alito — set aside the lower court’s jurisdictional holdings and remanded the cases of both property owners. The federal district courts are expected to issue new rulings in light of the tests set forth by the Supreme Court.

Wright said, “The ruling restrains some of

the federal government’s worst excesses and requires that wetlands ‘significantly affect’ navigable waters before being subject to federal regulation. But regulators themselves will effectively define ‘significant’ and could simply grant themselves discretion over lands far from navigable waters.”

Russ Harding, the Center’s senior environmental policy analyst, observed: “Congress wrote the Clean Water Act so unclearly that not even a majority of the Supreme Court justices could agree on its meaning. The broad language allows federal agencies to abuse Americans’ property rights.

“Congress must clarify the law,” continued Harding, a former director of the Michigan Department of Environmental Quality. “This is particularly important for Michiganders, since many of the most difficult wetlands cases will involve their property. The court’s ruling falls short of protecting their property rights from abuse.

“Until Congress acts, federal regulators should exercise discretion and acknowledge the court’s check on their power,” Harding said.

Adapted from a June 19, 2006, Mackinac Center news release. I

‘The Difference One Can Make’

Why would the Mackinac Center’s president and a summer intern cross an ocean to meet a man who insists he did nothing extraordinary?

It’s because that man is, in the words of Center President Lawrence Reed, “a true hero. A true hero does not think of himself as one, never advertises himself as such and does not perform the acts that make him a hero for either fame or fortune. He does not wait for government to act if he senses an opportunity to fix a problem himself.”

The 97-year-old hero in this case is Nicholas Winton, a man who of his own volition rescued 669 children from Nazi predation in 1939.

In July, Reed and Hillsdale College student Ben Stafford met Winton at his home in England to learn why a then-youthful London stockbroker spent time, energy and treasure to save far-away children he had never met. Stafford sums up Winton’s response: “Because he saw the need.”

By 1939, Hitler’s malevolent intentions were impossible to ignore. Germany’s seizure of the Sudetenland pushed before it a flood of mostly Jewish refugees, many of whom ended up in squalid camps near Prague. At the invitation of a

friend, Winton visited those camps and resolved to answer the pleas of Jewish parents who were desperate to save their children from the Nazis.

Winton raised money — equivalent to thousands of dollars per child — and formed a team to coordinate the transit of children to safe countries, find them homes and even forge documents for them. Before the outbreak of war, he had spared 669 sons and daughters the fate that befell 15,000 other Czech Jewish children who perished in death camps.

Reed and Stafford describe Winton’s heroic story at www.mackinac.org/7872. The Mackinac Center, in cooperation with the Ann Arbor-based Gelman Educational Foundation, is offering schools and teachers the award-winning documentary film and a study guide about Winton’s efforts. An anonymous contributor funded the trip.

Why is a free-market institute telling an inspiring story that has little to do with economics? Reed said, “You will never find, or keep, a free-market culture where individual initiative is not encouraged and celebrated. I know of no better example of initiative, heroism, enterprise and character than Nicholas Winton.” I



Sir Nicholas Winton

'Economic Icon' Dale M. Haywood

Dr. Dale M. Haywood was a respected economist, an influential teacher and a man who possessed an unshakeable belief in the principles of liberty. He passed away on Sept. 5 after a lengthy illness.

Dr. Haywood was one of the first academics to join the forerunner to today's Mackinac Center Board of Scholars in 1988. He served until his passing. He and his wife, Marcia, have been steadfast contributors since the early 1990s.

Perhaps his greatest contribution to the understanding and appreciation of free markets was as teacher to thousands of students who passed through his Northwood University classrooms in Michigan and Texas. When he recently retired from Northwood after 40 years of teaching economics and philosophy, the university heralded him as an "economic icon."

An online memorial contains more than 200 notes from former students, colleagues and friends who testify to Dr. Haywood's impact and how he strengthened, or sparked for the first time, their understanding of the market system and the benefits of limited government.

