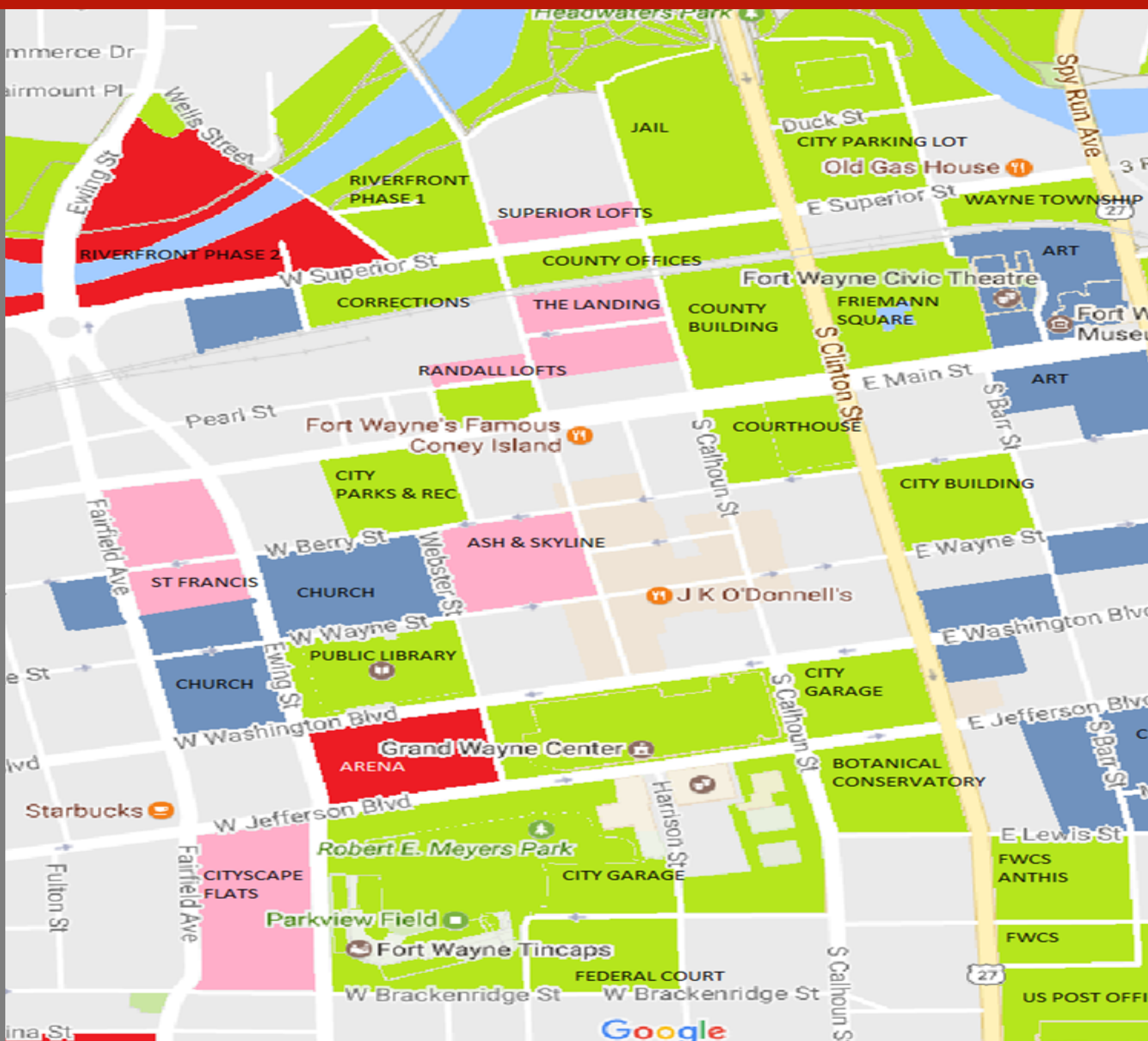
INDIANAPOLICY

Review

Fall 2017



Boosters Gone Wild

When the "public" in your city's public-private partnership is the government and the "private" is merely what's left of the economy.

"When in the course of human events, it becomes necessary for one people to dissolve the political bands which have connected them with another, and to assume among the powers of the earth, the separate and equal station to which the Laws of Nature and of Nature's God entitle them, a decent respect to the opinions of mankind requires that they should declare the causes which impel them to the separation. We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable rights, that among these are life, liberty and the pursuit of happiness. That to secure these rights, governments are instituted among men, deriving their just powers from the consent of the governed. That whenever any form of government becomes destructive of these ends, it is the right of the people to alter or to abolish it, and to institute new government, laying its foundation on such principles and organizing its powers in such form, as to them shall seem most likely to effect their safety and happiness. Prudence, indeed, will dictate that governments long established should not be changed for light and transient causes: and accordingly all experience hath shown, that mankind are more disposed to suffer, while evils are sufferable, than to right themselves by abolishing the forms to which they are accustomed. But when a long train of abuses and usurpations, pursuing invariably the same object evinces a design to reduce them under absolute despotism, it is their right, it is their duty, to throw off such government, and to provide new guards for their future security."

INDIANA POLICY review

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A FUTURE THAT WORKS

Our mission is to marshal the best thought on governmental, economic and educational issues at the state and municipal levels. We seek to accomplish this in ways that:

- Exalt the truths of the Declaration of Independence, especially as they apply to the interrelated freedoms of religion, property and speech.
- Emphasize the primacy of the individual in addressing public concerns.
- Recognize that equality of opportunity is sacrificed in pursuit of equality of results.

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From the South Wall

"A 15-minute phone conversation with Dr. Christian Thurstone, a pediatric-addiction psychiatrist at Denver Health, would frighten the bejeebers out of any parent of a teen who uses pot."

The Andrea Neal, a columnist and adjunct scholar of the foundation, recently served on the state Board of Education. She is a former editorial page editor of the Indianapolis Star and before that she covered the Supreme Court of the United States for United Press International. A version of this essay appeared in the July 11 Indianapolis Star.

States with Legal Pot Offer Indiana a Cautionary Tale

(July 3) — After Indiana Attorney General Curtis Hill penned an op-ed article urging state lawmakers to resist the push for legal marijuana, he faced predictable outrage from a lobbying group that will say almost anything to sway public opinion to its side.

Predictable because the pro-marijuana faction mastered — years ago — a public relations strategy based on immediate repudiation of claims that marijuana is harmful to individual users or society in general.

The last time I wrote about marijuana — a 2013 column arguing that smoking pot is more harmful to health than smoking tobacco cigarettes — I received a barrage of criticism and was accused of misinterpreting the data.

My column noted that marijuana usage was associated with memory loss and delayed reaction time in the short term and lower educational attainment in the long term. Paul Armantano, then deputy director of NORML (National Organization for the Reform of Marijuana Laws), labeled my essay propaganda and said, "marijuana legalization is no longer a matter of if; it's a matter of when." Now Hill is receiving an "avalanche of response from clearly pro-legalization folks." All in response to his article, published in the June 1 Indianapolis Star, warning lawmakers of "money-hungry profiteers" lining up to capitalize on a commercial marijuana market and predicting a big push to legalize pot during the 2018 session of the Indiana General Assembly. All because he wrote that "marijuana poses long-term risks to health, safety, education, and employment — especially among those who start young."

State Sen. Karen Tallian, a Democrat from Portage who advocates decriminalization of marijuana use and legalization for medical purposes, quickly issued a news release to challenge Hill's claims. She called his views Victorian and said his data was misleading.

Steve Dillon, an Indianapolis attorney and chairman of the board of NORML, wrote a letter to the Star editor accusing Hill of "trying to mislead my fellow Hoosiers with fear mongering and distorted data."

Weed News, whose mission is to "reform harmful cannabis prohibition laws," claimed on its website that Hill was suffering from "Stage IV reefer madness" and that the 29 states that have legalized marijuana in some form have experienced "no bad side effects."

No bad side effects? Hill's critics apparently haven't read the January 2017 report of the National Academies of Sciences, Engineering and Medicine. It provides the most rigorous review to date of scientific research that's been conducted on the health impacts of cannabis — the scientific name for marijuana. Here are just a few of its findings:

- "Cannabis use prior to driving increases the risk of being involved in a motor vehicle accident."
- "Where cannabis use is legal, there is increased risk of unintentional cannabis overdose injuries among children."

- "Cannabis use is likely to increase the risk of developing schizophrenia, other psychoses and social anxiety disorders, and to a lesser extent depression."

Nor have Hill's naysayers mentioned the 2016 brain-imaging study by the National Institute on Drug Abuse showing regular marijuana users have less "gray matter" than non-users in the region of the brain responsible for impulse control, decision making and learning. This finding suggests that marijuana addicts may have a hard time quitting because they've altered the part of the brain that would help them to do so.

Nor have they chatted with Dr. Christian Thurstone, a pediatric-addiction psychiatrist at Denver Health who's seen a doubling in the number of adolescents seeking treatment for anxiety, depression and other mental illnesses linked to pot addiction since 2010 when Colorado allowed commercial sale of medical marijuana. Colorado permitted recreational marijuana in 2012.

One in six teens who try marijuana develops an addiction, Thurstone says. He suspects addiction rates are rising because marijuana today is as much as 10 times more potent than it used to be in the 1970s.

The legal age to buy recreational marijuana in Colorado is 21, but medical marijuana is available to anyone 18 or older. It is from the latter group that most minors are illegally obtaining pot; and many of the approved medical uses are of questionable merit, Thurstone says. With commercialization, "the perception of harm plummeted significantly," he adds.

A 15-minute phone conversation with Thurstone would frighten the bejeebers out of any parent of a teen who uses marijuana. He talks of the "strong association" between adolescent exposure to marijuana and subsequent development of psychosis and points to numerous studies showing regular pot usage linked to poor educational outcomes.

He dismisses those who say marijuana is not a gateway to other types of substance abuse; even occasional use of marijuana by teens and young adults is associated with future high-risk use of alcohol, tobacco, and other drugs like cocaine, opioids and methamphetamine.

"The brain develops until age 24. Anything we can do to push off marijuana use, any substance use, as late as possible, is positive," he says.

I understand the libertarian arguments for legalizing marijuana: *People should be able to live their own lives as they please without government micromanaging what they can eat, drink smoke, etc. If people become impaired by drugs or alcohol, causing accidents or harming others, government can step in and hold them criminally liable. Besides, legalizing marijuana would put an end to the black market and related violence that comes with any highly desired illegal substance. Didn't we learn anything from Prohibition?*

That argument would be fine if marijuana were a benign substance that didn't threaten the user's health or the community's safety. It's not. As more and better studies emerge, it will become impossible for the pro-legalization faction to claim "no bad side effects."

"There's a considerable wave of attitude that marijuana is not harmful, that it's OK, that it's inevitable it will be legal," Hill says. "It's important to speak the truth about these issues."

Thanks go to Attorney General Hill for having the courage to oppose legalization of marijuana here. The data is on his side — no matter how convincing, how adamant, how dismissive the claims of the pro-marijuana network. ◆

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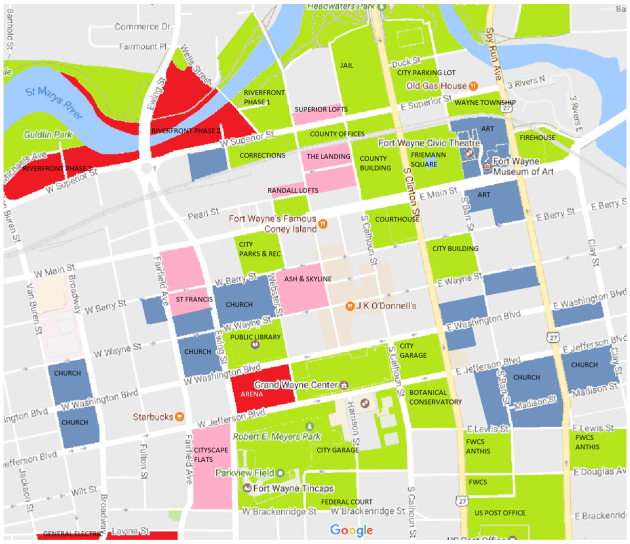


The Tuesday Lunch

"With an unwavering focus on taking Indiana to the next level, we will continue to grow our economy by developing our workforce, investing in infrastructure and delivering great government service to ensure that Indiana is a hub for innovation and a magnet for jobs." — Gov. Eric Holcomb

WILL THE ECONOMIC development projects currently being pursued by Indiana make the state more attractive to young people? I can't foretell the future, but I doubt that they will. What the politicians think will attract young people may not be what young people are really looking for.

I recently had the opportunity to travel to Providence, Rhode Island, to teach economics at a summer camp at Brown University. On the plane, I sat next to a nice young woman in her twenties who was coming to Rhode Island to do some training for teachers. She is a teacher at a charter school in Silicon Valley that uses technology to teach their students, and she was coming to train other teachers how to use the program.

As we talked about education and life she mentioned that she had a serious boyfriend and they wanted to get married. The problem was they weren't sure how they would ever be able to have a family or buy a home "— even with her teaching income and his income as a firefighter — because of the cost of living in the Bay Area.

I hear stories like this all the time when I travel. People complaining that the cost of living has risen so much in major cities like Chicago, New York, L.A., and San Francisco that young college graduates are not sure if they can afford to live there, even with a good job. Housing prices are a major part of the problem.

One young man I met this summer was really excited because he was recently able to find a place to stay in San Francisco for $600 a month â€” he rents the closet in someone's apartment and sleeps in a hammock. My young teacher friend from the Bay Area is paying $3,000 a month for a small two bedroom apartment and she said the closet seemed like a really good deal. I then told her that there was a place where for less than half that amount one could buy a 3,000-square-foot house with a three-car garage and a quarter acre of land. Her eyes lit up in disbelief, so I told her my story.

I understand her concerns about the future. My wife and I lived in Phoenix, Arizona. The cost of living was high enough that we needed two incomes to make ends meet for just the two of us. My wife always dreamed of being able to stay at home and raise children and we were not sure how we would ever swing that if we stayed in Phoenix. When I got offered a job in Fort Wayne the primary reason we decided to move from Arizona was because we could afford to have a family. We said goodbye

"We don't need a $100-million riverfront development to attract young people — we already have everything they are looking for."

to friends and family and set off on an adventure to make the life that we wanted, not because of Parkview Field and a renovated downtown, but because Fort Wayne offered the promise of the future that we wanted.

Today we have four children, all born in Fort Wayne, and my wife has the privilege of living her dream as a stay-at-home mom.

We don't need a $100-million riverfront development to attract young people — we already have everything they are looking for. We just need to embrace it and advertise it.

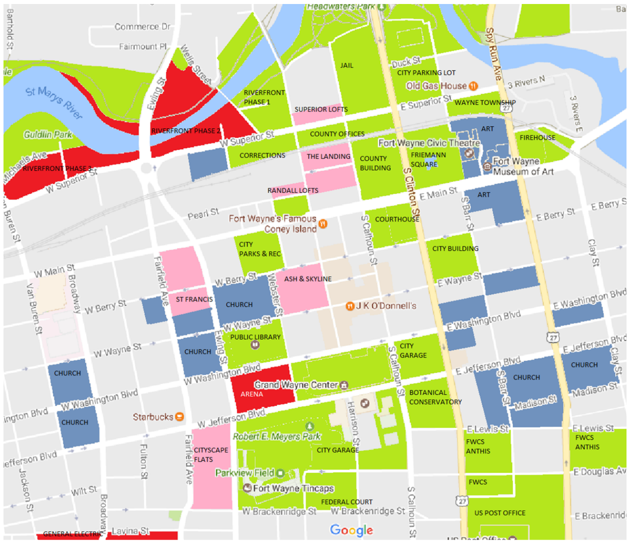
If Fort Wayne wants to attract and keep young people we should pursue policies that continue to make our housing affordable, make our city safe and make our schools great. Then we should go to San Francisco, Chicago and New York and advertise the low cost of living and how college graduates can move here and build the life that they want. They don't need a city created in the image of what politicians of a different generation think is attractive. Instead, they will create the "cool" city that they want. They will come and they will make the city fun and exciting just by being here.

As we landed in Rhode Island I handed the young woman my business card and said, "If you really want to get married and have a family there is a place you can move and afford to do that. Come join me in Fort Wayne, Indiana." She laughed as she replied, "I already wrote it down — Fort Wayne. If it is as good as you say we are already packed." *— John Kessler*

Drek Thompson. "Why It's so Hard for Millennials to Figure out Where to Live." *The Atlantic,* Nov. 19, 2014.

Emily Dryfuss. "The Year in Housing: The Middle Class Can't Afford to Live in Cities Anymore." *Wired,* Dec. 31, 2016.

David Morris. "Why Millennials Are About to Leave Cities in Droves." *Fortune,* May 28, 2016.



I. Better Angels: An Eco-Devo Alternative

"If angels were to govern men, neither external nor internal controls on government would be necessary."

