

# PRESIDENT'S SPRING UPDATE 2009



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# MANHATTAN INSTITUTE PRESIDENT'S SPRING UPDATE 2009

## IDEAS THAT MATTER NOW

“Never allow a crisis to go to waste.” White House chief of staff Rahm Emanuel’s well-known remark reveals the Obama administration’s intention to use the economic crisis as justification for a radical expansion of the size and scope of government. The Manhattan Institute, however, believes that better ideas, not bigger government, are the solution to the challenges before us.

MI scholars are thinking through how to prevent this period of economic crisis and extended government intervention from becoming a permanent one. In so doing, they are looking past the market’s day-to-day turmoil toward ways of repairing our financial system and putting in place a new regulatory framework—one that addresses the root causes of the crisis without undermining the economy. More broadly, we are mounting a spirited and intellectually rigorous defense of market capitalism against its growing chorus of detractors, who offer the false promise of economic populism and protectionism.

Because we know that increased taxes and spending will impede, not encourage, economic growth over the long term, Institute

scholars are leading the call for fiscal responsibility by arguing for structural budget reform at the city, state, and national level. Just as important are our efforts to defend American industry from politically emboldened labor unions and trial lawyers who are seeking to impose new burdens on our economy, a particularly bad idea at this moment of economic uncertainty.

In areas such as health care, energy, and education, the Institute is offering sophisticated critiques of the Obama administration's plans as well as smart counterproposals; our work is guided by Irving Kristol's dictum: "The best way to stop a bad idea is to put a better one in its place." These *are* trying times, but we firmly believe that, with the right ideas in place, New York and the nation can rebound from the current crisis and emerge on the other side more prosperous than ever before.

**"We are mounting a spirited and intellectually rigorous defense of market capitalism against its growing chorus of detractors, who offer the false promise of economic populism and protectionism."**

## CHAMPIONING MARKET CAPITALISM

The implosion of the financial markets has resulted in an erosion of support for market capitalism and free enterprise in general. To counter this antimarket backlash and bring greater clarity to our economic discourse, MI is sponsoring an economic "Facts and Fallacies" page at RealClearMarkets.com—an offshoot of the enormously popular political website RealClearPolitics.com—that highlights articles and reports that explain and defend free-market economics and the liberties it fosters.

Many MI senior fellows are contributing articles to RealClearPolitics.com, which is fast becoming the "go to" site for journalists, television and radio producers, opinion leaders, and policymakers. Senior fellow Steve Malanga is now a weekly RCM columnist and is providing the free-market perspective on a wide variety of issues, including calling for fiscal responsibility in states such as California and New York and critiquing local and federal tax policies that will stifle the entrepreneurial spirit that is key to rebuilding our economy. MI has also brought on economist Diana Furchtgott-Roth as



an adjunct fellow and weekly RCM columnist. As the former chief economist at the U.S. Department of Labor and a member of the Council of Economic Advisers, Diana brings great insight to discussions of the exploding federal budget and Big Labor's new aggressiveness.

Since the beginning of 2009, a half-dozen RCM columns have been reprinted in major newspapers, and Steve and Diana have been frequent guests on radio and television. Their writing is also reverberating throughout the blogosphere, including the *New York Times's* website, which has posted a number of RCM pieces on its "Ideas" blog. Senior fellow Edward Glaeser has begun writing a monthly RCM column on housing-related issues, and the work of other market-oriented MI scholars appears frequently on the site. With MI's voice reaching new audiences through RealClearMarkets.com, the Institute is vigorously championing the free-market principles that are vital to restored economic growth and renewed prosperity.

"A combination of private responsibility and practical government regulation will help ensure that the capitalist system continues to be a source of opportunity and prosperity for people throughout the world." So wrote the Manhattan Institute's chairman, Paul Singer, in the *Wall Street Journal*. His thoughtful piece reflects the Institute's overall approach to the economic crisis: offer frank assessments of how we got into our current plight and pragmatic proposals for how to get out of it. On this

score, no one in America has been providing more trenchant analysis of the crisis, or more useful ideas about how we can restore economic growth, than senior fellow Nicole Gelinas.