Three Mackinac Center staff members are among Dr. Haywood's students. James Hohman, fiscal policy research assistant, is the newest Mackinac Center employee. Director of Operations Patricia J. Benner recalls Dr.

Haywood's "unbridled enthusiasm for his students, his work and his life." Director of Advancement Justin W. Marshall wrote in a tribute, "He is one of the greatest single reasons why I believe today so strongly in freedom and in the market system."



Dr. Haywood presented his trademark "12-Cell-Matrix" explanation of the free-market system to Mackinac Center research interns in 2005.

Mackinac Center President Lawrence W. Reed chaired Northwood's economics department in the early 1980s and knew Dr. Haywood well. "Dale Haywood stood his ground on matters of principle, but made friends easily with people of every persuasion. He was passionate about liberty and concerned about its erosion. He was one of the most colorful and memorable speakers the classroom ever produced." **I**

Incentives Matter, at Any Age

My childhood memories of chores around the farmhouse are more than just fond reminiscence. They laid the foundation for my understanding of a crucial economic truth: incentives matter.

When I was very young, I did my chores because I risked punishment if I did not. My parents believed in discipline, which was enough to encourage me to work. A negative incentive is still an incentive.

Mom and Dad later shifted to a simple allowance formula. If I dusted the entire house, I would receive 25 cents. Completing another chore meant another payment. The more chores I did, the more allowance I earned. Never was I so excited to dust, vacuum and wash dishes. The glee I expressed on my first payday confirmed to Mom and Dad that I was learning.

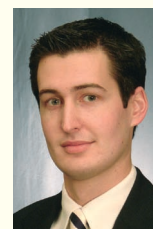
I began to cost Mom and Dad so much that they changed the formula — a fixed payment for all my weekly work. But the reality of incentives did not change. With less marginal incentive, I did only what was expected of me, and with less enthusiasm.

My freedom-loving parents, by merely managing their household, had taught me vivid personal lessons about incentives that no classroom could convey.

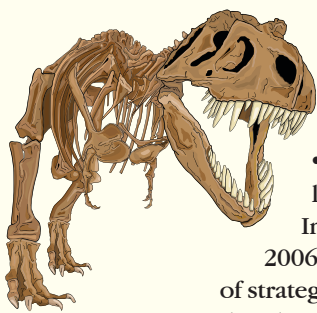
Incentives matter at any age. Excessive taxes encourage people to work less or move to a location where they can keep more of what they earn. Regulatory burdens encourage businesses to move from a region or avoid it altogether.

Our work highlighted in this newsletter — focusing on property rights, education spending, economic development and government growth, to name a few — helps educate residents on sound policy. A common theme is that incentives matter. When policymakers get that wrong, their plans and programs are often counterproductive. When they incorporate a sound economic understanding of incentives, they foster economic growth, prosperity and opportunity.

Public officials rely on the Mackinac Center for policy ideas built upon economic truth, not wishful thinking or partisan gain. Your support has made that possible for 18 years. **I**



Justin W. Marshall,
Director of
Advancement



SBT. Or fossil.

Bad Tax, Illegal Tax, Sorry Lawsuit

• **Ending a Surreally Bad Tax:** In the lead story of the Summer 2006 issue of *Impact*, the Center observed, “In June 2006, as the Center looks back on months of strategic public outreach, the odds are good that the (Michigan Single Business Tax) will fall.” And fall it did: On Aug. 9, 2006, the Michigan Legislature approved a voters’ initiative to end the SBT on Dec. 31, 2007, twenty years after the Mackinac Center first recommended major changes to this job-killing tax.

In January 2005, Center President Lawrence Reed observed in a seminal speech in Lansing, “If the Mackinac Center’s budget cut recommendations were adopted, ... we could eliminate the SBT and replace it with — nothing.” Many considered that view optimistic — but with the SBT moribund, we’re halfway there.

SNAPSHOTS



Executive Vice President Joseph Lehman (left) is seated next to economist and Nobel laureate Milton Friedman at a school choice conference sponsored by the Gleason Foundation and the Milton and Rose D. Friedman Foundation in May.