The author, a Fort Wayne financial consultant, represents the 4th District on the Fort Wayne City Council. He wrote this at the request of the Indiana Policy Review Foundation.

By Jason Arp

The above quote from James Madison writing in "The Federalist, No. 51" is familiar to most students of American government, one that struck me as profound back when I first read the Federalist Papers what seems a lifetime ago. I came across it again studying Public Choice Economics lectures and writings quoted by the late Nobel Laureate James M. Buchanan (1919-2013).

No doubt, Dr. Buchanan was familiar with the writings of Frederic Bastiat, for in his article published in July 2002 he alludes to the unseen. "It often is wiser to let people act like angels and step in themselves," he wrote. "I suspect there are more Mother Teresa's in our world, if only government would get out of their way."[1]

Instead, though, what we see is a politicized world where "leaders" have devolved to expect government to be the sole executor of the public will, that all good to be done shall be done by some government agency or another. Buchanan describes the tragedy this represents:

> "Economics is the study of the whole system of exchange relationships. Politics is the study of the whole system of coercive or potentially coercive relationships."

And as Ed Feulner of the Heritage Institute wrote in celebration of Dr. Buchanan's 80th birthday:

> "A basic insight of Public Choice Theory is that most government spending and tax policy is directed not by politicians acting in the public interest but by pressure groups acting in their own special interests. Not recognizing this has led to a public ledger as riddled with loopholes and special earmarks as Swiss cheese is of holes."

We can't blame men for wanting to further their own interest. The electorate, however, should and likely does expect those they elect to prevent looting of the public treasury. Further, there is trust that things done in daylight will receive critical examination of the press, and that the political ambitions of the various parties will hold each other in check.

Instead, what we see in the city I serve, and likely most American cities these days, is a partnership between the politicians, the moneyed interest and the media outlets. Each has found that their best interest is served in furthering the notion that the looting is not only to be expected but is somehow good for the community.

None of this is new, of course. If Cicero were alive today, he would certainly be able to tell a tale of graft related to the construction of some aqueduct or amphitheater.

Credit Mobilier Redux

In the 1860s, America was at war with itself. Washington was in search of a unifying accomplishment, something to reiterate the manifest destiny of continental expansion. To accomplish this, the Union Pacific Railroad was created by Congress to construct a transcontinental railroad.

The Union Pacific issued shares at a price determined by Congress through an intermediary, Credit Mobilier, which then sold the shares at a loss to investors, who included several members of Congress. Credit Mobilier was the sole provider of services to Union Pacific, which in turn billed the United States government in a cost-plus-overhead arrangement.

ILLUSTRATION 1: Editorial cartoon in a New York weekly newspaper lampoons the Credit Mobilier scandal in a depiction of several U.S. Congressmen committing hara-kiri at the command of an angry Uncle Sam.

In the end, the Union Pacific Railroad, a private company, owned a transcontinental railroad that the taxpayer had paid $100 million to Credit Mobilier to construct for an actual cost of only $50 million. Union Pacific and Credit Mobilier then spent the next decade in court battles that went all the way to the Supreme Court twice.

Congressmen resigned in shame, as they had personally bilked the taxpayer while supposedly pursuing the unassailable aim of rapid coast-to-coast transit. Although Ulysses S. Grant was never indicted, his reputation, and that of the office of the presidency, was permanently damaged by evidence that he knew of the Credit Mobilier scheme and did nothing to stop it.

Indiana's 'Regional Cities'

Flash forward nearly 140 years to the final days of the Clinton administration. Vice-President Al Gore had been marketing the Community Renewal Tax Relief Act of 2000 for much of the year, touting the change in the way public-housing investment would be done, i.e., through public-private partnerships driven by Treasury Department incentives to banks. The Bush administration was the first to administer this new tool to redirect tax money to local governments, which could use the money for projects of their choosing. New Markets Tax Credits (NMTC) are awarded to Community Development Entities (CDE) within city or county governments. $2.5 Billion was distributed in the first two years (2001-2002). In total, the Treasury had distributed $50.5 billion as of fiscal year 2016 to the New Markets program, ostensibly for the purpose of providing low-income housing in underserved urban areas.

According to the Office of the Comptroller of the Currency's June 2013 publication of Community Development Insights[2], the NMTC Program is administered jointly by the U.S. Treasury Department's Community Development Financial Institutions Fund (CDFI Fund) and the IRS. The CDFI awards credits to CDEs , which can be divisions of banks, other financial institutions or municipal governments. The CDEs invest in QEIs (Qualified Equity Investments).

Over a seven-year period these credits can accumulate to 39 percent of a QEI (Quality Equity Investment), which must invest its proceeds into a QLICI (Qualified Low-Income Community Investment) such as real estate investments in a "low-income" community. The NMTC Program is intended to provide 20-30 percent of the total project costs of a QLICI.

Tax credits are a boon to "press-release economics," a term coined by Tad DeHaven, formerly an adjunct scholar of the Indiana Policy Review Foundation and a deputy director of the Office of Management and Budget under Gov. Mitch Daniels. These credits are combined with other tax-credit financing (such as Historic Tax Credits), local tax increment financing (TIF), local grants and state matching funds grants (Regional Cities).

The Regional Cities program was reportedly conceived four years ago by the chief executive of the Indiana Economic Development Corporation (IEDC), a Mike Pence appointee. It was passed by overwhelming majorities in both houses of a Republican-controlled Legislature in 2015.[3]

The legislation allows counties and cities to create multi-jurisdictional authorities that would be able to conduct a variety of activities, particularly "economic development." The Northwest Indiana Regional Development Authority (RDA) was established by the 2005 Legislature. Since its creation, nearly $800 million of state, federal and local resource have been expended on trails, waterfronts and Chicago South Shore train cars.[4] With the Regional Cities iteration, counties were bribed into joining RDAs with grants of money from IEDC. Much like the New Markets Tax Credits, the Regional Cities grants are to be paired with other sources contributing about 20 percent of a project, local governments contributing a matching 20 percent, with 60 percent of the financing to be mustered by private sources. (Federal and state tax credits, as it turns out, count as "private" sources, and surprisingly, city parks departments can own and manage projects.)

Sr. Mortgage (US Treasury CDFI)	4.00
New Markets Tax Credits "Equity"	6.70
Regional Cities	7.00
Historic Tax Credit "Equity"	4.00
HUD / City HANDS Loan	1.00
City Endowment Loan	2.50
City Tax Increment Financing Loan	2.50
Downtown Development Trust	1.25
Streetscape Grant	2.50
Developer Equity	3.25
Total Financing	34.70

TABLE 1: Financing for 'The Landing,' in Millions of Dollars

When this project is complete, the author estimates it will have used $10 million of local money, $7 million of state money and $14 million in federal money to build apartments at $280,000 a piece (where the average home price is $100,000), that will rent for $1,100 (two-thirds more than the average rent in the city). ***(Source: application to Indiana Regional Cities.)***

The Florida Model and 'The Landing'

Richard Florida became famous in 2002 with the release of the best-selling "Rise of the Creative Class." Florida's prescription was hefty doses of public funding for "quality of place" initiatives to "attract and retain talent." Supposedly small- and mid-sized cities across America were losing their young talented people to San Francisco and New York. His slogans became the marching orders and the rationale to make the most of the New Markets Tax Credits and similar programs.

After 15 years of being the authority on all things planning and economic development, however, Florida has had an abrupt change of heart. The data didn't support his theory, and to his credit the former Carnegie Mellon professor this year published a mea culpa, "The New Urban Crisis."

But those who for the last decade and a half have used "Rise of the Creative Class" as the model for their pitch to communities have simply ignored the new book. It doesn't fit the narrative.

In the town where I serve on city council we have had several of these "quality of place" projects. I will describe the most egregious. Table 1 shows the proposed financing for this project, "The Landing," in millions of dollars. The Downtown Development Trust, began purchasing properties in the Landing footprint in 2014.

Our city council was presented with the "capital stack"[5,6] for this proposed mixed-use real estate venture (to be constructed across from the county jail and city police headquarters). Its $4-million senior mortgage is lent by the Illinois Finance Fund, a U.S. Treasury Community Development Institution that provides passive investment opportunities for CDEs.[7] The source of these funds are New Markets Tax Credits. There is direct New Markets Tax Credit investment of $6.7 million through the Fort Wayne New Markets Revitalization Fund, a joint venture CDE between the City of Fort Wayne's Community Development Division and PNC Bank.

The Indiana Economic Development Corporation is contributing a $7-million Regional Cities grant. The Ohio Capital Corporation for Housing (another nonprofit arranger of tax-credit investments)[8] is putting up $4 million of National Park Service Historic Tax Credit equity investment. The Downtown Development Trust (a Fort Wayne nonprofit) is providing a subordinate loan of $1.2 million, which was previously seeded from the Fort Wayne Legacy Fund. The board of the DDT includes several high-profile members of the local Chamber of Commerce as well as the deputy mayor and the newspaper publisher.

The Legacy Fund, which is a trust created by the City of Fort Wayne to

Sources And Uses

The Landing

modelgroup

DEVELOPMENT • CONSTRUCTION • MANAGEMENT

	Units	Total Net SF
Residential	72	54,995
Commercial	22	58,619
Total Units	94	113,614

Sources of Funds		Rate	Term
1st Mortgage	$ 3,961,694	6.00%	25
Sponsor Equity	$ 3,250,000		
Acquisition Loan	$ 1,206,870	2.50%	15
Legacy Fund Loan	$ 2,500,000	2.50%	15
Streetscape Grant	$ 2,500,000	0%	NA
Forgivable Loan (HOME)	$ 1,000,000	0.00%	NA
City TIF	$ 2,500,000	0.00%	30
Regional Cities	$ 6,904,023	0.00%	NA
Total Sources Of Funds	$ 34,520,117		

Applications of Funds	Total	Eligible Basis	QRE
Acquisition Costs			
Acquisition -Land	$ 178,981	0%	$ -
Acquisition- Improvements	$ 2,377,889	0%	$ -
Total Acquisition	$ 2,556,870		$ -
Construction Costs			
Historic Demo/Abatement	$ 727,440	100%	$ 727,440
Site Work	$ 250,032	0%	$ -
New Build Demolition	$ 125,007	0%	$ -
Construction Costs - New Residential	$ 2,338,875	0%	$ -
Construction Costs - New Commercial	$ 779,625	0%	$ -
Construction Costs Residential	$ 5,600,400	100%	$ 5,600,400
Construction Costs Commercial	$ 5,258,401	100%	$ 5,258,401
Construction Costs - T/I Retail	$ 2,924,000	100%	$ 2,924,000
Construction Costs - T/I Office	$ 734,475	100%	$ 734,475
General Requirements	$ 904,787	81%	$ 732,877
Contractor Overhead	$ 301,596	81%	$ 244,293
Contractor Profit	$ 904,787	81%	$ 732,877
Contingency	$ 1,507,978	81%	$ 1,221,462
Streetscape	$ 2,500,000		
			$ 18,176,225
Developer Fee For-Profit - MPD	$ 3,237,897		
General Development Costs			
Architect & Inspection	$ 829,388	81.0%	$ 671,804
Permits and Tap Fees	$ 223,574	81.0%	$ 181,095
Real Estate Taxes	$ 37,600	81.0%	$ 30,456
Insurance During Construction	$ 37,600	81.0%	$ 30,456
Environmental Study	$ 25,000	52.7%	$ 13,175
Appraisal	$ 15,000	4.9%	$ 735
Survey	$ 15,000	40.5%	$ 6,075
Title and Recording	$ 94,000	81.0%	$ 76,140
Local Legal Costs and NMTC Consulting	$ 225,000	8.1%	$ 18,225
Accounting	$ 50,000	16.2%	$ 8,100
Construction Period Tax Return	$ 3,760	81.0%	$ 3,046
Cost Certification & GP accounting	$ 14,100	81.0%	$ 11,421
Construction Period Interest	$ 316,694	55.9%	$ 177,032
NMTC Consultant	$ 15,000	11.3%	$ 1,695
Loan Costs (Const.)	$ 65,948	77.0%	$ 50,780
Soft Cost Contingency	$ 94,340	60.8%	$ 57,359
Leasing Commissions	$ 193,443	0.0%	$ -
Marketing Costs	$ 30,000	0.0%	$ -
HTC Investor Asset Management Fee	$ 30,000	0.0%	$ -
NMTC Initial CDE Fee	$ 640,000	11.3%	$ 72,320
NMTC Fee Reserves	$ 560,000	0.0%	$ -
NMTC Annual Audit Fees	$ 52,500	0.0%	$ -
NMTC & HTC Transaction Fees	$ 300,000	11.3%	$ 33,900
Total General Development Costs	$ 3,867,947		$ 1,443,814
SUBTOTAL ALL	$ 34,520,117		$ 22,164,055

ILLUSTRATION 2: The 'Developer Fee'

The developer of "The Landing" would get all of his $3.25 million "equity" returned at deal-closing as a "development fee." The $20 million-plus in over payment will go to inflated costs of design, construction and legal fees. (Source: Model Group) invest the proceeds the city receives from the sale of its electric utility. City Council approval is required for disbursement of loans or grants from this trust. The council approved a $2.5-million below-market-rate, interest-only 15-year loan with a 7-2 vote. The City of Fort Wayne Community Development HANDS (Housing And Neighborhood Development) board has committed to a $1-million forgivable HOME (a pass through of HUD) loan. City Community Development is also providing a $2.5-million TIF (Tax Increment Financing) bond. The city has also committed to streetscape grants totaling $2.5 million. Finally, the sponsor, a newly created limited-liability company with the developer as the general partner, will provide only $3.25 of actual private equity. Of the $34 million dollars in this menagerie, $31 million originated from taxpayers.

When The Landing is complete, then, it will have used $10 million of local money, $7 million of state money and $14 million in federal money to build apartments at $280,000 a piece (where the average home price is $100,000) that will rent for as much as $1,100 (two-thirds more than the average rent in the city). It will include thousands of square feet of commercial property to be offered at subsidized rates to compete with properties that are already struggling with occupancy.

The present value of the cash flows (the rents less expenses) of the development is worth $11 million (using a 6 percent discount rate), fully one-third of the stated construction costs and dollars "invested." This is not in dispute, the developer states as such in the Jan. 6, 2017, application for a Regional Cities grant: "Using comparable market data and standard underwriting assumptions, the project supports $7.67 million of debt and $3.25 million of equity at market rates of return."

Most troubling, the developer appears to get all of his $3.25 million "equity" returned at deal closing as a "development fee" (see Illustration 2). The $20 million-plus in overpayment will go to inflated costs of design, construction and legal fees since most of these contracts are estimated based on a percentage of the total project cost. There is the natural incentive to make these public-private partnerships yield such economically infeasible ventures, especially when most of the capital at stake is public money. Much of this was discussed when two city councilmen sat down in the office of a local newspaper reporter. The councilmen detailed their concerns about:

a) The layering of government subsidy;

b) The obfuscation, with different presentations of the capital stack depending on which government authority was being addressed; and finally

c) The apparent direct repayment to the developer of all his capital contribution, a fact that debunked the claim that the public money was attracting private money.

The response from the reporter was disappointing: "I thought all these deals looked like that." His resultant article was about two disgruntled councilmen, not what some would consider a less-than-forthright arrangement. Few of the councilmen's details made it to print, and no mention was made of the upfront return of capital to the sponsor.

When this project is completed, the taxpayers will have paid three times what it is worth to construct, much like the Union Pacific Railroad. Three to one — that's a ratio that would make the Credit Mobilier perpetrators blush, since they only had the audacity to charge the U.S. government twice the cost of constructing the transcontinental railroad.

The Landing project has been a culmination of sorts. In a rush to populate its downtown, our city adopted a policy of helping to creatively finance private apartment-building construction. Few of these arrangements have been as bland as a tax abatement.

Most have had some sort of grant mix, and the most recent have paired both Regional Cities grants with New Markets Tax Credits.