Nicole was one of the first journalists to sound the alarm over the coming economic tsunami, and now that it has hit, she has become a constant reference point on the crisis. For example, she was recently included in a group of experts who were asked by the *New York Times* to comment on the economy. The *Times*'s Frank Rich was so taken with Nicole's analysis that he used a phone conversation he had with her as the basis of his subsequent Sunday opinion column.

A chartered financial analyst, Nicole has called for a back-to-basics approach to regulating the financial industry, which includes reducing leverage, boosting capital requirements, and creating mechanisms that would allow big financial firms to fail without imperiling the broader economy. Her forthcoming book, *After the Fall: How to Save the Economy from Wall Street and Washington*, argues that while sensible regulation and greater transparency are needed in the financial markets, we must not compromise the dynamism of our capitalist system.

## THE CRISIS IN OUR OWN BACKYARD



At our Hamilton Dinner three years ago, former mayor Rudolph Giuliani held up a special issue of *City Journal* from the early '90s that proposed a governing paradigm for his new administration. He went through it page by page, noting: "If there was a charge of plagiarism for political programs, I'd probably be in a lot of trouble because I think we plagiarized most of them, if not all of them, from the pages of *City Journal* and the thinking and analysis of the Manhattan Institute."

Just as we did years ago for Mayor Giuliani, MI is working to provide today's—and tomorrow's—political leaders with a governing blueprint directed at the challenges facing New York City and the state during this difficult period. This summer, *City Journal* will publish a special issue titled "New York's Tomorrow," which will include E.J. McMahon on what New York needs to do to come back economically; Edward Glaeser on how New York can build on its comparative advantages;



Heather Mac Donald on how the NYPD can continue to keep crime down; Steve Malanga on the need to reform anticompetitive taxes; Paul Howard on how to reform Medicaid; Sol Stern on a new kind of teachers' contract; and other well-known experts on important topics related to New York's recovery.

On the editorial pages and the airwaves, MI scholars are offering prescriptions for reform and warning of the dangers of perpetuating the status quo. Case in point: Nicole Gelinás's recent analysis of the MTA's troubled finances. A well-functioning transit system is essential to New York's economic growth, but, as she wrote in the *New York Post*, absent reform, "minimum-wage private-sector workers will soon face much longer and more expensive commutes because the MTA has to spend billions on guaranteed benefits for city subway and bus workers."

New York's new state budget hikes spending by \$11 billion, and tax rates have returned to the economically disastrous levels of the 1970s, leading the *Wall Street Journal* to dub the Empire State "Tax Capital of the World" and the American Legislative Exchange Council to declare that New York has the worst economic outlook in the entire country. Thankfully, senior fellow E.J. McMahon is leading the charge for fiscal responsibility and structural budget reform, including reining in the exploding cost of public employees' health and pension benefits and revamping the state's Medicaid program, which is, by far, the country's most expensive. Over the past six months, E.J. has been quoted or mentioned in news stories an average of nine times per week, he has conducted scores of TV and radio interviews, and his writing has appeared in the *Wall Street Journal*, the *New York Post*, and the *Albany Times Union*.