• **Refunding an Illegal Tax:** In May 2004, the Michigan Public Service Commission ordered Consumers Energy to begin collecting a 5 cent per-meter per-month surcharge on some of the company’s customers to provide subsidies for “renewable energy,” such as wind power. In 2006, all of Consumers’ customers were subjected to the surcharge, which was projected to reap \$1 million annually.

The Michigan Court of Appeals declared the program illegal in June. Indeed, as the Mackinac Center pointed out in a friend of the court brief in the case, this “surcharge” from the unelected MPSC constituted taxation without representation (see *Impact*, Summer 2006). In July, the MPSC bowed to the law and ordered that Consumers’ customers be refunded their surcharge payments. Thus did the state’s citizens get back not just some freedom, but some of their money, as well.

• **Dismissing a Sorry Lawsuit:** The Michigan Education Association sued state officials in 2005 for providing state funding to a flock of charter schools authorized by Bay Mills Community College (see *Impact*, Summer 2006 and Winter/Spring 2006). In April, the Mackinac Center submitted a friend of the court brief observing that the MEA’s anti-charter arguments were similar to those already rejected by the Michigan Supreme Court; in August, the Michigan Court of Appeals dismissed the suit. The union has declined to appeal, and 10,000 students can now learn in peace. **I**

Mackinac Center Interns 2006 — Thank You!



From left to right: Valerie Crain, Erin Diesel, Benjamin Stafford, Christina Kohn and Sarah Grether. Inset: Laura Davis. Not pictured: Landon Lee.

Of Meat and Myth

About 100 years ago, an enduring myth was born. Upton Sinclair's "The Jungle," set in Chicago's meatpacking plants, was serialized in a socialist journal and published a few months later as a book. "The Jungle" wove a tale of greed and abuse in which men fall into tanks in meatpacking plants and are ground into "Durham's Pure Leaf Lard." "The Jungle" reverberates to this day as a powerful case against laissez faire.

In 1906, in large part because of the firestorm Sinclair generated, Congress passed the Meat Inspection Act. Today schoolchildren are taught a romanticized version of this history, where unscrupulous capitalists were routinely tainting meat, and that the moral crusader Sinclair rallied the public and Congress to act.

But this is a triumph of myth over reality. "The Jungle" was, first and foremost, a novel, not a well-researched and dispassionate documentary. Sinclair relied heavily on his own imagination and on hearsay. He did not pretend to have witnessed or verified the conditions he described.

Though his accusations prompted congressional investigations of the industry, the investigators themselves expressed skepticism of Sinclair's integrity and credibility. President Theodore Roosevelt wrote of Sinclair in July 1906, "I have an utter contempt for him. He is hysterical, unbalanced, and untruthful. Three-fourths of the things he said were absolute falsehoods. For some of the remainder there was only a basis of truth."

Most Americans would be surprised to know that government meat inspection did not begin in 1906. Inspectors had been employed by federal, state and local governments for more than a decade. Indeed, Congressman E. D. Crumpacker noted in testimony before the House Agriculture Committee in June 1906 that *not even one* of those officials "ever registered any complaint or (gave) any public information with respect to the manner of the slaughtering or preparation of meat or food products."

Some 2 million visitors toured Chicago stockyards and packinghouses every year. Thousands of people worked in both. Why did it take an anti-capitalist ideologue who spent but a few weeks there to unveil these horrendous conditions?

All of the big Chicago packers combined accounted for less than 50 percent of the meat products produced in the United States; few if any charges were ever made against the

packinghouses of other cities. If the Chicago packers were guilty of anything like the conditions suggested by Sinclair, wouldn't they be exposing themselves to devastating losses of market share?

Historians with an ideological axe to grind usually ignore an authoritative 1906 report of the Department of Agriculture's Bureau of Animal Husbandry that refuted Sinclair's allegations, some of which were labeled as "willful and deliberate misrepresentations of fact" and "atrocious exaggeration."