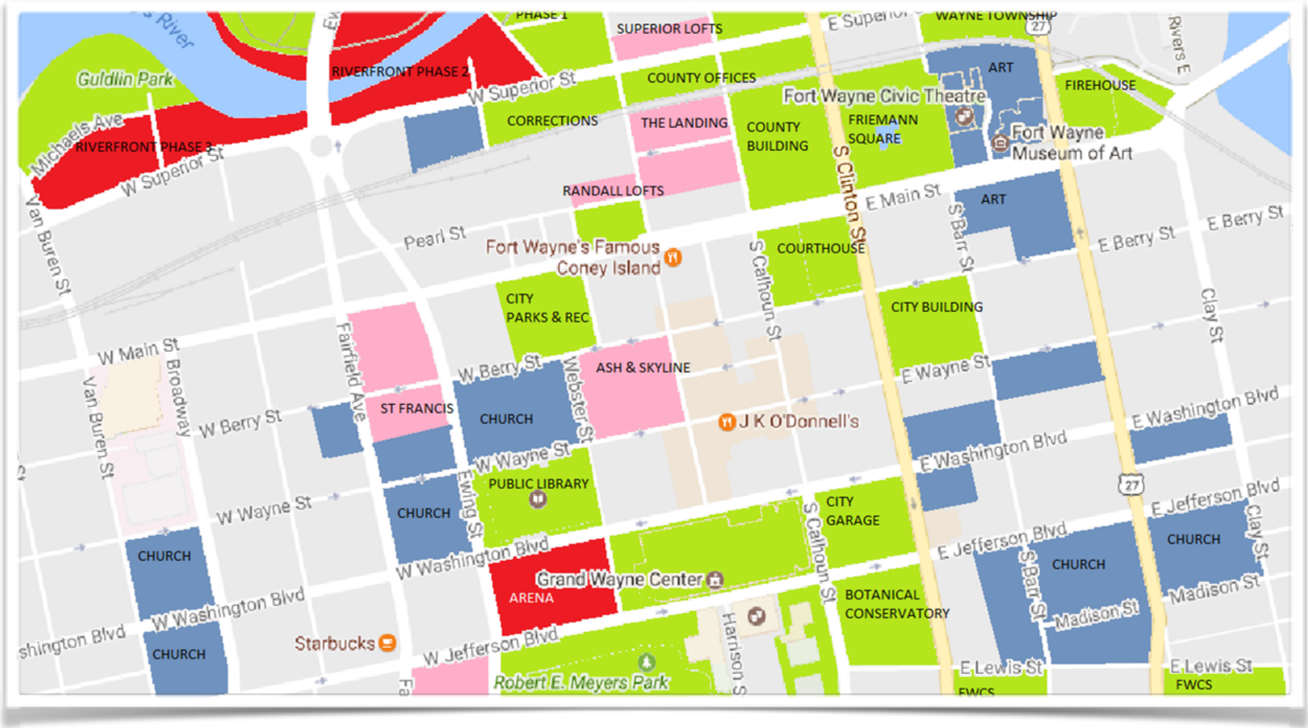


ILLUSTRATION 3: Public-Private Partnership Saturation —The unofficial map that serves as the cover of this journal illustrates the progress that has been made to date: The areas in green are government-owned (city, county, state and federal); the blue are non-profits (churches, homeless shelters, art museums and civic theaters); the pink indicates private facilities that have received substantial public money to facilitate their construction; and finally the red shows proposed future developments that will be largely taxpayer-funded.

Where Did All the Private Property Go?

The new heavily subsidized apartments are supposed to represent the demand created by success of the hundreds of millions of taxpayer dollars spent on a convention center and a ballpark in the city.

A closer look at that claim is needed. Cityscape Flats, for instance, is a new apartment development and the progeny of that same former IEDC chief executive who fathered Regional Cities.

His company was given the city block adjacent the baseball diamond after homes there had been purchased by the city's redevelopment commission and demolished. The city provided cash of $3.5 million dollars and a super abatement (meaning zero taxes paid) worth $3.5 million over 10 years. [9,10,11,12] Including the assessed value of the land, the inducement package for this apartment complex was nearly $9 million dollars, one-third of the reported cost. What makes this tedium particularly interesting is that such largesse was granted while the developer was in the process of being named chief executive of the city's combined economic development corporation (which is publicly funded) and the Chamber of Commerce (a private entity).

Since Cityscape, the art of the public-private partnership here has evolved to having nearly 100 percent public financing ending up in100 percent private ownership.

Tremendous momentum has been achieved, as the mayor is constantly reminding us. It is apparent in the ease with which city council was able to raise local income taxes to bond up to $100 million for additional riverfront development. (Indiana has the distinction of being one of the few states that has local income taxes.)

Not your Grandfather's Tammany Hall

This type of political success requires a well-oiled machine such as our economic development-Chamber of Commerce conglomerate. Its 50-plus member board is a carefully crafted mix of politically sensitive government entities (such as a public school corporation), non-profits (universities and arts foundations for example) and businesses that largely benefit from an expansive government (law firms, architects, construction companies).

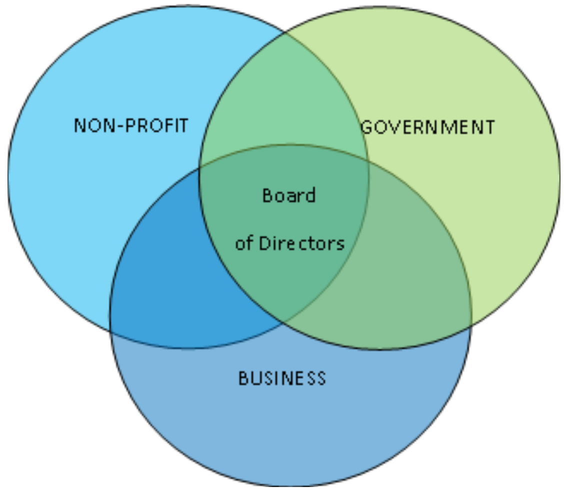


CHART 1: The "New" Chamber of Commerce

Greater Fort Wayne is the entity created by the merger of the Fort Wayne Chamber of Commerce and the Economic Development Alliance of Allen County, itself the result of a merger of the Economic Development Corporation of Fort Wayne and the Economic Development Corporation of Allen County. The new "Greater Fort Wayne, Inc.," has a board that includes representation of nearly every governmental office in the county as well as many notable non-profits, leaving little say for the typical small business.

Funding for the organization comes from a combination of public (both city and county contribute $250,000) and private ("investors" contribute another $3 million). As the Economic Development Corporation for the city and county, the amalgamation is generally the first point of contact for businesses seeking tax abatement, zoning changes or site locations. Wearing a Chamber of Commerce hat, this group lobbies city government to spend money on projects its membership desires while generally opposing tax reductions. With its membership including two mayors, two councilmen (one city, one county), a superintendent of public schools and the local public university, as well as the directors of the Airport authority, Redevelopment Commission and the Downtown Improvement District, government is well represented.

Case in point, last year the city council considered a bill that would have phased out all business personal property taxes. The local Chamber (the only one of this particular construction in the state) lobbied hard against it. Its board voted to oppose the measure that would have eliminated the need for the majority of tax abatements. The Chamber stood behind a potential loss of revenue to the schools as its reason for opposing a tax reform that would have saved businesses millions of dollars, not to mention the hassles that go along with obtaining and complying with abatement.

Currently, Indiana has the highest business personal property tax in the Midwest, and the worst tax environment for manufacturers according to research from the Tax Foundation and the auditing firm, KPMG. This provides a deep moat and a high barrier to entry in the market. As a result, the Chamber/eco-devo conglomerate holds both the key to entry and a substantial amount of power. Moreover, there are no protests or condemnation votes on the abatements or the use of Tax Increment Financing (TIF).

During the recent debate over an additional income tax to fund riverfront development downtown, the local Chamber was able to activate hundreds of people to call or email the city council and show up at council meetings and hearings.

A bit of social analysis might be applied here: How did so many people become activated by a complex issue that had only begun to be discussed?

Know that these people have a vested interest in being there. Many of those who contacted the Council had some sort of direct financial compensation linked to the construction or administration of the project at issue. This group has a handful of leaders who then have a circle of influence of maybe 50 people, some of whom are on the Chamber board.That group may have a group of another thousand employees or friends ambitious enough to mimic what appears to them as the winning behavior of the core group. They are eager to fit in with this "in" crowd, so they want to be seen at the Council meeting or reporting to their boss that they have called their councilman.

Industry	Political Contributions	Direct Payment from City
Architect	$ 44,000	3,791,000
Engineer	445,900	41,758,000
Construction	28,850	59,896,000
Legal	388,949	15,769,000
Surveying	5,750	192,000
Insurance	20,050	1,531,000
Towing	2,500	137,000
Grocery	4,000	12,000
Music Equip	14,200	-
Hospital	16,140	-
Auto Dealer	9,500	5,521,000
	$ 979,839	$ 128,607,000

TABLE 2: Contributions and Direct Payments to a Mayoral Campaign

A study of a typical mayor's campaign filings and corresponding entries in a city's check register by *The Indiana Policy Review* reveals a high relationship between campaign contributions and contracts for services. (See vector analysis on next page.)

Perhaps the most important member of the board of the group is the local newspaper publisher. The other members buy advertising space, regularly and in quantity Just maybe that is an incentive to take an amiable stand.

While all of this may not be as exciting as the mob connections of a Pendergast Machine, it is effective in securing multi-million dollar construction contracts for its members. And what is happening is much worse than Tammany Hall, which at least was providing patronage jobs for immigrants in New York City. Today's clique is taking from middle-class families in order to enrich the well-connected.

And the chimera that is the Chamber isn't the only machine in town. A study of the mayor's campaign filings and the city's check register by the Indiana Policy Review reveals a surprisingly high relationship between campaign contributions and contracts for services with the city (see Table 2 above).

The journal analyzed the filings for the four-year cycle leading up to the 2015 municipal elections, identifying among the individual contributors the owners or officers of companies that contracted with the city during or after that period. Within industries, there was a statistically significant relationship between the dollars contributed and the dollars paid in city contracts (see Charts 2 and 3)

Engineering companies, for example, had an R-squared value of 59 percent with a standard deviation of 16 percent from the linear regression line. This is remarkable because the sample set included a wide variety of types of engineers, from civil engineers (roads, stormwater) to wastewater processing. The legal profession showed a much higher correlation between contributions and contracts: r-squared of 90 percent with a 4-percent standard deviation.

The small figure for payments to architects is misleading. The city doesn't generally pay them directly, however they benefit generally from the apartment and commercial buildings that accompany government subsidized or financed downtown renovation. There have been a couple million spent already on downtown riverfront projects in my city.

Let it be understood that the ostensibly Republican Chamber and the Democrat mayor's office work as a team to coordinate these economic-development projects. Much of the federal financing and grants are arranged by the city's community development department, and none of the TIF districts and bonding issues would happen without a compliant mayor.

Conclusion

What James Madison and company were dependent upon when crafting our form of government was the expectation that those who were elected to office would be willing to show leadership rather than be led by special interest. Again, men are not angels.

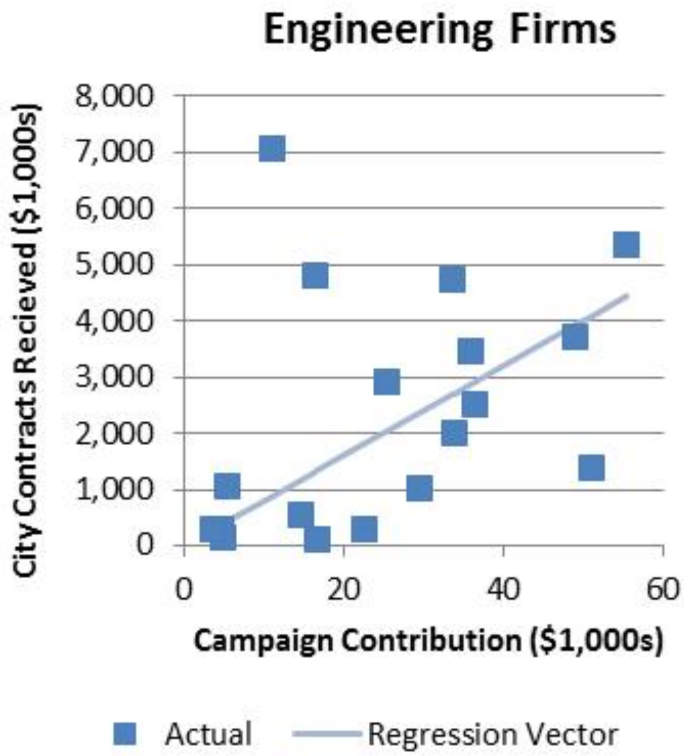
Government is the instrument available for the administration of justice, providing some defense of the lives, liberties and property of the people within its jurisdiction. When the role of government goes beyond that, the people are exposed to the arbitrary power of men in government acting above the law; then the public treasury can and will be used for just about anything (check the fine print on the recent 10-cent increase in the tax on gasoline).

Clearly, there are natural, though non-angelic, forces at work here. People desire to be liked, politicians especially so. And politicians especially like to be liked by powerful people who can help them further their careers.

But leadership sometimes means willing to be disliked — maybe even despised — by those who have done well courting their government. Remember, it took men who were willing to lose everything to win independence from an oppressive British king. It takes this kind of leadership to administer a justice that prohibits the legal pillaging described here.

So it is up to us to call upon the better angels of our nature if we are to ensure the opportunity for prosperity and happiness. Recall Dr. Buchanan: "It often is wiser to let people act like angels and step in themselves." Municipal leadership should be putting forth a detailed plan for getting out of the way. By reducing the things government can do, you reduce the number of things that special interest can control to enrich themselves at the detriment of their neighbors.

To summarize, a simple two-step plan to limit the influence of government on the local economy also would limit the



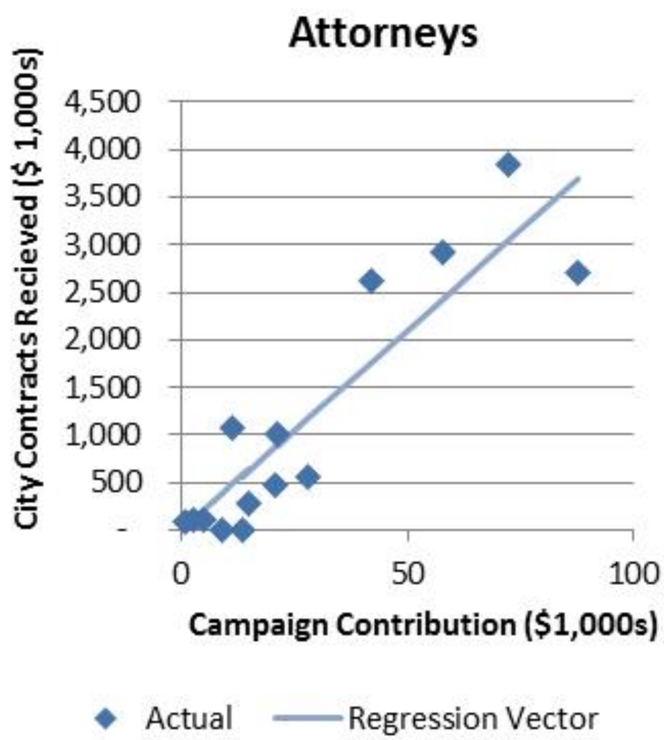


CHART 2, 3: Regression vector of contributions and direct payments to a mayoral campaign by category. *(Source: The Indiana Policy Review)* influence of certain economic players on the government:

1. Eliminate government funding of the Chamber of Commerce-economic development corporation. The Chamber can stand on its own, as they have for hundreds of years. By removing the authority of government, as gatekeeper to abatements and incentives, it breaks their monopoly on the discourse on tax and fiscal policy.

2. Enacting the exemption of all new business equipment from taxation, coupled with the cessation of new abatements on real property and the phasing out of TIF, would go a long way toward removing government from local business decision-making.

Indiana allows counties to levy four types of income tax (watch out, here come so more acronyms): Economic Development Income Tax (EDIT), Public Safety (PS), County Option Income Tax (COIT), and Property Tax Relief Credit (PTRC).[13] PTRC reduces the property tax liability of residents and has the feature of sending tax revenue to all taxing authorities within a jurisdiction, most notably, school corporations. PTRC is the only income tax that funds schools. The most recent 15-basis-point increase in local income taxes was to EDIT, which only goes to the county and city governments.

The revenue impact on schools and other units of government from eliminating a tax on new business equipment could be offset by a simultaneous increase in the PTRC and reduction of the EDIT by the same percentage. There need not be any impact on general taxpayers.

Table 3 illustrates that any use of income tax for smoothing would be minimal if other tax inducements are eliminated. Schools in our county currently surrender nearly $12 million a year to tax abatement and TIF districts. Eliminating these inducements will clear the way for eliminating business personal property taxes.

What is not included in the table is the savings in the administrative costs of the labyrinth? The city community development department spends $4 million in salaries and another $400 thousand in contracted eco-devo services.

This is no abstract gain. In fact, not allowing voluntary transactions and market forces has real, tangible and calculable cost.

1. Inflation and scarcity of professional design and construction services are caused by the prices paid and the volume of publicly financed projects.

2. Limited real estate options in downtown artificially inflates commercial real estate prices beyond what cash flows would support.

3. As a result of the first two consequences, no development gets done without public subsidy.

4. We can be certain that capital used by the private sector will be used more efficiently. Entrepreneurs and investors do not make a habit of spending three times the value of an investment in its construction or acquisition.