**"The bottom line is that the state can't tax its way back to prosperity. Reducing the size and cost of government will do far less damage in the long run than making New York even less competitive as a place to live, work and do business."**

—E.J. McMahon, *Times Union*

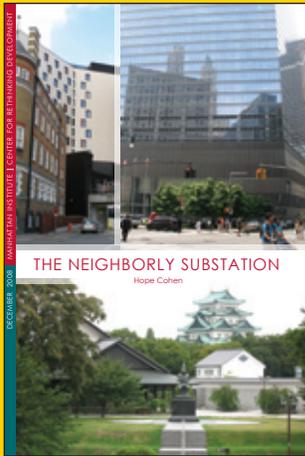
Thanks to the website SeeThroughNY.net, which E.J. and his Empire Center staff have created, anyone with a

computer can now become an E.J.-like budget watchdog. Its easily searchable database includes nearly every public salary, contract, and expenditure in the entire state and, for the first time, allows journalists and ordinary citizens to peer into the dark recesses of New York's labyrinthine government. Thus far, nearly a million unique visitors have downloaded more than 3 million pages from the site. E.J. and his staff have also relaunched "NY Fiscal Watch" and launched the blog "NY Public Payroll Watch," through which they monitor the finances of the city and state governments and track public employees' labor issues.

## CHIEF EXECUTIVE

The Manhattan Institute and *Chief Executive* magazine teamed up to host two special events discussing the energy challenges facing America. T. Boone Pickens, CEO of BP Capital, laid out his solution to the energy crisis, the Pickens Plan for America's Energy Future, which advocates a reduction in the nation's dependence on oil from volatile sources; and Michael G. Morris, chairman, president, and CEO of American Electric Power, talked about the transmission of renewable energy and argued for an updated, 21st-century grid. Each presentation was followed by a sit-down interview with J.P. Donlon, editor of *Chief Executive*, who published the conversations in his magazine. Video of the events may be viewed on both the Manhattan Institute and *Chief Executive* magazine websites.





## SUBSTATION REPORT

In 2008, Center for Rethinking Development senior fellow Hope Cohen traveled around the world researching how cities construct substations in ways that maximize valuable land in a neighborhood-friendly way. Cohen

released results from her travels in a January 2009 report titled “The Neighborly Substation: Electricity, Zoning, and Design.” Using evidence from her trips to London and Tokyo, Cohen explains how to update New York’s zoning code to build much-needed substations that aren’t ugly and don’t disrupt neighborhoods. CRD released the report at a panel discussion featuring local energy and development

experts as well as Manhattan Institute senior fellow Peter Huber. Media coverage included *The New York Times’* City Room blog featured-article on the report and a *New York Post* op-ed by Cohen.



## BETTER IDEAS, NOT BIGGER GOVERNMENT

The Obama administration has placed health care, energy, and education at the top of the public-policy agenda. In each of these areas, MI agrees that reform is needed. We do not agree, however, that “reform” need entail a radical expansion of government that will fundamentally transform American society.

In health care, for example, the Obama administration seems to be leading the country down a path of increased government regulation, price controls, and scientific stagnation. MI’s Center for Medical Progress offers a different vision: one based on consumer choice, competition, and innovation. The CMP recently commissioned noted policy expert Douglas Holtz-Eakin to prepare a health-care reform plan that would protect the uninsured without having to engineer a government takeover of the entire health-care industry. Holtz-Eakin unveiled his plan—in which tax credits would expand coverage and tort reform would lower

costs—at an MI forum in New York. *Investor’s Business Daily* hailed it as an opportunity to “open the door to bipartisan health reform.”

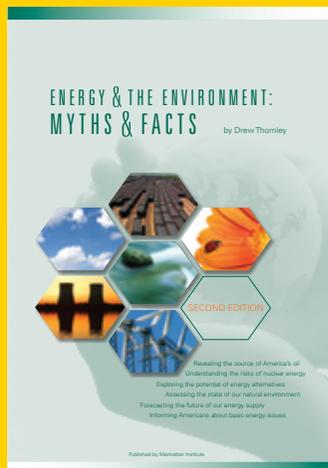
Tomas Philipson, the FDA’s former top economist, whom we recruited to lead our new Project FDA initiative, wrote an article for the *Washington Examiner* whose

**“For the sake of the many patients whose diseases require innovative treatments—and for the medical philanthropists determined to make it happen—it’s time for the leaders of the medical products industry to take pride in their purpose and start fighting back.”**

— Tom Stossel, *Wall Street Journal*

title summarizes the central theme of all CMP efforts this year: “Don’t Surrender Innovation in the Name of Health Care Reform.” CMP senior fellow and Project FDA committee member Dr. Thomas Stossel has also been rallying the medical community to play a more active role in the health-care debate. As he wrote in the *Wall Street Journal*:

“For the sake of the many patients whose diseases require innovative treatments—and for the medical philanthropists determined to make it happen—it’s time for the leaders of the medical products industry to take pride in their purpose and start fighting back.”