Instead, these historians dwell on the Neill-Reynolds Report of the same year because it at least tentatively supported Sinclair. But socialist Gabriel Kolko, an historian with a respect for facts, dismisses Sinclair as a propagandist and assails Neill and Reynolds as "two inexperienced Washington bureaucrats who freely admitted they knew nothing" about meatpacking. Their own subsequent testimony revealed that they had

gone to Chicago intent on finding fault with industry practices so as to get a new inspection law passed.

As popular myth would have it, greedy meatpackers fought federal inspection. The truth is that not only did government inspection already exist, but meatpackers

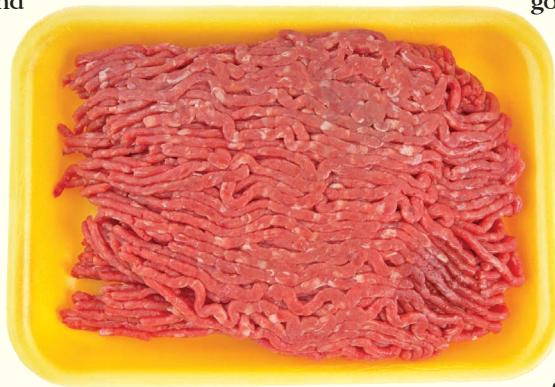
were in the forefront of the effort to extend it!

When Sinclair's sensational accusations became news, foreign purchases of American meat were cut in half, and meatpackers looked for new regulations to restore a sense of security. The only congressional hearings on what ultimately became the Meat Inspection Act of 1906 were held by the Agriculture Committee in June. A reading of the deliberations and the subsequent floor debate leads to one conclusion: Knowing that a new law would allay public fears and bring smaller competitors under regulation, the major meatpackers strongly endorsed it. In the end, they even got taxpayers to pick up the \$3 million price tag.

To his credit, Sinclair opposed the law because he saw it for what it really was — a boon for the big meatpackers. Far from an objective truth-seeker, Sinclair ended up being used by the very industry he hated.

Myths die hard. Those who claim that "The Jungle" is a compelling indictment of the market should clean up their act because upon inspection it seems to produce an unpleasant odor. **I**

This Free-Market Fundamental is an edited version of a commentary by Lawrence W. Reed that was first published in the November 1994 issue of The Freeman.



Viewpoints

Character Makes the Difference

July 2006 V2006-19

A free society needs individuals who make the right choices even when no one is looking.

The Property Rights Fight Since Kelo

July 2006 V2006-20

Through the Legislature and state courts, Michigan has an opportunity to establish itself as a guardian of property rights.

Why Colorado Matters to Michigan

July 2006 V2006-21

A Colorado amendment that mandated yearly automatic increases in education spending — like one on the ballot in Michigan — has proven costly to taxpayers, eaten into other state programs and fallen short of promises.

Why Did Free Gas Create a Public Stink?

August 2006 V2006-22

In the 1880s, some Ohio city governments decided to provide “free” natural gas to residents and businesses. The expulsion of private companies led to an exorbitant waste of the gas and taxpayers’ money.

Seeking Opportunity

August 2006 V2006-23

Michigan residents are fleeing the state, pursuing opportunities they can’t find at home. To stem the tide, Michigan leaders must enhance the state’s appeal by limiting the cost and scope of government.

Michigan Dithers on Medicaid Estate Recovery

August 2006 V2006-24

Nursing home stays covered by Medicaid cost Michigan taxpayers nearly \$2 billion annually. Yet the state ignores programs that would recoup some of that money.



Jazzing Up Civil Society

September 2006 V2006-25

Private philanthropy — like the \$10 million gift that kept the Detroit International Jazz Festival alive —strengthens civil society.

Survey 2006: School Outsourcing Continues to Grow

September 2006 V2006-26

The latest survey of Michigan’s school districts finds a growing trend toward the privatization of non-instructional services.

An Unhealthy Policy Prescription

September 2006 V2006-27

RomneyCare — the universal health care law in Massachusetts — is touted as a remedy for Michigan’s uninsured. But government mandates are likely to produce some unpleasant side effects.