What we don't see, and can't precisely measure, is what wasn't built, whose dream wasn't

Property Tax Summary 2016 pay 2017 $ in Thousands				BPPT Phaseout Over Ten Years		Phase out Tax Inducements			Short Fall After
Govt. Unit	Real	Personal	Total	Shift	Net	TIF	Abatement	Total	10 years
Allen County	56,281	10,423	66,704	3,439	6,983	3,154	2,370	5,524	-1,460
Cities/Towns	98,550	19,932	118,483	6,578	13,355	6,193	4,498	10,691	-2,664
Schools	104,037	18,977	123,014	6,262	12,715	5,781	6,156	11,937	-778
Township	5,433	1,147	6,580	379	768	430	330	760	-9
Library	21,217	3,929	25,146	1,297	2,633	1,189	1,305	2,494	-138
City Bus Svc	4,039	831	4,870	274	557	259	169	428	-129
Airport	4,792	887	5,680	293	595	269	295	563	-31
Total	294,350	56,127	350,476	18,522	37,605	17,276	15,121	32,397	-5,208

Source: Allen County Indiana Auditor's Office, the author's calculations

TABLE 3: This summary of scheduled property tax receipts for Allen County shows that ceasing tax-specific inducement via TIF and abatement would allow for simply eliminating the largest obstacle capital formation and business development in Indiana, the Business Personal Property Tax. Indiana was rated 50th in terms of tax environment for manufacturers in a 2015 KPMG/ Tax Foundation study.

explored. When the coercive sector crowds out free enterprise it is impossible to know what innovation we are missing out on or what market segment would have been satisfied that now cannot be satisfied. Businesses respond to incentives. When the incentives for political activity and government-sponsored enterprise promise greater returns than those expected from investing in research, development and efficiency, the overall economy suffers from diminished innovation, productivity and output. The system, then, is a zero-sum game, where the politically favored are compensated from the taxes levied on the rest. Free enterprise, in contrast, grows the size of the economy so that all benefit from the growth in production.

Of course, this would negatively affect those who have built their careers bending the will of a coercive system to their benefit. It would, however, allow everyone else the freedom to pursue happiness and to be those better angels. ◆

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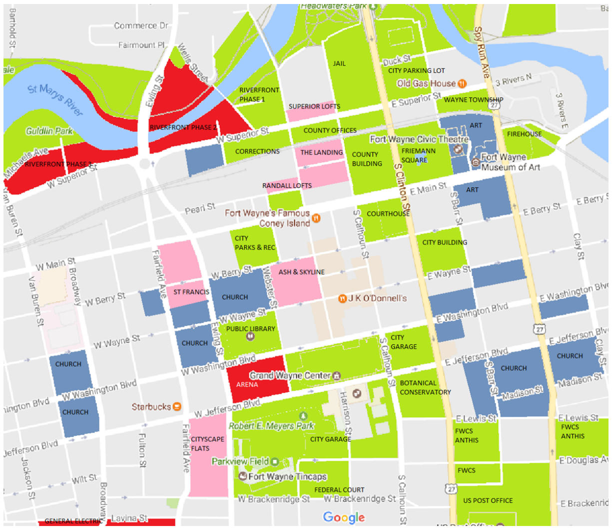

II. How Boondoggles Happen

The author, an adjunct scholar of the Indiana Policy Review Foundation and head of the IPFW Center for Economic Education, is an economics instructor at Indiana University-Purdue University in Fort Wayne.

by John Kessler

Economists who study Public Choice Theory are not surprised by the influence of special-interest groups in politics today, as detailed in the preceding article.

When our Founding Fathers looked at the history of democracy around the world they were rightly concerned about the tyranny of the majority. The tyranny of the majority is a situation where a large group of people can vote to take benefits for themselves from a smaller group of people. This is why we ended up with a representative democracy in the United States with institutions like a bicameral legislature with equal representation in the Senate and the Electoral College. Efforts were made to allow for protections of the rights of smaller groups from the tyranny of larger groups in society.

In the politics of today, though, we should fear the tyranny of the minority — a situation where a small group can take benefits for themselves from a larger group. How is that possible, you might ask. After all, the larger group should be able to outvote the smaller group and prevent this. Well, like most things in economics, it's all about the incentives.

The 'Special Interest Effect'

As our local governments have begun to pass out more and more of the taxpayers' money, we have created an environment where small special-interest groups can force their will on the larger group of taxpayers. This is known as the Special Interest Effect. It comes about because there are large benefits going directly to a few people but the costs of those benefits are spread out over many people so that the cost to any single person is not much.

For example, let's assume there are around 150 million taxpayers in the United States. If I could lobby Congress and get them to hire me to teach economics for $150 million a year that would be a large direct benefit to me. But the cost to any individual taxpayer would only be $1 a year. Look at the incentives created:

- I now have a $150-million-a-year incentive to make large campaign contributions and spend a lot of time lobbying to get this deal done, while you only have $1 a year incentive to stop it.
- At $1 a year, you not only have no incentive to do any work to stop me you don't have any incentive to even be aware it is happening. You are what economists call rationally ignorant, that is, you have better things to do with your life that are worth more to you than $1 a year, so you don't pay attention.

Any elected officials want to make this deal with me? I'll donate $100 million to your reelection campaigns — give me a call, nobody will stop us.

From the specific examples in this issue of the journal you can see the Special Interest Effect by looking at the correlation between donations and government contracts. Engineering companies donating to the campaign of the incumbent Fort Wayne mayor predictably saw a return on their investment by receiving a government contract with an r-squared value of 59 percent and with a p-value of close to zero.

The legal profession showed an even higher correlation between contributions and contracts: r-squared of 90 percent and with a p-value of close to zero. This means that 59 percent of the contract dollars that engineering firms received and 90 percent of those received by attorneys can be attributed to their campaign contributions. Attempting to predict human behavior is typically a difficult business but this data fits the theory nicely and unsurprisingly.

The key to understanding this Special Interest Effect is to look at who pays and who gains. We, the taxpayers, pay the costs — after all it is our money that is being spent. The politicians benefit because they get funding for their reelection campaigns that pretty much guarantees them a position for life. Businesses win if they get the government goodies.

In this situation, business leaders look at campaign donations as an easy way to garner support from and influence with politicians at all levels of government. This creates a vicious cycle of money being given to incumbent politicians and then given back out to those special-interest groups just to have more money given to incumbents to keep the cycle going. And now you know why incumbents almost always win their bids for reelection. In this kind of environment it becomes difficult to make any meaningful political change as incumbents have war chests full of money ready to be used to defeat any upstart who might challenge them.

Of course, the special-interest groups want the incumbents to stay in power because they have already developed a mutually beneficial relationship with one another, and who is to say that the next person elected will give them the same benefits. It is important at this point to clarify that I am not blaming any one particular political party for this problem. I am blaming both parties for playing this same game. The only difference between the two parties is which set of friends are going to receive the benefits. This also explains why business leaders will often hedge their bets and donate to the campaigns of both parties candidates in a close election.

When the government is involved in handing out other people's money to special-interest groups it can be difficult to stop them if we don't like what they are doing because of these perverse incentives. It would be better for us all if we didn't play this game of passing out other people's money; it creates a loss for the economy as a whole.

The primary question in our economy is how are we going to allocate scarce resources. We can either allow the market to do so using prices to give the information to people about what to do or we can use the political system to distribute the resources as politicians see fit. If we choose the political route, politicians get to shift where resources are being spent and we end up with booms and busts in the economy as we either over invest or under invest in different areas of the economy. If we allow the political system to allocate resources, then business leaders have an incentive to do what they can to get their piece of the pie.

Either way, the business leader has to decide where they are going to spend their time and effort. Will they work toward putting out a better product or service at a better price than their competitors or will they spend their time lobbying the government for a handout. Inevitably, the more money the government starts to pass out the more time and energy will be spent on lobbying and less will be spent on the job of doing business. This is an obvious overall loss to the economy as not all who lobby will be given a contract and all of the time and money spent on the lobbying effort will have produced no benefit at all to society. The businesses that don't win the government handout would have been better off spending those resources working on improving their business.

In this environment of competing for the taxpayers' money it makes sense that the business leader would start to see making campaign contributions as a great investment in the bottom line since it increases the likelihood of getting that handout.

As long as we allow government to keep playing this game of handing out other people's money, the special-interest groups will continue to have a major impact on the policies and actions we pursue. The only way we can win is if we don't play. ◆

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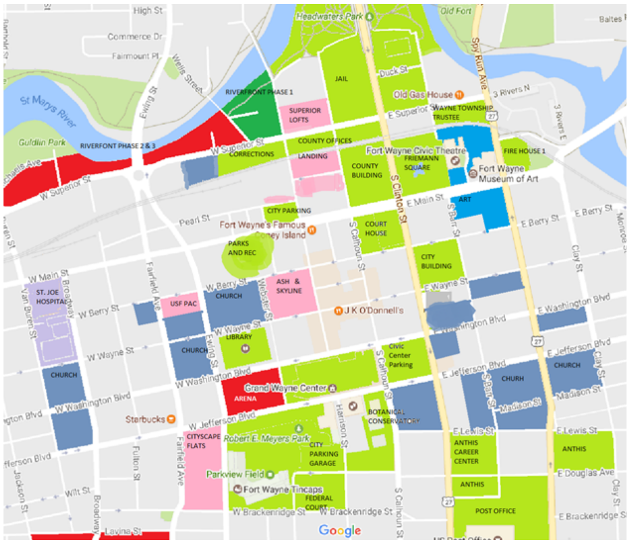


III. Boosters Gone Wild

"Negotiating with the government is like arranging a lease with your dog." — P.J. O'Rourke

The author is editor of the quarterly Indiana Policy Review.

by Craig Ladwig

(July 16) — An enlightening discussion, astonishingly so, broke out at our council meeting one recent evening. A councilman repeatedly challenged an opponent on an economic-development issue to say how he would have cast a hypothetical vote in the past. "Answer the question," he demanded, trying to pin the councilman as being against a popular civic venue, a baseball stadium.

The other councilman responded that it was easy to hold up "shiny new objects" as successes but it was difficult to see how their funding had been stolen from other "unseen" efforts.

The discussion then quickly returned to the standard councilmanic mundane with members blithely and overwhelmingly approving millions in new taxes. That was too bad, because the one councilman had broached an almost 170-year-old concept, one that forms a basis of modern economics.

First stated in Frederick Bastiat's 1850 essay, "What is Seen and What Is not Seen," it entered the popular American discussion with Henry Hazlett's 1946 work, "Economics in One Lesson." Hazlett reduces economics to just one paragraph, which is:

> "The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups."

If we back up to the specific argument of the council meeting, it was the perfect point that could have been raised in advance of this particular vote. To be decided, you see, was whether my council should impose a tax increase to finance a supposed economic-development project, a riverfront development and promenade that supporters promise will make our city a tourist "destination point."

Nobody, of course, can be against being a destination point. Bastiat, Hazlett and the one councilman, however, first would want to know: 1) compared with what; 2) at what cost; and 3) on the basis of what hard evidence.

Nor had serious thought been given to which groups would benefit or suffer as the tax increase and consequent spending wound its way through the various political labyrinths of the next decade or so.

Those questions were unanswerable, or at least unanswerable in the time the council members had allotted for discussion — discussion of spending someone else's $20 million to $60 million, the exact figure being uncertain.

Nonetheless, it would have been interesting to know. Perhaps the wrong councilman was demanding, "Answer the question."

Trying to answer the questions ourselves, we took a look at the raw data of contributions to a typical Indiana mayor. We were be struck by the massive amounts coming from those involved in construction, architecture, engineering, etc.

Two Kinds of Growth

For that is how progress is defined today. It is not in an increase in middle-class expendable income, and certainly not in happiness or even security. Rather, it is in commanding the building of new things, steel and concrete things — tax-funded convention centers, sports stadiums, subsidized hotels, riverfront promenades, some of them organized as so-called public-private partnerships or PPPs.

But there is another kind of progress. It is the progress that Bastiat and Hazlett defined when communities make when individual citizen-entrepreneurs are left alone, untaxed and unregulated, when government steps out of the way. Our Ryan Cummins explains it thus:

> "What most effectively contributes to each individual's notion of well-being is known only to the individual himself. If you live in a community that understands this, that promotes and protects free markets and property rights in the operations of local government, that values personal responsibility, you live in Indiana's 'best' city."

But going over spreadsheets of thousands and thousands in donations from those making what they surely hoped were legal bribes to the next mayor, the editor of this journal was reminded of the Ready-Mixed Concrete Company and the cautionary stories told to him by an earlier

"PLANS FOR THE 63,000-seat, $720-million stadium that opened in 2008 as the home of the Indianapolis Colts were unveiled almost a decade ago. Since then, the collapse of the auction-rate bond market has led officials to restructure what grew to $666.5 million of public debt. The Capital Improvement Board of Managers of Marion County, which operates the stadium, collects about $120.6 million in fees and other payments to cover running it and other venues, which is more than double the $58 million it would have received from taxes in place before work on the stadium began, according to financial statements. "The net effect of hosting the NFL Super Bowl is marginal," said Brian Williams, a local resident and health-care consultant with PwC Consulting. "You should be very clear about the difference in financial cost and the lack of returns on the investment." The added taxes and fees are on top of $7 million in costs to issue the bonds, undisclosed fees to restructure debt and annual loans from the state that have totaled $9 million. After credit markets collapsed in 2008, the Capital Improvement Board had to borrow $16.9 million from the state treasurer to end a swap agreement with KeyBank, according to minutes from a Jan. 27, 2009, meeting. The board also faced paying $26.3 million after it lost debt- insurance policies provided by Ambac Assurance Corp. and MBIA Insurance Corp., according to the minutes. The Colts, meanwhile, financed two-thirds of their $100 million cost of the stadium through local-government issuers and now pay $250,000 a year to use the stadium -- about two-thirds of the league minimum salary for rookies. — *Aaron Kuriloff and Darrell Preston Feb. 2, 2012, Bloomberg News* generation of journalists. Ready-Mixed was owned by Tom Pendergast, a prototype public-private partner and for a time a symbol of progress itself. It is worth noting that in the early part of the 20th century the ready-mixed cement process was high tech. If your city didn't t have a modern cement plant you were second class.

"The city's system of cement viaducts, reportedly six feet deep in places, helped finance four decades of corruption, much of it legal."

And during the Depression, under a $40-million bond program, Pendergast's companies in partnership with the municipal government of Kansas City constructed many civic buildings and projects, among them a majestic downtown courthouse, the paving of a watershed near the nation's first shopping center, the municipal auditorium and the inner-city high schools — all of it infrastructure, we would say today, necessary for the city to keep moving forward.

These were seen at the time as civic jewels, of course, architectural marvels, and were much lauded. Pendergast, you see, was a civic leader, a booster. Thousands owed their jobs to him, or at least thought they did. They called the city "Tom's Town."

Only later, as his power waned, would it become clear that the progress had been managed by an unaccountable political machine staying afloat on the backs of taxpayers. Pendergast won these contracts as a result of his control of local government through political donations and patronage jobs.

Notably, the city's system of cement viaducts, reportedly six feet deep in places, helped finance four decades of corruption, much of it legal. This was money that had to be paid back in bonded debt, lost efficiency and lost opportunity — paid back many times over.

Could it have been done another way, could progress have been achieved without a political boss, without leveraged PPPs, always justified in

"I FORMED SOMETHING called the Council for a Competitive Economy and the idea was to build an organization of business leaders who would oppose all forms of subsidy and corporate welfare, even and especially when they benefited that company. I asked Milton Friedman to be chairman of my board of advisors. I sent a letter to hundreds of business people with his name. I got a lot of answers back, but they were typically along the same theme: they agreed in principle that we need to get rid of all the special dealing and rigging the system and everybody will be better off. But it doesn't work for their industry. They need to be protected or they'll go out of business and that will hurt the country. And over and over again. We said, 'My God.' I approached Rich Fink, who was a professor at George Mason, to come and run this. Maybe he could make it successful. 'No,' he said. 'You can't depend on business people. They're too short-term oriented, particularly public companies. They're going for the quick buck rather than what's good for themselves and the country long-term. We've got to go to the citizens who are suffering from this.'" — *Charles Koch interviewed on Freakonomics Radio, June 15, 2017* the name of some inarguable civic good, on the necessity of moving the city forward?

The reporters and editors who covered that era thought it could. Indeed, although several had won Pulitzer Prizes writing about Pendergast, they were emphatic it was not investigative reporting that broke his machine. Nor was it the "Good Government Club" that rose up to oppose Pendergast on the city council. Rather, it was progress — that second kind. The Pendergast gang lost their power as the city's middle class began to prosper, independent of any contracts to the Ready-Mixed Concrete Company. So will be the fate of the gang in your town. That, at least, is the hope expressed in this issue of the journal. On other pages you will find an array of charts, graphs and tables, all of them worrisome in regard to longterm consequences for Indiana cities if a new course is not charted.

Here, though, are our observations, our historical and first-hand experiences with government-crafted economic development. They are cause — or should be cause — for pause in the current rush to progress of that first kind. They are a chronological list of warnings that went unheeded by a civic leadership intent on selling the impossible, that is, growth without sweat equity or risk capital.