## ENERGY MYTHS

Establishing a comprehensive energy policy that continues to fuel economic growth and protect the environment is a priority for Congress and the White House. But how well informed are Americans regarding the energy supply and environment? In April, the Manhattan Institute released the second edition of its report, “Energy and the Environment: Myths and Facts”, by Drew Thornley. Building on similar research from 2006/2007, MI, along with Zogby International, polled 1,000 Americans in January 2009 on basic energy truths. The report finds that the knowledge many Americans have about a wide range of energy and environmental issues remains, in key ways, inaccurate—a serious concern as the energy debate heats up and political leaders make policy decisions based on the public’s demands. Thornley concludes that to ensure continued access to reliable, affordable energy—the lifeblood of our nation’s economy—policies must be rooted in facts and realities, not myths and misconceptions; otherwise we jeopardize our economy and our standard of living.



Energy is another field in which MI’s pragmatic brand of thinking is sorely needed. While the Obama administration’s energy plan focuses on onerous new cap-and-trade taxes and government-subsidized “green jobs,” senior fellow Max Schulz continues to highlight the inconvenient fact that these policies won’t achieve their desired result: clean, cheap, abundant energy supplies. Nuclear power is seen by Max—and a broad range of other experts—as key to meeting America’s growing energy needs. Unfortunately, the Obama administration has dimmed the prospects for greater reliance on nuclear power by opposing the Yucca Mountain waste-disposal site, without offering any credible alternatives. Max, on the other hand, has been busy offering ideas such as waste reprocessing, which could solve this problem.

To mark the anniversary of Earth Day, MI released an update of its report “Energy and the Environment: Myths and Facts.” Based on an MI-commissioned Zogby International poll of 1,000 Americans, it reveals Americans’ misconceptions about energy and the environment and counters them with scientific facts. The Institute released the report at an event on Capitol Hill attended by key congressional staffers and energy re-

porters. Peter Huber’s recent MI report “The Million-Volt Answer to Oil” is also being discussed in the halls of Congress. Calling for an efficient national electric grid, it was recently referenced by Senator Jeff Bingaman (D-N.M.) during a Senate hearing.

**“We need to change the way that we employ public school teachers in New York and across the nation—and make layoff judgments based on quality, not seniority.”**  
— Marcus Winters, *New York Daily News*

On education, MI is encouraged by President Obama’s recent statements on the need to improve teacher quality and hold teachers accountable for student performance. In an effort to lead the debate on this issue, the Institute convened a major conference, “Improving Teacher Quality: The Key to Urban School Reform,” which covered the issues of teacher recruitment, training, and compensation. Participants included MI senior fellow Marcus Winters; Eric Hanushek of the Hoover Institution; and Randi Weingarten, president of the American Federation of Teachers.

Although President Obama has made some positive overtures on education, his silence on the dismantling of the Washington, D.C., Opportunity Scholarship program is profoundly disappointing. Senior fellow Jay Greene analyzed the recently released empirical evidence that school choice is making a difference for children in the nation’s capital in an article for National Review Online.

In the coming months, Jay will continue to evaluate the academic progress of children in the D.C. and Milwaukee programs, providing the Obama administration and Congress with further evidence that competition encourages school improvement. At the same time, our scholars continue to keep an eye on New York City's schools. As the debate over mayoral control heats up, Marcus Winters has been championing high standards and accountability. As he wrote in the *New York Daily News*: "We need to change the way that we employ public school teachers in New York and across the nation—and make layoff judgments based on quality, not seniority."