Journals



Michigan Privatization Report

MPR2006-01 \$3.00

How is municipal golf competing unfairly with private courses? Which school districts are privatizing services? Can legislation protect Michigan businesses from unfair government competition? These and other questions are answered in this issue. 16 pages.



Michigan Education Report

Summer 2006 \$3.00

Key stories: The Court of Appeals rejects MEA suit over Bay Mills charter schools. Gubernatorial candidates share education thoughts. “Shared time” allows public and private schools to share faculty for electives. Jackson home schoolers pioneer new methods in education. These articles appear with numerous others. 12 pages.

Studies & Reports

An Analysis of Proposal 5: The ‘K-16’ Michigan Ballot Measure

S2006-05 \$3.00

This report analyzes Proposal 5 which, if passed in November, would: require annual state spending to increase at the inflation rate for public schools, universities and community colleges; establish payments to districts with declining enrollments; and saddle the state with school employee pension cost increases.

The Stop Overspending Initiative: A Review and Analysis

S2006-06 \$3.00

The SOS initiative, which failed to gain ballot status, contained a spending cap that would have decreased state spending by \$9.6 billion between fiscal 1995 and fiscal 2007. This study shows that the proposal would have returned approximately \$8 billion as rebates to Michigan income tax payers.

Assessing the Case for Cable Franchise Reform

S2006-07 \$3.00

According to this survey, replacing Michigan’s 1,200 local franchising authorities with a one-stop statewide franchise would generate competition, save consumers millions of dollars annually, create thousands of new jobs and expand the availability of services.

An Analysis of Proposal 4: The Eminent Domain Ballot Measure

S2006-09 \$3.00

This proposed constitutional amendment would grant property owners greater protections against government use of eminent domain for economic development or for bogus takings for “blight.”

WEB



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Mackinac Center Trains African Think Tank Leaders

Nearly 30 African think tank executives and leaders of other organizations participated in the first African Think Tank Leadership Conference in Nairobi, Kenya, to learn planning, communication and fundraising strategies from Mackinac Center President Lawrence W. Reed and Executive Vice President Joseph G. Lehman.

For the Aug. 29 and 30 program, Reed and Lehman condensed the content of the Mackinac Center's Leadership Conference, conducted twice a year in Midland, Mich. Nearly 400 think tank leaders from 44 states and 41 countries have attended this training conference over the past eight years.

The African conference was hosted by the Nairobi-based Inter-Region Economic Network, a free-market policy institute. President James Shikwati traces his inspiration to launch IREN in part to correspondence with Reed beginning in 1997. Shikwati named IREN's Joseph P. Overton Leadership Training Centre after the Mackinac Center's late senior vice president.

Delegates from Kenya, Tanzania, Uganda, Ethiopia, Zambia and Nigeria came to learn how to make their organizations — some established and some nascent — more effective at advancing market-based ideas on the continent that may need them the most.

New York Times reporter Jason DeParle and a Times photographer



IREN's approach goes beyond publishing economic studies to demonstrating the market in action. IREN works with students at African Nazarene University who teach these children how to recycle discarded greeting cards into new ones that they then sell to raise funds for their private orphanage.

attended the training conference, as well as the next day's mentoring session that Reed and Lehman provided to IREN staff. More free-market institutes are emerging in Africa, perhaps none faster than IREN. The German publication *Der Spiegel* published an interview with Shikwati in which he criticized foreign subsidies that prop up corrupt African regimes.

Lehman said the training helped more than just the attendees. "We broaden the Mackinac Center's support base when we are able to help groups

that request our assistance," he said.

"This African training conference was sponsored by IREN and a private supporter with a special interest in improving conditions in Africa."

Reed said the relationship with African think tanks is symbiotic. "The Mackinac Center's focus is and always will be on Michigan. But we are sought after for advice and we are happy to provide it because the success of free-market institutes elsewhere helps us succeed here." **I**