The Central Canal

As a Hoosier, the premier place in your collection must be reserved for Indiana's Mammoth Internal Improvements Act of 1836. It allowed our state government to get into what was then the high-tech business of canal-building. It's a short story but typical: The only part of the imagined Central Canal of Indiana that actually functioned was an eight-mile stretch closest to the center of political power. And by 1841, the state couldn't pay the interest on its internal debt and went bankrupt — the entire state.

The Fort Wayne Bypass

A multi-generation exercise in community-wide shortsightedness, the so-called Fort Wayne bypass (Coliseum Boulevard) was overrun by growth almost before completion in 1952. Clogged with stop lights, it now confuses cross-town traffic, circumscribing little more than the downtown area. A prominent Fort Wayne businessman told the story of receiving a visit from a delegation of Fort Wayne civic leaders in the months after World War II. They wanted his support for the bypass route. When he withheld it,

Rival in Consumption?

(Does one person's use of the item mean there is less available to others?)

Excludable? *(Can you prevent people from accessing the item if they do not pay for it?)*

	Yes	No
Yes	**PRIVATE GOODS** Most things that we buy are in this category and are provided by the market. The government should not produce these items (example: ice-cream cones).	**NATURAL MONOPOLIES** Some things make sense to allow one company to produce because economies of scale allow them to do it cheaper. For the privilege of having monopoly power, the government regulates them to prevent overcharging customers (example: electric utilities).
No	**COMMON RESOURCES** The "tragedy of the commons" occurs when common resources are overused because they are rival, but non-excludable. The government can help by establishing private-property rights and converting these to private goods or regulating access (example: wildlife).	**PUBLIC GOODS** These are the only things the government should consider producing because of the "free rider" problem. The government may not need to produce these things if the market can find a way to pay for them (example: tornado siren).

IN THE FALL OF 2016 the foundation asked an adjunct scholar, John Kessler, to design a decision tree that would help the membership determine whether any given public expenditure before a city council was economically sound.

one reminded him of a promise to support the route when the war was over. The businessman had to explain that he made that promise during World War I.

The Subway to Nowhere

An object lesson for Indianapolis and its mass-transit boosters, the Cincinnati subway system in neighboring Ohio was a work in progress for almost two decades or until 1946. Cincinnati began digging tunnels for the $12-million subway despite the fact it had only $6 million in the budget. It completed the tunnels but didn't have money for the trains. The system now reportedly costs $2.6 million a year to maintain in its emptiness.

The United Airlines Hub

"Negotiating with the government is like arranging a lease with your dog," P.J. O'Rourke cracked at an Indiana Policy Review event in Indianapolis during our early years. The thought came to mind as we read a Dec. 10, 2003, headline in the Indianapolis Star, "City May Lose Millions in United ((Airlines) Bankruptcy."

Many Star readers were too young to have seen an earlier headline, one on the cover of the winter 1992 issue of this journal. It read, "Buying 6,000 Jobs at $100,000 a Head" and included this prescient warning:

> "The final contract (with United Airlines) contains no meaningful promise of jobs. It is by no means clear that burger-flippers at a fast-food outlet to be built three miles from the airport would not be included in those job promises. United, you see, promised only to show up. And who wouldn't?"

Our estimates were low. United Airlines' gimlet-eyed attorneys had in fact extracted from a ribbon-cutting governor and a too affable mayor considerations worth $630 million dollars, about two-thirds of it in cash and the rest in forgiven tax and regulatory obligations, plus a free building site.

Not long afterward we first heard the catchword "eco-devo." And even in its early form the term sounded alarms for economist in the room. They did not need to see its present sophisticated model to know that it was all margarine, that is, an attempt to fool Mother Nature. Here is how our Dr. Cecil Bohanon put it:

> "Economists have the temerity to ask the following question: What did all this cost taxpayers? And did one success cost more than the other? Although boosters often imply that job creation is akin to the divine act described in the book of Genesis, "Let there be light," economists know better."

The Indianapolis Colts Franchise

Dr. Bohanon and Noah Peconga in the cover article for a 2003 edition of the journal issued a warning, utterly unheeded, that the cost of using public funds to keep the Colts in Indianapolis must be balanced with any alternative use of those funds (streets, sidewalks, safe water, public safety, etc.). The authors granted that the "non-captured psychological consumption benefits" (painting your face blue) may be worth a cost estimated at $22 million a year — but then again, it may not, a possibility that the civic boosters in business, in the media and in city hall never empirically address. "To our mind, and to the minds of other economists who have examined the issue, the economic-development benefits of professional sports are illusory,"

"To our mind, and to the minds of other economists who have examined the issue, the economic-development benefits of professional sports are illusory." Bohanon and Peconga

Bohanon and Peconga concluded, noting that the net worth of a pro football teams is comparable to only a couple of Walmarts.

Six years later, Fred McCarthy, a veteran of 40 years wrestling with Statehouse issues, was reminding our membership that the Indianapolis media, if not numbingly incurious, was complicit in the ongoing illusion of sports-generated economic magic.

It had begun, McCarthy said, with an April 1, 1994, headline in the Star: "City to Make $1.39 Million Annually from Colts' Move."

This, please know, was not an April's Fools joke but rather a prediction that turned out to be so far off the mark as to be absurd. Here is McCarthy's comment:

> "The editors and news directors, accepting press releases as fact, did not investigated even the most suspicious Capital Improvement Board operations or even ask serious questions about the expensive and frequently secretive operations of the board. Indeed, Mayor (Bart) Peterson was able to deny for years that there were even any plans for a new stadium."

Finally, Dr. Tyler Watts, another of the adjunct scholars, asked provocatively in 2011 what would happen to Indianapolis if the Colts left town:

> "Would all that sports spending really vanish from the Indianapolis economy? No. Although fans would be disappointed, they would still have many outlets (substitutions) for their entertainment dollars. Attendance and spending at college and high-school football games would rise, along with bowling alleys, bingo parlors and other recreation venues. Downtown pubs might suffer but suburban restaurants would likely see a bump in revenue. Consumers of the NFL are us, after all. It's not as if the NFL draws its customers from Mars. If there were no Colts, we would spend our fun money on something else."

The McCarthy Paragraph

McCarthy expanded on his work logging the Indianapolis experience subsidizing sports teams and facilities to argue for a reinvigorated Chamber of Commerce, one that would watch over the general business climate and not mere special interests. Indeed, he put together for readers of the 2011 fall journal a simple paragraph to guide all of the state's eco-devo efforts. In the office, we now refer to it as the McCarthy Paragraph:

> "The state of Indiana announces a new policy for business development. In the belief that businesses locate or expand more productively using long-term, genuine economic logic, we will no longer offer temporary tax incentives. Instead, we pledge the efforts of government to create and maintain the best business climate for you. Within the limits of fairness and justice, rules and regulations inhibiting such productive operations will be reduced or eliminated whenever possible. Grants, abatements, subsidies and other tax gimmicks that depress governmental revenues and increase other taxpayers' bills will cease. On the other hand, be assured that tax dollars you may pay in the future will never directly finance your competitor. All private businesses will be treated in the same way."

The Needmore Pyramid

Tad DeHaven, a former adjunct scholar of the foundation and a state economic-development official in the Mitch Daniels administration, asked similar questions in a 2015 report. The state Economic Development Administration (EDA) claimed that for every tax dollar it gave to the new regional eco-devo groups, taxpayers got $24 back in value. DeHaven, though, said few independent economists believed it:

> "How would it be possible for federal employees to find such high-value investments that the private sector or local governments have missed? If the payoff from projects really was 24-to-1, for example, then surely local entrepreneurs and venture capitalists would be interested in funding such projects without any help."

The real story, DeHaven argued, is that the broader and more distant the financing for a project, the more likely it is driven by political forces, not local economic ones. Adding to his suspicion was a study that found the timing of EDA project announcements inexplicably coincided with election periods.

And even the best of these projects seem to be of the build-them-and-they-will-come variety, e.g., high-visibility, low-margin projects such as convention centers, sports venues, tourist attractions, plus the wayward manufacturer or questionable real-estate venture that depends on creative bookkeeping to justify the cost. To that grouping we have recently added "quality of place" projects designed to make any Indiana city feel like San Francisco or New York.

"Officials, as the rest of us, cannot spend someone else's money with the same attention that they spend their own." — Ron Reinking

As a worst example of that last, DeHaven carries an architectural drawing of the aptly named Needmore Pyramid north of Bedford, Indiana. Grants from the state EDA were approved in the late 1970s during a sales slump at the big quarries there. The idea, eventually abandoned amid public ridicule, was to build limestone replicas of the Great Wall of China and an Egyptian pyramid.

The lesson DeHaven stressed was that if your region needs economic development, it may not be because you lack the Pyramid of Cheops. It may be because your policies are not conducive to growth (high taxes and burdensome regulations).

"With the high mobility of workers and investment capital these days, any jurisdiction that creates an inviting climate for businesses and skilled workers can prosper without outside help," DeHaven advised.

Instead, DeHaven predicted that Indiana public officials would continue to play what he dubbed "press-release economics."

"The Indiana Economic Development Commission (IEDC) might not admit it, but most businesses already know where they are going to locate before they contact the agency," DeHaven said." Businesses consider a myriad of factors, including demographics, transportation logistics and workforce capabilities when choosing where to set up shop."

"Although the tax and regulatory climate is an important consideration, IEDC handouts are just that — handouts," he continued. "Because a governor will get credit for creating jobs, businesses know they can extract taxpayer money from the state for these subsidies. After a company reaches an agreement with the IEDC, the administration issues a press release. For the high-profile deals, it arranges a choreographed ribbon-cutting ceremony at the company's facilities. The company helps fulfill its end of the bargain by telling the press that the administration's support sealed the deal."

The Not-So-Grand Fort Wayne Convention Center

Nobody in the foundation did more to expose the fallacy of the misapplied public-private partnership than the late Ron Reinking, a Fort Wayne Certified Public Accountant and civic leader. His work over a 20-year period exposed a pattern of attracting new projects for ribbon-cuttings not by selling the productivity and other qualities of the city residents or even substantiating market demand but instead promising insider firms upfront profits paid in cash at closing.

Reinking used his forensic accounting skills to wreck the claims of politicians that their projects were paying for themselves or that they were creating jobs by shuffling tax money, or by caging bonds or by picking business winners.

"Ambitious politicians, Republican ones especially, find such claims tempting," he wrote.

"For if voters can be convinced that government can indeed be run as a business, then there is no reason a city or county cannot take on all manner of projects — sports stadiums, opera houses, convention centers, parking garages, anything that can be described as being for the public good. But public officials, no matter how ambitious and no matter how capable, cannot keep that promise. Officials, as the rest of us, cannot spend someone else's money with the same attention that they spend their own."

Fort Wayne's Grand Wayne Convention Center was said to "break even." But when Reinking and a group of local businessmen looked at the books for the foundation they found that the center had not accounted for financing costs.

Also, the center was said to be in need of an accompanying hotel (cost: $57 million) to be successful. That was so even though Reinking was able to show that the present downtown hotels ran about half empty. In addition, there had been a virtual filching frenzy of hotels and motels in the suburban areas of Fort Wayne creating a glut of available rooms there. Even the city's hotel consulting firm conceded that the project was impossible without the infusion of taxpayer money.

"If your region needs economic development, it may not be because you lack the Pyramid of Cheops. It may be because your policies are not conducive to growth (high taxes and burdensome regulations)."

The next year, after it became clear that Reinking was going to apply forensic accounting, he was unable to see the center's books.

Other scalps on Reinking's belt included the following:

- *Parking Violations* — Officials of a Fort Wayne municipal parking garage were forced by Reinking's independent audit to acknowledge the loss of $10,000 monthly on merely parking cars. "It is not difficult to predict," concluded Reinking, "that management of a multi-million dollar convention center would exceed their bureaucratic level of competence. Or that picking sites for baseball stadiums pushes their envelope. How about developing shopping centers, taking over liquor stores, revitalizing downtown or a dozen other business projects attempted in the last decade?"

- *Let's Play Ball* — Reinking challenged the financial rationale of a proposed baseball stadium to replace the old stadium (built only 10 years earlier) that has been endorsed ever since as the pluperfect example of a successful PPP. As a result, it met with public opposition (cost: from $20 million to $40 million) and a convincing and prescient case was made that independent *unsubsidized* business interests would not be investing near the park. Moreover, Reinking asked whether it could be said that the baseball stadium itself had any true private "partner" rising private money because the promoter's anticipated profits were paid up front. He said that in effect it was a giant municipal parking lot inside of which someone played baseball.

- *A Really Good Book* —The expanded Allen County Public Library was a beauty. Taxpayers, per capita, were paying for one of the largest and best in the country ($82 million for the main structure and the branches). Reinking's concern? "One can only hope that electronic data exchange on the Internet is only a fad."

Reinking noted in a general summary of his city's situation in 2006 that there were 502,141 people residing in the Fort Wayne metropolitan area making up 83,333 households. The total cost of projects completed or in the planning stage would be at least $850 million, he estimated, and could be as high as $1.2 billion. That worked out to $10,200 per household.

"The rule of thumb is that if the government is going to subsidize something, it should always subsidize the consumer and never the producer." John Kessler

"It is impossible to know how many new jobs were diverted or new households discouraged because of that additional tax burden," he concluded even before the boosters hit their stride. "These are what economists call 'unseen costs.' It is inarguable, however, that productive businesses and talented individuals have been fleeing for some time now. If the city wants to run itself as a business, it might start by trying to figure out what it is doing to exacerbate that movement."

The Decision Tree

In the fall of 2016 the foundation asked an adjunct scholar, John Kessler, to design a chart that would help the membership determine whether any given public expenditure before a city council was economically sound.

No, that's not exactly true. Our impetus came from a couple of decades of frustration listening to self-proclaimed conservatives slipping and sliding on this vote or that, telling us that PPPs were too complicated to explain, that we didn't understand how modern government worked. Well, the chart on the next page, which functions as a decision tree, dispenses with such folderol. That is true even though it concedes for our Democrat friends that some things give social benefits to everyone when people consume more of them and therefore could be subsidized.

This, of course, is what politicians claim for every proposal they raise. But economists make distinctions, dividing those proposals into at least four groups of less or more economic justification. Education will serve as an example: the more educated people are, the better off we all are. If we apply it to the Kessler's chart, though, we can see that this in itself does not make education a "public good" in the eyes of an economist. That is because it is "excludable" and because it is possibly "rival" in consumption (see definitions in the chart).

"The rule of thumb is that if the government is going to subsidize something it should always subsidize the consumer and never the producer," Kessler says.

None of this means that there are not reasons to vote for measures outside our chart's parameters. It just means that those reasons may be uneconomical and may involve personal ambition, cronyism and crass expediency — not the motivations we like to see in our public policy.

The 'Multiplier' Effect

Most recently, our Dr. Barry Keating asked whether convention centers and such fall into Kessler's "public goods" category, that is, things government should consider funding because those who benefit do not pay, resulting in scarcity.

Dr. Keating noted that a 2008 study justified an annual public subsidy to the South Bend convention center in terms of the $26 million of spending by visitors to the city attending events hosted in the center or the "multiplier effect." His summary of the problem:

> "The 'multiplier' concept suggests that deficit government spending is like planting magic seeds giving rise to beanstalks in the form of increased business revenue and job creation. Government spends a lot of money to plant those seeds and government all too often plants

> them in the wrong places. It costs a lot to collect the taxes to pay for the spending and even more for businesses and individuals to comply with tax laws. The fact that the convention center itself has been unable to simply cover its operating costs for years raises the question of whether any private enterprise would be willing to lease it under any conditions."

"The 'multiplier' concept suggests that deficit government spending is like planting magic seeds giving rise to beanstalks in the form of increased business revenue and job creation." Barry Keating

Nonetheless, Dr. Keating thought using a PPP for a convention center on a local level might be worth considering if it could be aligned with public interest and prudent and accountable facility management. But he has his doubts:

> "Of course, it could be the case that government has simply 'sown the seeds' in the wrong place by building the convention center, thereby creating a white elephant that no private firm could use to make a profit with or without a PPP in place," Keating added. "Apparently the College Football Hall of Fame in South Bend was just such a government foible; residents there will be paying the mortgage on the facility long after the Hall of Fame has left for Atlanta and the building itself is vacant. There is little evidence in downtown South Bend today that a 'multiplier effect' from the Hall of Fame brought significant improvement to the area."