## THE TWO-FRONT THREAT: UNIONS AND TRIAL LAWYERS

As if the economic crisis weren't enough of a burden, American corporations face a double threat: politically resurgent labor unions and hungry trial lawyers. Fortunately, our Center for Legal Policy is actively engaged on both fronts.

The CLP recently commissioned University of Chicago legal scholar Richard Epstein to write a paper examining the proposed Employee Free Choice Act. His report, "Free Choice or No Choice for Workers?," focused on the mandatory arbitration component of the legislation, which would give federal arbiters the right to impose contract terms on workers and employers. The report brought much-needed attention to this issue, including an op-ed in the *Washington Times*, and strengthened opposition against this ill-conceived legislation. The Institute is pleased to have played a role in thwarting

this bad idea and will work hard to ensure that it stays dead and buried.

The CLP has teamed up with the Center for Medical Progress to address the complex and vitally important issue of FDA preemption. The U.S. Supreme Court's recent decision in *Wyeth v. Levine* held that FDA approval of a drug does not "preempt" individuals from suing drug manufacturers in state courts over fully disclosed side effects. CLP director James Copland and CMP director Paul Howard quickly responded to the decision with a proposal. Rather than encourage endless litigation in fifty separate state courts, the authors suggest that Congress consider establishing a board that would quickly and fairly compensate consumers injured by undisclosed side effects. This proposal has drawn a great deal of attention from the legal and medical communities, and Copland and Howard have discussed the FDA preemption issue in op-eds in the *Washington Examiner*, the *Washington Times*, and the *Los Angeles Daily Journal*.

CLP senior fellow Marie Gryphon is working to reduce the "tort tax" paid by large and small businesses alike by suggesting that the United States adopt some form of a "loser pays" scheme, in which the losing side in tort litigation bears some responsibility for the winner's legal expenses. She presented her CLP report, "Greater Justice, Lower Cost: How a 'Loser Pays' Rule Would Improve the American Legal System," to a packed New York audience. Rudolph Giuliani contributed the foreword, and the report's release was covered by many newspapers and journals, including the *Wall Street Journal*, which stated that Gryphon is "reframing the debate." As Marie suggested in an *Investor's Business Daily* op-ed: "By





Heather Mac Donald greets honoree Commissioner Ray Kelly



Mayor Bloomberg praises the honorees



Old friends Peter Flanigan and Henry Kissinger converse before dinner

replacing the American rule for attorneys' fees with a loser-pays rule, we can bring our civil justice system into sync with the rest of the world, cut costs, and improve access to justice for deserving claimants."

## HANDING OUT HAMILTONS

Each spring, the Manhattan Institute's Alexander Hamilton Award Dinner celebrates the greatest city in the world and the people who make it so. This year's dinner took place on April 29 and honored two quintessential New Yorkers: former secretary of state Henry Kissinger and NYPD commissioner Raymond Kelly. Mayor Michael Bloomberg made a special appearance to congratulate the awardees.

Dr. Kissinger was introduced by his friend and former White House colleague Peter Flanigan, who is a longtime trustee of the Manhattan Institute and a 2004 recipient of the Hamilton Award. Flanigan hailed Kissinger as "the epitome of the Hamiltonian spirit" for his lifetime of service as a diplomat and public intellectual. MI senior fellow Heather Mac Donald, who has written extensively about the remarkable work of the NYPD, introduced Commissioner Kelly and thanked him for his tireless efforts to keep New Yorkers safe over the past seven and a half years. As Heather noted: "Not only has crime been driven to historic lows during Commissioner Kelly's tenure, but the NYPD has been completely retooled to address the new realities of the post-9/11 world."