The Spiritual Thing

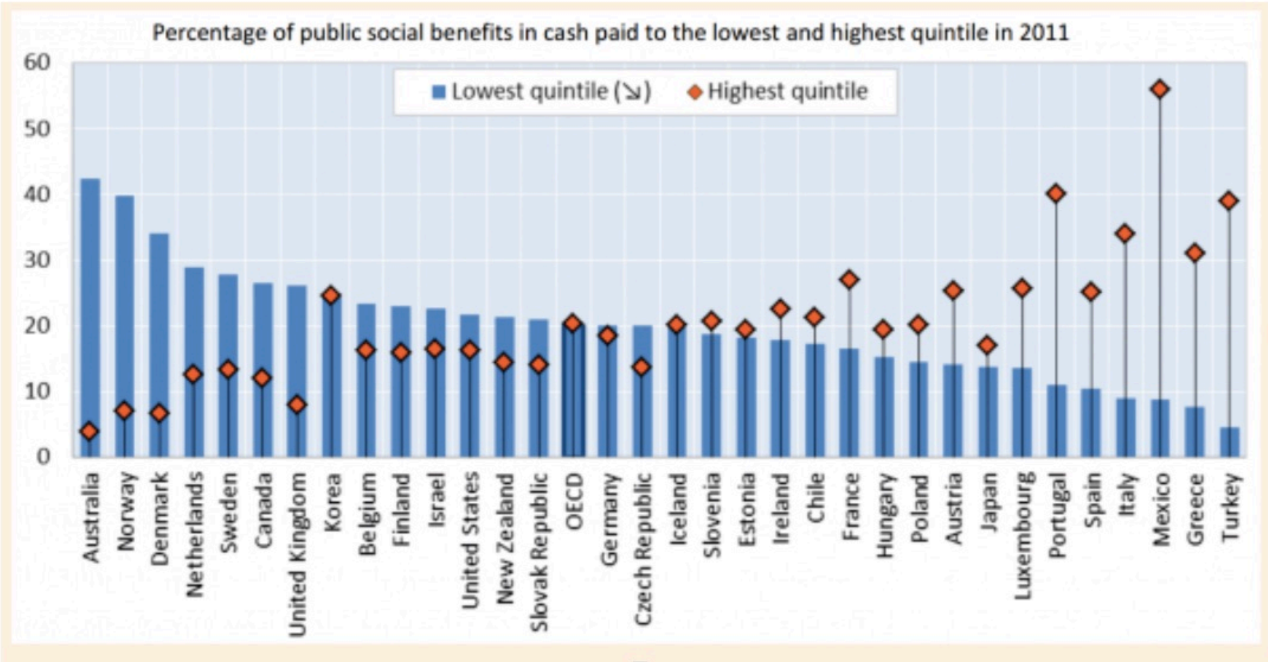
There have been other effective critics on our pages of these approaches to public policy, chief among them Dr. Norman Van Cott contrasting ineffective, feel-good corporate charity with the more dependable but silent blessings of everyday capitalism, and Tom Heller and David Penticuff with their detailed explication of the arcanum of tax increment financing.

They all testify to the truth of the adage that the devil loves the impossible task. The work for us by Dr. Stephen M. King, an adjunct scholar, predicts that the just-elected crop of politicians will discover "they aren't facing policy problems so much as spiritual ones." Dr. King's spiritual impetus is directed more to the motivation of civil service than to a Divine Creator. And when we define "spiritual" thus broadly — an unconcern for material values or sinecure — we can see clearly the cumulative abdication, Republican and Democrat, that is Washington or Indianapolis.

He was joined by a veteran political observer, William Murchison, former editorial page editor of the Dallas Morning News, who argued that the cure is to begin selecting leaders who embody the American character rather than Pendergast's:

> "The political apparatus — a well-paying, prestige-endowing enterprise — pays and praises men and women who promise to do the impossible. But the strength of any peaceable, prosperous, self-sustaining society lies in the character of its people — not in laws that, at their best and wisest, merely reflect that character."

Otherwise, regardless of all observations and statistics warning of a decline in Indiana's middle class, politicians will continue to be salesmen of the impossible rather than democratic representatives: They will continue to waste their offices "looking for new benefits to tout and new dangers to expose as they volunteer to fix everything for us," in Murchison's words. ◆



Source: Organization for Economic Co-operation and Development

The Immorality of Welfare for the Rich

Lisa Conyers, director of policy studies at the DKT Liberty Project, was in Indiana this July researching her upcoming book, "Welfare for the Rich; How Your Tax Dollars End up in Millionaire's Pockets." She is a co-author with Phil Harvey, president of DKT, of "The Human Cost of Welfare; How the System Hurts the People it's Designed to Help." They were asked to write this for the foundation.

by Phil Harvey and Lisa Conyers

(July 14) — All major religions put an important stress on helping the poor, providing aid and succor to the least fortunate in their societies. The tradition of helping the poor keeps Bono, Bill and Melinda Gates, Brad Pitt and Angelina Jolie on the right side of history, their charitable work serving as a role model to millions. Helping the poor is something we humans naturally understand and endorse, philosophically and with our pocketbooks.

On the other hand, we have not been able to find anywhere a moral argument for providing welfare for the rich — not in religion, not in philosophy, not in political discourse. Most people instinctively recognize that it is morally corrupt for a government to take money from low- and mid-level citizens and give it to citizens who are more wealthy than those whose funds are taken. Such a practice is, simply, wrong.

Yet, In the process of writing a book about America's major welfare systems[1] we saw dozens of examples of that happening, of welfare going in the wrong direction — taxpayer funding flowing up to the wealthy instead of down to the poor. Disturbed by these examples, we determined to take a closer look at this perversion of the welfare system by writing another book.

The table above shows that a lot of taxpayer money goes to the wealthy in many countries.

Those diamonds sticking up in the right half of the graph are taxpayer payments to the wealthy. In the U.S. those in the highest income quintile who receive money from the public purse include:

- Fifty members of the Forbes 400 list of the richest Americans, who got at least $6.3 million in farm subsidies between 1995 and 2014. Among them was Paul Allen, co-founder of Microsoft, whose net worth is over $19 billion, and Obama's Commerce Secretary Penny Prizker, who has a net worth of $2.5 billion.[2]

- The fabulously successful Elon Musk, whose net worth is $14.3 billion. His latest ventures, Tesla, SolarCity and SpaceX, have received close to $5 billion in public support in the form of subsidies, tax breaks and grants and loans.[3]

- Jamie Dimon, who recently turned down an invitation to be Trump's Treasury Secretary. President of JP MorganChase since 2005, his net worth is $1 billion. Chase received billions in bailout money from the public purse during the 2008 bank bailouts. Mr. Dimon's salary was $1.5 million last year, on top of his $5 million bonus, and stock of $20.5 million. Notes Hunter Lewis in his book Crony Capitalism, "Wall Street made as much profit in the first three years under Obama as in the prior eight years under Bush."

- Jeremy Thigpin, head of Transocean, the oil company implicated in the Deepwater oil spill, earns close to $14 million a year. Transocean profits from the $4 billion in annual subsidies that flow to oil companies, subsidies won by the $144 million they spend annually lobbying Congress. Transocean, along with nearly all oil companies, benefits from tax avoidance

- strategies available only to the oil and gas industry.[4]

What these people, and many others like them share, is something the average American has no access to: a lobbyist in Washington. Over eleven thousand lobbyists plied the halls of Congress in 2015, and their clients were happy to fork over the $3.2 billion in fees.5 The cost of lobbying Congress, however, is a pittance compared to the gifts lobbyists score for their clients in return – $100 billion a year, according to the Cato Institute.6

This year, the U.S. debt will surpass $19 trillion dollars. That's $19,000,000,000,000: a debt burden of close to $59,000 per American citizen. Sooner or later this unsustainable spending must be reined in, and the place to start cutting is clear: eliminate welfare to wealthy citizens and corporations who neither need nor deserve it, and give American taxpayers a break. ◆

Endnotes

1. Phil Harvey and Lisa Conyers, The Human Cost of Welfare, 2016.

2. The Rich Get Richer/50 Billionaires Got Federal Farm Subsidies|EWG.pdf

3. http://reason.com/archives/2016/04/28/elon-musk-crony-capitalist

4. http://www.nytimes.com/2010/07/04/business/04bptax.html\

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Book Review

“One Nation Under Gold” by James Ledbetter, Liveright Publishing Company, 2017

The reviewer, an adjunct scholar of the foundation, is formerly the Associate Vice Chancellor for Enrollment Management at Indiana University-Purdue University Fort Wayne.

by Mark Franke

“Everything in war is very simple. But the simplest thing is difficult." While Carl von Clausewitz was speaking of military campaigns, the same can be said of economics. Take money. What is it exactly?

One can’t get too far into Economics 101 without being taught that the definition of money is threefold: a medium of exchange, a unit of account and a store of value. If those same undergraduates are still around later in the course and are awake to hear how $100 deposited into a bank creates an additional $900 somewhere in the economy, there will be a mass stampede to the door.

But what is money in the real world?

When I was a youngster, a nickel would buy me either a candy bar or a pack of baseball cards. If I had a quarter, the permutations and combinations were endless — Lesson One in marginal utility.

A decade or so later my pay as a golf caddy was in dollar bills, five dollars for carrying double plus another buck for a tip. Now I had folding stuff in my pocket.

Ask a teenager today if he or she has any money and what you will get is either Dad’s debit card or an indecipherable screen on a smart phone purporting to link directly to a bank account somewhere in the ether.

Coins, bills and now bits and bytes represent the progression of our understanding of money just in my lifetime. Yet, there is a continual refrain on both Wall Street and Main Street that only gold can be trusted for intrinsic value. James Ledbetter takes this mantra head-on in his new book “One Nation under Gold,” published by W. W. Norton’s Liveright subsidiary. His subtitle says it all: “How one precious metal has dominated the American imagination for four centuries.”

First, a spoiler alert. Lebbetter comes down squarely against a gold standard, and in spite of my claims to be a classical liberal I agree with him. I know a return to “sound money” has been a clarion call of the conservative movement going back to William F. Buckley, the Austrian School, Barry Goldwater and most Republican platforms since. I recall its being a litmus test for membership in Young Americans for Freedom during my undergraduate years. While all this theory looks wonderful on paper, the historical facts just don’t support the near-religious adherence it gets across the broad conservative-libertarian continuum.

Ledbetter walks his readers through a selected history of the United States official policy toward gold, focusing on the politics of the decision-making more so than the pure economics. One can’t argue against his premise. These decisions were forced upon presidents by the political environment each faced, relegating the economics, so hard to understand anyway, to a secondary role. (For what I consider a more comprehensive yet concise history of U. S. monetary-gold policy, see Milton Friedman’s Money Mischief.)

Ledbetter effectively makes the point that government’s frequent attempts to “manage” (read: control and manipulate) the gold supply more often than not proved harmful.

One need only start with Alexander Hamilton. It pains me to write this as he is one my historical heroes, but his miscalculation of the relative prices of gold and silver in 1792 effectively drove gold out of circulation in favor of silver. Just several decades later, Andrew Jackson’s political use of gold as part of his war on Nicholas Biddle and the Bank of the United States contributed to the severe deflation and recession that followed.

"Gold is kryptonite to big spending politicians. It is to the moochers and looters in big government what sunlight and garlic are to vampires." Herman Cain

In fairness, Biddle's hands weren't clean on this either, but the point is that gold was simply a tool — and in political hands a destructive one at that.

Ledbetter hits his stride with the Lincoln administration's issuance of greenbacks to finance the Civil War and the intense fights over the next decades to settle their redemption, culminating in William Jennings Bryan's "Cross of Gold" speech.

America was divided between the silver lobby populist debtors and the gold lobby East Coast banker creditor elitists. Ledbetter returns to the populist nature of this movement in his concluding chapters where he shows that today things are flipped upside down as current populists push for a gold standard.

In an unusual historical sidelight, it has been hypothesized that Frank Baum wrote his "Wonderful Wizard of Oz" as a parable of the gold versus silver fights of the 1890s. I don't need to tell you what the Yellow Brick Road represented, but you will need to decide for yourself which political characters were parodied by the wicked witches and Dorothy's friends.

Ledbetter's treatment of the modern presidents, defined here as those whose administrations I can remember, is instructive. One need not be a Nixon hater to shake one's head at the forces behind the closing of the gold window in 1971, an act by a president who didn't understand it but wanted to be seen as "doing something." It was also interesting to read that Lyndon Johnson's decision not to seek reelection in 1968 was driven by Vietnam, certainly, but also by his inability to face down the pressure of a rising balance of payments deficit being financed through a dangerously escalating drawdown of U. S. gold stocks. Essentially, LBJ had nowhere to turn for good news so he opted to go home to his Texas ranch.

One of the silliest historical footnotes in this story is the Johnson administration's Operation Goldfinger. Under the dual pressure of declining gold reserves, a recurring theme for Ledbetter, and political pressure from Western senators whose gold mining industry was in deep recession, administration officials developed a pick list of projects to increase U. S. gold production. Incredibly, this included using nuclear weapons to blow up potential gold-bearing rock. Who needs to read fiction when this kind of stuff is going on for real.

I'll offer just one last historical anecdote that will be of interest to those of us dedicated to the preservation of property rights. The Civil War era Legal Tender Act made greenbacks fiat money by requiring their acceptance for private debts. The law specifically invalidated any commercial contract that provided for payment in gold. In 1869, the Supreme Court, by party-line vote, split over whether this provision could be applied retroactively to contracts made prior to the act's passage. *Ex post facto,* anyone?

Ledbetter's recurring theme is that Americans have demonstrated an unassailable fascination with gold, one that reaches the level of idolatry (my term, not his). While Ledbetter would love to put the blame on Glenn Beck and Fox News, he does admit that it can't all be left at the doorstep of conservative-libertarian political commentators and Austrian School economists. The gold fascination is shown to go much deeper as he cites a 2011 Rasmussen poll that showed 44 percent of Americans favored a gold standard. More poignantly, 57 percent of respondents favored a gold standard when asked the same question with the proviso that it would reduce the power of government and bankers to control the economy.

This is the populist anti-gold movement of the 1890s stood on its head.

Herman Cain summed up this belief in a 2012 Wall Street Journal op-ed piece when he wrote, "Gold is kryptonite to big spending politicians. It is to the moochers and looters in big government what sunlight and garlic are to vampires."

Impressive political rhetoric it is, but who really believes that a heap of metal in an underground vault can slow down the never-ending frat party that is federal government budgeting.

So what is the contemporary case against returning to a gold standard? There are multiple objections, both theoretical and practical. How much gold is needed to back our currency? Both 40 percent and 25 percent have been mandated Treasury goals in the past, but it's difficult not to ask about the rest of the currency that presumably isn't backed by gold. One need not point to the failed Bretton Woods arrangement for a textbook example of the problems inherent in partial gold redemption.

The best case for gold is an assumption that it prevents inflation by keeping the money supply stable. I see two problems with this argument:

First it doesn't really guarantee this when examined historically. A recent study released by a St. Louis Fed economist, Fernando Martin, and reported on the Wall Street Journal's Real Time Economics blog, is instructive. Using an arithmetic mean to compare the post-WWII non-gold period to the pre-Federal Reserve gold standard years appears to justify the argument.

However, when looking at the volatility across the two periods, the non-gold years are generally more stable as the mean was influenced by the high inflation of the WWII years and the 1970s. Remove these two outliers and inflation in the last century has been moderate and reasonably predictable.

More important is the fact that we have been spared painful and prolonged periods of deflations caused by governmental action. Even with a gold standard, governments can't resist breaking the rules to meet emergencies rife with political risk.

Second, one just can't get past the fact that the supply of gold is dependent on mining productivity spurred by new ore discoveries. It can go up but it can't go down as there no way to destroy gold. Meanwhile the demand side of the equation is influenced by central banks, jewelers, manufacturers, and collectors. (Note that central banks today hold only about 20 percent of the world's gold supply.) How, then, do you increase the supply of money to meet economic demand? The only options are contrivances under the control of political entities whose resumes don't read so well. Ledbetter puts it this way: "Novel monetary standards are devised in secret, rushed through Congress or enacted outside of Congress and justified with war or other emergencies."

The paradox is that a gold standard is most popular during high inflation but politically and economically ruinous to impose during these times. It is easy to impose during low inflation but nobody really cares then. Even Hayek admitted this in 1984 when he said any gold standard regime would ultimately break down. It's all a moot point anyway because only the Republicans proclaim the value of gold-backed money at all anymore, and it is no surprise that they can't come to agreement on what to do or how to do it.

So back to the original question: What is money? In a 2011 Congressional hearing, Rep. Ron Paul asked Federal Reserve Chairman Ben Bernanke if he thought gold were money. Bernanke replied no, just a precious metal. Paul then asked, tongue not firmly in cheek, why doesn't the Fed hold reserves of diamonds instead.

At risk of channeling Humpty Dumpty, who declaimed that a word meant exactly what he wanted it to mean and no more or no less, I will defer to the best definition of money I've come across. Felix Martin, in his "unauthorized biography" of money, defined it simply as transferrable credit. I think we can all understand that. ◆

Backgrounders

David Penticuff, a member of the Indiana Policy Review Foundation, is editor of the Marion Chronicle. His essay, which appeared as an editorial, is reprinted with permission,

TIF Sales Pitch Is Wearing a Bit Thin

(July 10) — Loren Matthes, a partner at Umbaugh and Associates, spoke at a Wednesday at our local council meeting about the financial predicament of our city.

In calm fashion, for the first time in a year and a half of working on our city's budget problems, an Umbaugh official spoke in public about our mess. She explained that Tax Increment Financing, an economic product that Umbaugh facilitates for a fee to local municipalities, was not our biggest problem. Controls that keep the city from raising property taxes, that's the problem she said.

Matthes, in 1985, helped complete the first tax-increment financing deal ever in Indiana, according to the Indianapolis Business Journal. She has been selling them a long time and said, in spite of admitting that even currently she wasn't absolutely sure our Marion TIF districts generate enough money to pay our TIF debt obligations, they are a good tool.

She also told the council members that effort to clean up the district's base assessed values, which have often been reduced to zero, for reasons that remain mysterious, would probably mean the TIF districts would not be able to pay back the TIF obligation. Districts that carry a zero base value send all the property taxes to paying off TIF debt. If we change and include the base value, as we legally should, going forward, that money would go to the city, and local schools and other taxing units that provide services to the community.

But TIF is a good tool, she said. And Mayor Jess Alumbaugh agreed. He indicated he would go with what Umbaugh says. He trusts them. The mayor said he wanted to keep that tool in his toolbox.

What has happened, she said, is that we haven't been smart about using TIF. We had failed projects because our city and previous financial advisors didn't do their due diligence. We can be smarter.

Yes, all agreed, we can be smarter.

Here is the thing, while the mayor may be sober, we think he hangs with more than a few alcoholics lusting for the bottle of TIF hiding in the mayor's toolbox. TIF has been their brand of choice and we are broke because of it. Not because we haven't raised property taxes enough.

TIF districts can work, but they almost always rely on avoiding having needy or greedy folks overseeing them. How secure should people in the city of Marion feel about having some of the same members of the city council, the same economic development director, and Umbaugh, instead of London, Witte, continuing to wield the tools of our financial destruction on into the future, even without former Mayor Wayne Seybold.

Seybold's name did not come up at the meeting but he was on everyone's mind. We think he was the engine behind most of the repeated fiascoes during his time in office. He was always a hard fellow to tell no.

We are not the only community to suffer from TIF abuse. Some states have abandoned the practice because it really lacks the safeguards to prevent what is happened to us from happening again and again.

"Rather than promoting economic development, many, if not most TIF subsidies, are used for entirely different purposes," noted Randal O'Toole, an adjunct scholar of the Indiana Policy Review Foundation and a senior fellow with the Cato Institute. "First, many states give cities enormous discretion for how they use TIF funds, turning TIF into a way for cities to capture taxes that would otherwise go to rival tax entities such as school or library districts. Second, no matter how well-intentioned, city officials will always be tempted to use TIF as a vehicle for crony capitalism, providing subsidies to developers who in turn provide campaign funds to politicians."

Yep.

City Council Member Alan Miller said during the Wednesday meeting that he wanted to make up for his past support of bad economic development deals. That was what motivated him to return to city council. We believe him.

The best way he and other council members can do restore sanity, we suggest, is to actively choose to do the difficult thing. To never go along to get along. To say no and to say no as the default response to new spending. To even say no to friends and people you like and respect. That's not easy.

We don't know how the city is going to get out of this mess. Council Member Steve Henderson is working hard on the issues and trying to put curbs on all the waste that goes into economic development. We wish him success.

Matthes says the city needs to raise tax revenue. But other governmental entities might not step up to agree to a countywide income tax increase to bail out Marion, based on Marion's debt addiction.

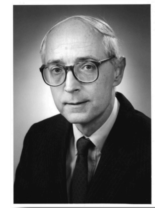
Payments in lieu of taxes, most obviously from the city's water utility, is a likely target. If that happens, a decision will probably have to be made about raising rates to pass the cost for TIF abuse along to water and sewer rate payers.

We think some of the officials in the council meeting realized that constantly taking the path of least resistance never leads to a good place. Perhaps strong leadership will arise.

The city waits.

The Charlottesville Rally

(Aug. 15) — Where have all the political scientists gone? Why should it be a surprise that when the Democratic Party has embraced intersectional identity politics (as recently declared by its vice-chair) that a corresponding white identity politics should develop on the Right (in its current form independent of the Republican Party)?



Tom Charles Huston, A.B., J.D., an adjunct scholar of the Indiana Policy Review and a former associate counsel to the president of the United States, is an Indianapolis developer.

More relevant yet, who are these people? They are not the old skin heads of the 1960's American Nazi Party or even the middle-aged working-class voters who rallied for George Wallace. If you viewed any of the videos you should have noticed that most of these marchers were young people in the 20-to-40-year-old range with short hair and conventional attire. Of course, the overt Nazis and Klansmen conformed to stereotype but they are as irrelevant politically today as they were 40 years ago.

These marching young people are the sons (few women are involved in this movement) of Boomers. Many are from middle-class broken homes, high school educated with poor prospects of realizing the social and economic benefits enjoyed by their parents. They rely on social media for information and organization. They operate largely below the radar of mainstream observers and are caricatured by the professional hit men at watchdog groups such as SPLC and the ADL

Observers have largely ignored the significance of the Charlottesville rally as perceived by its organizers. The objective was reflected in the name adopted for the event: "Unite the Right." There are tremendous differences of philosophy and tactics among the various groups that participated. Southern Nationalists are distinguishable from White Nationalists and both groups from the neo-Nazis. Southern Heritage groups have little in common with the others except opposition to removal of Confederate monuments and memorials. They all share a sense of white identity although not all of them can reasonably be said to be white supremacists if the word supremacist has any finite meaning.

For a time during the 1930s the Communists pushed the United Front line that "there are no enemies to the Left." What the Communists hoped to achieve by this line is what the Alt-Right leaders seek to achieve through their public alignment of groups outside the Conservative mainstream who have common enemies and thus common interests.

It is easy to denounce these groups and to argue that they should be isolated and ignored. That was a policy that we followed on the Goldwater Right in the early 1960s. The problem is that if there are enough of them and they are loud enough, you may be able for a time to isolate them but you can't forever ignore them. The European centrist parties tried that for 20 years with the anti-immigration parties of the so-called "Far Right" with the result they deluded themselves as to the state of public opinion in their countries (which gave rise to Brexit, the National Front, and the Eastern European resistance to the EU bureaucracy).

Frankly, I don't know how to cope with the growth of white identity politics in a period when every other politically distinguishable group is engaged in a politics of identity. The problem is compounded by the perilous state of the white working class. When the disillusioned cease to be disengaged you have a political problem. Identifying and understanding political problems is what political scientists are supposed to do. I wish they would get about their job.

Joshua Claybourn, J.D., an Evansville attorney and adjunct scholar of the Indiana Policy Review Foundation, was most recently an adjunct professor at the University of Evansville teaching legal organization of business entities.

HUD Serves Up a Plan Without any Local Logic

(July 13) — The Department of Housing and Urban Development (HUD) will spend $10 billion this year on "community development," with most of it allocated to Community Development Block Grants (CDBGs). Approximately $60 million gets allocated to Indiana municipalities, primarily for projects like affordable housing, street repair and subsidizing neighborhood businesses.

Part of the lure with CDBG money comes from its flexibility. Local officials have tremendous freedom to fund almost anything as long as the money benefits low- and moderate-income communities, meets an urgent need or eliminates blight.

Some have long questioned the constitutional justification for federally funding these kind of local initiatives, but a new city-by-city analysis by Lorraine Woellert of Politico underscores additional practical concerns. It shows that CDBG spending is disbursed with little regard to actual need.

Woellert writes, "San Francisco will get $19-a-person in community development block grants this year, while Allentown, with twice the poverty and less than half of the median income, will draw a per-capita allotment of $17.53....Community development block grants rely on outdated, 1970s formulas that have increasingly shuttled dollars to wealthy places like Newton, Mass., while other locales in need, such as Compton, Calif., go wanting."

Tad DeHaven, formerly an adjunct scholar of the Indiana Policy Review after serving as deputy director of the Indiana Office of Management and Budget, adds this: "CDBG spending has gradually shifted from poorer to wealthier communities over time . . . It should not be the role of the federal government to redistribute income between regions, but even if it was, the CDBG program is not very good at it."

Hamilton County leads Indiana in population growth with an almost 13 percent increase since 2010. It is also the state's wealthiest county, but it still received nearly $1.4 million in CDBG funds last year. Meanwhile Starke County, Indiana's poorest county on a per-capita income basis, received virtually no CDBG funds last year.

Hamilton County spent most of its CDBG money on sidewalks, not affordable housing. The disparity between Hamilton County's substantial funding and its relatively sparse affordable housing led federal authorities to open an investigation this year into allegations of discrimination and unfair housing. HUD's antiquated formulas, however, suggest Hamilton County will likely face few if any consequences.

CDBG's funding formulas reward communities with older homes even if poverty, blight or unemployment aren't big challenges. In effect, CDBG's approach can reward historic wealthy communities but penalize communities that bulldoze blighted neighborhoods if those homes are pre-1940s stock.

CDBG funds are dispersed in an uneven and unfair manner not only within Indiana, but also unevenly across various states. Casper, Wyoming, received $200,000 for a new auditorium and Alexandria, Louisiana, received over a half million dollars for a new marina. Communities mail checks to the IRS, run it through the federal bureaucracy, and then distribute it back out again in an unfair and uneven manner. Why? And who benefits

The primary winners in this scenario are bureaucrats administering the program and the well-heeled communities with enough staff to wade through the paperwork requirements. Indeed, securing HUD funding requires detailed applications and review, which takes expertise and time. Thus, large and wealthy cities like Indianapolis and Fort Wayne can dedicate entire departments to securing more HUD funding, while poorer communities like the Town of Chandler and Starke County suffer in the dark.

President Donald Trump's 2018 budget proposes to eliminate the CDBG program because it "is not well-targeted to the poorest populations and has not demonstrated results." While it is unlikely Congress would agree to cut the entire program it may be facing steep cuts or dramatic changes in its funding approach.

The state of Indiana has little control over administration of CDBG or HUD funds despite the dramatic impact it has on the state's well-being. Indiana's congressional delegation should consider proposing substantial changes to the CDBG approach and begin terminating activities that could be better performed by local government and the private sector.

Fred McCarthy, an adjunct scholar of the Indiana Policy Review Foundation, represented various taxpayer and business organizations before the Indiana General Assembly for 40 years, being awarded a Sagamore of the Wabash by two governors along the way.

A Journalism of Misdirection

(July 10) — Misdirection is what makes a magician successful. The specific idea is to attract attention away from what is really going on. In a magic show its use is completely necessary and certainly approved, not so much when it is used in presenting news stories.

The Indianapolis Star recently gave us a front-page story headlined, "Pence emails to cost state $100K." The story itself was by-lined by two reporters, but we don't know who wrote the headline. The difference in approach makes it seem the reporters and the headline writer were strangers to each other.

The first words in the story are, *"Interest in* Vice President Mike Pence's . . ." The fourth paragraph opens with, "Most of the pending *records requests* in the governor's office since March are *from media outlets* . . ." (our emphasis).

The headline appears to be a misdirection by connecting the name Pence with an expenditure of public funds for which he had absolutely no responsibility. Indeed, the story points out early and clearly that the cost will result from requests from media personnel who, in our opinion and in today's political climate, most likely were searching for a word, a phrase, a sentence or maybe just a "typo" that could be twisted and spun to the detriment of the Vice President and by association the Trump administration. This criticism should not be taken as approval of what is going on in Washington by either political party. But we do think less "misdirection" in the media might help calm the storm.

It should be added that we clearly understand — and in most cases agree with — the old saying that it is a poorly advised decision to cross swords (pens) with the man who has an agenda, buys ink by the barrel and paper by the ton.

Sometimes, though, a thing just needs to be said.

Cmdr. John Pickerill is former chairman of the Montgomery County Republican Party. He wrote these articles for the foundation.

A Missed Point in Debate Over Wind Turbines

(July 5) — There has been discussion recently over a possible wind farm in my county. Residents close to the proposed turbine towers are concerned about the health effects, about disrupted rural landscape and about what it will do to their property values. Some are suggesting that newly proposed countywide zoning would have excluded the turbines or minimized any harm. They are wrong.

Both a former county councilman and the mayor brought up a relevant point in separate articles for the local newspaper: If you are going to defend the property rights and freedom of the individual, you must acknowledge that a property owner has the right to use his property however he sees fit. But both overlooked the do-no-harm clause, i.e., as long as the property owner isn't preventing someone else from doing the same or causing harm to someone else in the process. It is a prerequisite for any freedom.

A landowner has the right to install a wind turbine or anything else on his property but he has the responsibility to make sure it doesn't harm his neighbors. Scientific studies suggest that low-frequency noise from wind turbines, for example, may make people sick (sleep disorders, headaches, irritability, inability to concentrate).

If that turns out to be true, the landowner should be forced to take steps to prevent such harm, perhaps by increasing the setback of the towers from the closest property line or by installing noise-canceling technology. But let's not pretend the answer is more restrictive and broader land-use zoning. There are five counties in Indiana with large wind farms (Benton, Randolph, White, Tipton, Madison) and all of them had countywide zoning.

Taking a step back from the current debate, there's another point to consider. It regards the government subsidies to install wind turbines. Because we all are forced to pay taxes, we are forced to pay for these wind power subsidies. In a free society no energy source should receive any taxpayer subsidy. Each power source — coal, oil, natural gas, ethanol, nuclear, solar, wind — should have to compete on its own merits, on being able to provide the best product (reliable electrical power) for the lowest price for the least harm to people or to the environment.

Coal, oil and nuclear are typically criticized in that regard. But fabricating solar cells produces some nasty by-products. And again, wind energy produces possible health problems to those living close by, endangers wildlife such as bats and consumes a large amount of energy just to fabricate, transport and install those giant wind turbines and towers.

No energy source has clean hands and none is truly 100-percent "green." The government's role here is limited to upholding property rights and interceding if a property owner is doing harm to his neighbors. With those guarantees in place, it is the free market and ingenuity that will determine which energy source (or combination thereof) best serves our community. ◆

Thomas Hoepker, Sept. 11, 2001

The Outstater

In an 'Illiana' State of Mind

(June 29) — The fates of Indiana and Illinois could merge, literally, bailing the one out of a financial mess and filling a power vacuum in the other.

Some think it a joke, but after watching the experts at my city's public hearing testify in favor of a multimillion dollar (cost yet to be determined) riverfront development along our chocolate-colored, high-embanked and oddly pungent waterway I'm not so sure.

John Kass, a Chicago Tribune columnist, reports that similar expertise in his city has "finally run out of other people's money." He proposes that Illinois dissolve into a new superstate, "Illiana," one that it can be supposed would boast even larger public-private partnerships and more massive debt loads.

"Merging the states of Illinois and Indiana would be a win-win for both states," adds a Tribune reader. "But why would Indianans agree to this merger? What's in it for them? First and foremost, with addition of the metropolitan Chicago and downstate Illinois business community to its tax base, Illiana state revenues would soar."

Why not? Illinois may be a paragon of bad government but Indiana is handing out tax revenue to targeted businesses at a rate only slightly behind. In fact, Forbes Magazine recently ranked us behind Kentucky and Michigan in its list of tax-inclined states, and our leadership is just hitting its tax-and-they-will-come stride.

Finally, state law now allows the big cities to pass taxes that bind the hapless in the surrounding countryside.

Well, if we don't need sovereign townships and counties, do we need a sovereign state? Why not be ruled by a Washington mob or a Chicago mob as well as an Indianapolis one?

That is a moral rather than political question. Dr. Stephen M. King, a political scientist whose work for The Indiana Policy Review over the years predicts that this just-elected crop of conservative politicians will soon discover that fact. "They aren't facing policy problems so much as spiritual ones," he says.

Dr. King's spiritual impetus is directed more to the motivation of civil service than to a Divine Creator. And when we define "spiritual" thus — an unconcern for material gain or sinecure — we can see the cumulative abdication that is Chicago leadership.

He is joined by a veteran political observer and national columnist, William Murchison, formerly editor of the Dallas Morning News, who argues that the cure for all states is to begin electing leaders who embody the rural American character rather than a default urban one: "The political apparatus — a well-paying, prestige-endowing enterprise — pays and praises men and women who promise to do the impossible. But the strength of any peaceable, prosperous, self-sustaining society lies in the character of its people — not in laws that, at their best and wisest, merely reflect that character."

Murchison goes on to say that politicians today are merely the salesmen of that impossible, "looking for new benefits to tout and new dangers to expose and warn against as they volunteer to fix everything for us."

Thus we are told that if our city council doesn't approve a tax increase for big-city amenities such as a riverfront promenade we will not be able to attract the young, talented people needed to keep our economy strong — to compete with bankrupt, tax-strapped, high-rent Chicago, crime-ridden from which the young and talented presumably would be fleeing.

Yes, it's confusing.