Our distinguished honorees both offered kind remarks about the Manhattan Institute's role as the source of so many of the ideas that have helped to revitalize New York and the United States over the past thirty years. Indeed, thanks to the ideas generated and promulgated by MI on issues such as taxes and spending, welfare reform, policing, and education, New York and the nation are in a much better position to weather the current economic storm. Of course, the Institute cannot be content to revel in its past successes; it must continue to forge new ones. At this challenging time, the Institute is working doubly hard to offer the ideas that will lead the city and the country out of the current crisis and on to new levels of prosperity.

Lawrence Mone  
President

The Manhattan Institute is proud to announce its new weekly column in the *Washington Examiner*. Each Wednesday, a Manhattan Institute scholar or a *City Journal* contributor is featured in the *Examiner* under the section "Manhattan Moment." Writing on issues such as government accountability and transparency, energy and the environment, and health care and entitlements.



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Marcus Winters  
Senior Fellow, Center for Civic Innovation

## About the Manhattan Institute

*The Mission of the Manhattan Institute is to develop and disseminate new ideas that foster greater economic choice and individual responsibility.*

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For 30 years, the Manhattan Institute has been an important force in shaping American political culture and developing ideas that foster economic choice and individual responsibility. We have disseminated research on issues such as tax and economic policy, health care, energy, education, and tort reform—and we have worked with civic leaders across the country to promote free-market solutions to policy problems.

Located in New York City, the Manhattan Institute has cultivated a staff of senior fellows and writers with outside-the-beltway perspectives whose provocative books, articles, and research reports influence the nation's leading debates. Our work has won new respect for market-oriented policies and helped make reform a reality. Many of the country's most innovative leaders and writers have acknowledged a debt to the Manhattan Institute for its groundbreaking work.

From its founding, the Manhattan Institute has supported books that have shaped, informed, and inspired policy discussion. Our most successful books have opened new intellectual frontiers and given impetus to whole movements for political and social reform. Books by fellows such as Peter Huber, Walter Olson, Brian Anderson, and David Gratzer have helped to reframe the debate over key issues and paved the way for reform.

Our quarterly, *City Journal*, is a cutting-edge magazine offering some of the nation's best commentary on culture, domestic policy, urban affairs, and civic life and commanding the attention of opinion makers and political leaders. "As the journalist enterprises multiply and the cacophony increases, a few publications of reliable excellence become increasingly important," George Will says. "The *City Journal* is at the top of the short list of those few." The magazine's website now attracts millions of visits per year with insightful articles and ongoing analysis of current news—answering in part the question that the Power Line blog has posed admirably: "How is it possible for a quarterly magazine to seem the most timely publication in the country?"

Other parts of the Manhattan Institute's Internet presence are growing as well. Our websites [MedicalProgressToday.com](http://MedicalProgressToday.com), [PointofLaw.com](http://PointofLaw.com), [NYFiscalWatch.com](http://NYFiscalWatch.com), and [MindingTheCampus.com](http://MindingTheCampus.com) communicate practical ideas—everything from health-care innovation to pension reform—to an online audience. Our weekly podcast interviews, another medium for getting our message across, let people across the country hear (literally) our scholars and their ideas. Another outlet for insightful market-oriented analysis and pragmatic economic proposals is the popular website [RealClearMarkets.com](http://RealClearMarkets.com), on which we sponsor a section called Facts and Fallacies.

Looking to the future, the Manhattan Institute has launched the Young Leaders Circle, a forum for young professionals in the New York metropolitan area interested in free-market ideas and public policy. The circle has over 125 members who hear such leading thinkers as Steve Forbes, Shelby Steele, William Kristol, and Andrew Breitbart discuss the pressing issues of the day in an evening lecture and cocktail party series.

Combining intellectual seriousness and practical wisdom with intelligent marketing and focused advocacy, the Manhattan Institute has achieved a reputation not only for effectiveness, but also for efficient use of its resources. We plan to maintain that reputation—and to add to it—by continuing to generate the nation's best free-market ideas.

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