The GOP and Taxes

(June 21) — It took an outstate editor, Dan Carden of the Northwest Indiana Times, to compile the 45 different tax increases approved this year by the Republican-controlled General Assembly. And he tells us his count does not include allowing the Natural Resources Commission to increase 25 different fees or include a variety of increases for gaming and corporate securities.

In all, there is cause to reassess why you registered with the GOP in the first place. But it would be simplistic to assume taxes are always too high. That is reactionary and hollow and difficult to defend. It gets muddied pretty quickly in the typical political wrestling match. Taxes, as they say, are the price of civilization, and any tax increase can be rationalized as only a few pennies a day for that mythical, average Hoosier household.

Opposing tax increases, rather, is a means to an end, that is, keeping government small enough that regular citizens, including journalists, can keep track of what's going on. And that being the test, how many of us can explain the logic behind each of those 45 tax increases? How many of us even know our taxes are going up?

"One reason it's tricky to assess a state's tax burden is that much of it is hidden from many taxpayers," notes an editorial in today's Fort Wayne News-Sentinel. "Unlike general taxes, such as those on sales and income, that affect everyone, there are many taxes and fees that affect only select groups. And it might surprise people how many of them had activity this year."

If you are an established Republican, confident in the political calculations of an Eric Holcomb, a David Long or a Brian Bosma, there is nothing to worry about. Others, though, might want to ask the GOP leadership why it never gets around to closing down useless programs or regulations, or why the deterioration of roadways and wastewater systems comes as a political surprise, or why nobody can put their finger on the reason teachers and students in public schools never seem to benefit from education "reform," or how taking cash (tax revenue) from citizens and giving it to politically selected businesses strengthens the economy.

Please know that merely calling your most immediate Party representative won't get you the answers. The Party apparatus (municipal and county chairmen) is largely unaccountable and has been since rules changes in the 1980s made replacing chairmen difficult to impossible. Nor is writing stiffer language into the Party platform, a document rarely read and never honored.

More effective is a challenge in the primary election. Several groups around the state have demonstrated how to defeat incumbents who have, shall we say, outgrown their electorate. It doesn't take a lot of money. All that is needed is an organized door-to-door campaign focused on the incumbent's statements and voting record.

As a practical matter, such challenges are limited by the low number of solid, hard-working candidates who can be identified and funded in time to organize for the next election. Statewide, though, to send even two or three more legislators to Indianapolis who will resist politics as usual can shake up a caucus and make the undoable doable.

Yet, the process is slow and uncertain. Today's crusading reformer becomes tomorrow's swishy incumbent. It is worth the effort nonetheless. For the most disastrous tax of all is paid for in lost trust, when a government loses the confidence of its citizens.

Indiana is about there.

The Problem With Indiana Is Indianans?

(June 15) — Reading recent remarks on the state economy by the president of the Indiana Chamber of Commerce, you are right to be troubled, even take offense. Was he saying that the problem with Indiana is Indianans?

"It is evident that a lack of (skilled) workers, unhealthy lifestyle choices and limited Indiana-based funding to grow promising companies is keeping the state from realizing its full potential," he was quoted as saying by the Goshen News.

That can be read as mere constructive criticism, kindly exhorting us to be better people and more generous with our money. It tracks, though, with a leadership trend of recent years of lamenting the unworthiness of a citizenry.

The pluperfect example is Charlestown, Indiana, where the city has decided that an entire section (and by implication the citizens living there) is unsightly. The mayor is using every means possible to push these deplorables out.

This is not new. Rulers have always coveted a higher class citizenry within their realms. And even though kings on occasion took action to improve the peasantry's lot — health, living conditions, etc. — it was not to be confused with humanitarianism. Here is the economist Ludwig von Mises writing about commoners living under the Prussian House of Hohenzollern:

> "A king was eager to increase the wealth of the peasantry and the townsfolk because their income was the source from which his revenue was derived. He was not interested in the subject but in the taxpayer. He wanted to derive from his administration of the country the means to increase his power and splendor. . . . They encouraged commerce, trade, mining, and agriculture in order to raise the public revenue. The subjects, however, were simply pawns in the game of the rulers."

Dr. Maryann O. Keating and Dr. Barry Keating have an idea. The two economists, summarizing research on the sense of well-being in various Indiana communities, suggest in the summer issue of The Indiana Policy Review that leadership adopt policies that serve current citizens, warts and all, not import better ones.

"Good democratic governance is not about changing the occupational structure or population of a town in order to improve its rankings or to mimic amenities preferred by affluent communities," they conclude.

In any case, it would seem easier to replace a ruler, a leadership, than a citizenry, which, crudely, is the core thought of Western Civilization. And come to think about it, although I don't know the president of the Indiana Chamber of Commerce I have a friend in another state who carries a more impressive resume. Perhaps it is time for new blood at that institution.

My friend tells me that Hoosiers seem to him to be a fine bunch of people. Moreover, he is photogenic and — this must be said as kindly as possible lest anybody take offense — he isn't overweight or losing his hair.

The Rachel Maddow School Of City Government

(June 7) — My mayor is the fellow you would like living next door — cheerful, thoughtful and civically involved, and his family until recently owned a tavern. So some of us were conflicted this week reading his uncharacteristically strong statement on the U.S. withdrawal from the Paris Climate Accord.

He opposes the decision, we learn, because he is "deeply concerned" about saving the planet.

Frankly, it didn't sound like him at all. His friends at the Green Frog Inn might have said he was reading from a memo sent out by the Rachel Maddow wing of the Democratic National Committee.

Please understand, most of us are all for problems being solved at the neighborhood level (or even the tavern level) but this seemed to be one that should be left to people who have some expertise. Planets are difficult things to manage, and international agreements are complex matters with multiple conflicting agendas and shifting elements, not all of them being moved forward with good intentions. Indeed, the executive branch has an entire department — they call it the State Department — filled with people paid big salaries to disagree about the best policy.

Again, our mayor is a great neighbor but there are sharper knives in the drawer on a topic as thick as this one. His statement did not mention the disproportional share of the costs of the accord being paid by the United States. And it assumed, without citing any particular science, that the incentives written into this particular document actually work to improve any particular person's environment let alone those of us so distant from any decision that we will see Paris only on a postcard.

Specifically, the mayor's statement committed our city to continued "sustainability" as seen in new systems of storm-water removal and traffic-signal lighting, that is, congratulating himself on keeping the streets from flooding and the intersections passable.

These are routine functions of any well-run municipality, what mayors are paid to do, which raises a question: Could the mayor's time be better spent worrying about things within his purview, say, areas of the city where crime makes daily routine impossible, or a business personal property tax that discourages hiring, or a municipal bonding level that will turn our grandchildren into serfs?

"Saving you first, then the planet," would be his bumper sticker.

Mitch Daniels in the Land of Fools

(May 31) — Mitch Daniels is said to suffer no fools. With the diplomas handed out and the federal student loan money in the bank, it is a good time to reflect on what that might mean for Indiana higher education.

Daniels is sympathetic to the thinking behind the "Chicago Principles," a letter drawing the line on student protest. "Our commitment to academic freedom means that we do not support so-called 'trigger warnings,' we do not cancel invited speakers because their topics might prove controversial, and we do not condone the creation of intellectual 'safe spaces' where individuals can retreat from ideas and perspectives at odds with their own," the letter reads.

Let's hope that line holds. Otherwise, the discussion on our campuses is too silly to follow. "I think we owe it to our students to have that kind of environment," Daniels says. "You're here to be exposed to new things, new ideas, different ones, and to learn how to evaluate which ones seem right and which don't."

One of those new ideas that needs testing is the assumption that all cultures, all well-meaning activist groups, ownership structures, social constructs, mercantilist schemes, official intrusions, etc., given time, special consideration and a little more money, are headed for the same happy outcome — that is, freedom and prosperity for everyone.

This vision of how the world works, conveniently for college sophomores, requires no critical thought. Indeed, it cannot withstand any intellectual evaluation whatsoever. You don't have to read history objectively. You don't have to analyze economic incentives or disincentives. You don't have to understand why Venezuela has no toilet paper or why Pol Pot killed everyone who wore eye glasses. No hard thinking on the validity of Shinto or Islam. You can dismiss private property as an interest only of the greedy. You don't have to look into the darkness of your own heart.

It is the idea that closes every late-night dormitory debate. Anyone who disagrees is a bigot, sexist, racist, nationalist, populist, xenophobic or the next marginalizing characterization useful in fending off a pointed question or an array of data.

But the contrary needs examined as well. What if, with all respect to multiculturalism, there was only one idea that led to American freedom and prosperity? And, horror of horrors, what if it arose first in the minds of English-speaking white men sitting far, far outside those campus "safe spaces"?

Now, before you sound one of your trigger warnings, understand that, if true, it might have had nothing to do with the particular intelligence, morality or altruism of English-speaking white men. The idea could have easily arose from Czech-speaking Morovians. Its benefits to the world would be no less profound.

But it did not, and those of us descendent from other than the Anglos, the Saxons, et al., must live with that. Moreover, know that if all the English-speaking white men could all be expelled from the campuses our situation would not change. The idea has taken hold in the most diverse places throughout the world. Its defense would be taken up by someone else — those Czech-speaking Morovians perhaps.

And what is the idea? In a few sentences, it is that English Common Law, which, unlike the ancient Roman Law still enforced in most parts of the world, is not justified by whatever pleases the ruler or what is specifically listed by government. Rather, it comes from the opposite direction: Kings and governments need the permission of the governed, and all is legal that is not specifically made illegal in accountable democratic assemblies.

Masked students and faculty destroying property, knocking bystanders on the head with bike locks and preventing free speech are illegal under this setup. That is regardless of how much it might please the majority of the Democratic National Committee or the directors of corporate media. Mitch Daniels, again, a man who is said to suffer no fools, may know all of this. If so, he needs your support. He will be badly outnumbered next fall.

'Mad Anthony' to the Ramparts

(May 23) — Now that New Orleans has rid itself of Robert E. Lee, et al., it surely must be Fort Wayne's turn. How long can it be, given the new rules of acceptable statuary, before someone smashes Gen. Anthony Wayne to smithereens?

For if political correctness is the measure, Mad Anthony is high on the list of marble and bronze undesirables. Consider for starters that the general's only recorded words at the Battle of Fallen Timbers were, "Bayonet the devils."

Lee, though, was a rebel in name only, having been educated at West Point and having freed his family's slaves well before the Civil War. Nor is it recorded that Lee ever spoke disparagingly of blacks, something that cannot be said of Gen. Ulysses Grant or even the beloved Abe Lincoln.

General Lee was emphatic that slavery was "a moral and political evil" and believed that American slaves would be freed one day, war or no war. His decision to join the Confederacy was based on his conviction that states should be sovereign over the central government. It was the conviction of a patriot and a warrior, one with which softer men are free to disagree from the safe distance of six generations.

In any case, our Tom Huston suggested some time ago that there are simpler remedies for statue angst than requiring us "to change letterheads, redo maps and cram history down the memory hole." He made the point that if the key issue for General Lee was the right of secession then that was settled decisively by military action.

It is important to know, Huston continued, that those most intimately involved with that catastrophe (620,000 deaths, 2 percent of the population) decided the better course was reconciliation rather than retribution. It is hard to imagine there now is a more compelling case for umbrage.

Nonetheless, it can be assumed that Fort Wayne's Tom Henry, a like-minded mayor of serious liberal sensitivities (a champion of LGBT rights who welcomed Obama-vetted Syrians to his city) will not sit on the sidelines when it comes to statuary reform. There already has been talk of moving Mad Anthony to a more suitable site.

"Liberals are remarkably good at playing pretend," Huston explained. "If you can believe a woman has a penis, then you can believe just about anything." And Anthony Wayne does not present as many challenges of nuance as Robert E. Lee.

Mad Anthony was not so much interested in protecting the rights of states as following orders to kill as many of the enemy as possible and to take possession of their land, specifically the rich hunting grounds of Ohio.

Did the general ever speak disparagingly of a minority group? . . . Well, not that we know of, other than the bayoneting thing. But given the tenor of our times, it is right to ask Mayor Henry why the statute is still standing tall in Friemann Square.

To be sure, there will be the insensitive who complain that history is more complex than modern social posers can grasp. Chief Little Turtle and his army at Fallen Timbers were not indigenous innocents, it will be said. They had chosen to fight on after their side lost the War of Independence, and at the time of battle were in compact with the British, who maintained fortresses in the area in violation of the Treaty of Paris.

But they will not prevail. "The idea is that by erasing historic memory and reimagining the past, you affirm your commitment to equality and your opposition to racial discrimination," Huston concluded. "The logic is impeccable if you are a self-righteous, pandering wuss."

A City's Silence on Private Property

"Life, liberty and property do not exist because men have made laws. On the contrary, it was the fact that life, liberty and property existed beforehand that caused men to make laws." — Frederic Bastiat

(May 10) — Watching last night's meeting of our city council, the fellow in the next chair leaned over to ask, "Do you think they know about private property?"

That was not apparent even on the Republican side of the table as the majority approved a quarter million dollars a year in a non-competitive contract to a secretive group for economic-development advice. And that is a shame, for if you want a better city, one that attracts investment, but most importantly is the kind where people like you can find happiness, you will want your political representatives openly talking about private property — what it means, how it works.

Yes, you can define it as what the other fellow is greedily hoarding, or so the Democrats might have argued had the issue been raised. But greed, as Milton Friedman noted in his famed talk with Phil Donahue, is not distinguishing. It is found in every society and system of government, no matter how altruistic and pure the intention or constitution.

We will have to think a little deeper. An example helps:

In Bowling Green, Ohio, the city council had argued for a week over an incentive package that required issuance of a municipal bond to entice Ball Glass Co. to locate there. The use of property tax to secure the bond unavoidably split the community into two factions, one with property and one without (the politics of taking money from some people and giving it to other people can be time-consuming). Eventually, Frank F. Ball grew bored and left for a side trip to Muncie. There, a decision was ready and waiting. A syndicate of businessmen (independent of local government) had purchased the land surrounding a site that was perfect for a glass plant.

"Those folks in Muncie may have been public-spirited," writes our Dr. Cecil Bohanon, "But they also had private interests. Back in Bowling Green, where public spiritedness was supposed to rule, everyone was arguing and trying to pick each other's pockets."

Another one: When floods threatened a Fort Wayne neighborhood, the residents did what they had done before — turned out in droves to fill sand bags. They didn't ask for government help. They didn't expect recognition. Nonetheless, their display of civic spirit in protecting the property of their neighbors drew the attention of Reader's Digest where an editor dubbed Fort Wayne "the city that saved itself."

One of the many who read the story was Roger Smith, famed CEO of General Motors. Smith had on his desk reports on cities under consideration for a new assembly plant. He pulled Fort Wayne out of the stack, choosing the city where nobody waited around for some official to file disaster-relief documents, a city where the residents protected their own property.

And another: James Cash Penney built his empire of dry goods stores by going town to town seeking out managing partners. After interviewing the prospect at his home, and if the house and grounds were well kept, he would make an offer of half the local business free and clear — no grants, no tax rebates, no regional development authority, just a simple assessment of property and character.

Finally, a friend, a professional who rose to be premier in his field, took a job here in which he would eventually invest everything he owned and four decades of his life solely on the basis of watching two elderly women on their way to church. One stopped to pick up a piece of waste paper in a yard and deposit it in a nearby trash container.

A foolish way to decide? No, he considered it the soundest decision of his life. For that is how you measure a community — by how average individual citizens go about their day, the respect they have for themselves, their neighbors, their local government, all wrapped into a sense of social justice. Our concept of private property (thank you, John Locke) encapsulates those values as well as anything. Tom Bethell, author of "The Noblest Triumph," explains:

> "The great blessing of private property is that people can benefit from their own industry and insulate themselves from the negative effects of others' actions. It is like a set of invisible mirrors that surround individuals, households or firms, reflecting back on them the consequences of their acts."

The trick, if you are a councilman, is to put aside your ideological vision of what the community should look like. That is so regardless of how wide your travels or intense your reading. And while you are at it, lose that dream of bringing in a better class of citizen, a more sophisticated constituency, one more worthy of your leadership.

Rather, encourage a culture of government that seeks to preserve the justice inherent in private property. That would mean a simple policy of serving constituents individually —as you find them. All will be property owners of one sort or another, even if their property is only on their back. They will hold easily understood ideas about what would make them happier and their property more secure. Many of those ideas can be realized under the law, within the city budget and without special favor.

"Good democratic governance is not about changing the occupational structure or population of a town in order to improve its rankings or to mimic amenities preferred by (more) affluent communities," write Dr. Barry Keating and Dr. Maryann O. Keating in the Indiana Policy Review. "It would seem that it is about responding to the needs of and providing essential services to residents regardless of present circumstances."

So, councilmen, write those needs down on an envelope if you must. Prioritize them. The investors you hope to attract, the ones who won't threaten to leave when a tax break expires, will appreciate your straightforward, even-handed approach. They will be able to decide for themselves whether your list fits the plans they have for their own property. You won't need a consultant. — *tcl*

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