

# MANHATTAN INSTITUTE

# PRESIDENT'S UPDATE 2012 SUMMER



**Lawrence J. Mone**  
President

DEAR FRIENDS AND SUPPORTERS,

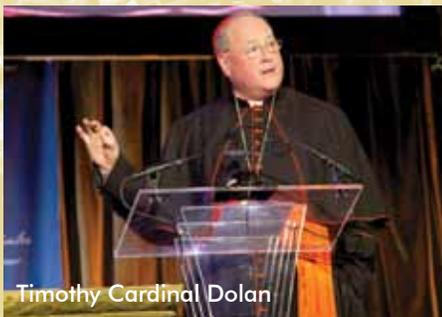
**A**s this consequential year rolls on, I am proud to update you on the work being done by the thinkers and “doers” of the Manhattan Institute. The practical impact of our ideas continues to lead us toward new opportunities to turn intellect into influence. This spring, among many initiatives, we are breaking new ground in Detroit, where senior fellow George Kelling is introducing “broken windows” policing to the crime-plagued neighborhoods of that struggling city; and Wisconsin, where senior fellows Steven Malanga and Daniel DiSalvo barnstormed the state in advance of the attempted recall of Governor Scott Walker.

In addition, we are aggressively working to promote new ideas to revive and grow the economy. In July, our Center for Energy Policy and the Environment will launch a new effort—the Power and Growth Initiative at the Manhattan Institute—at a full-day conference on Capitol Hill featuring prominent policymakers, industry leaders, and experts from around the world. A new white paper by noted physicist and MI fellow Mark P. Mills will inaugurate our effort to unleash the economic potential of what we are calling the North American “energy colossus.” With our prosperity at stake, we simply can’t afford to leave our vast domestic energy resources untapped.

Of course, there is much, much more to tell you about. As always, I thank you for your ongoing support of the Manhattan Institute. Without your interest and enthusiasm, none of what we do would be possible.

## *2012 Alexander Hamilton Award Dinner*

**O**n May 21, the Manhattan Institute held its 12th annual Alexander Hamilton Award Dinner. This year’s dinner honored Timothy Cardinal Dolan, the Catholic archbishop of New York; Mitch Daniels, the 49th governor of the State of Indiana; and the late James Q. Wilson, the author, scholar, and social scientist responsible for developing the “broken windows” theory of policing. Professor Wilson’s widow, Roberta, accepted the honor on his behalf.



Timothy Cardinal Dolan



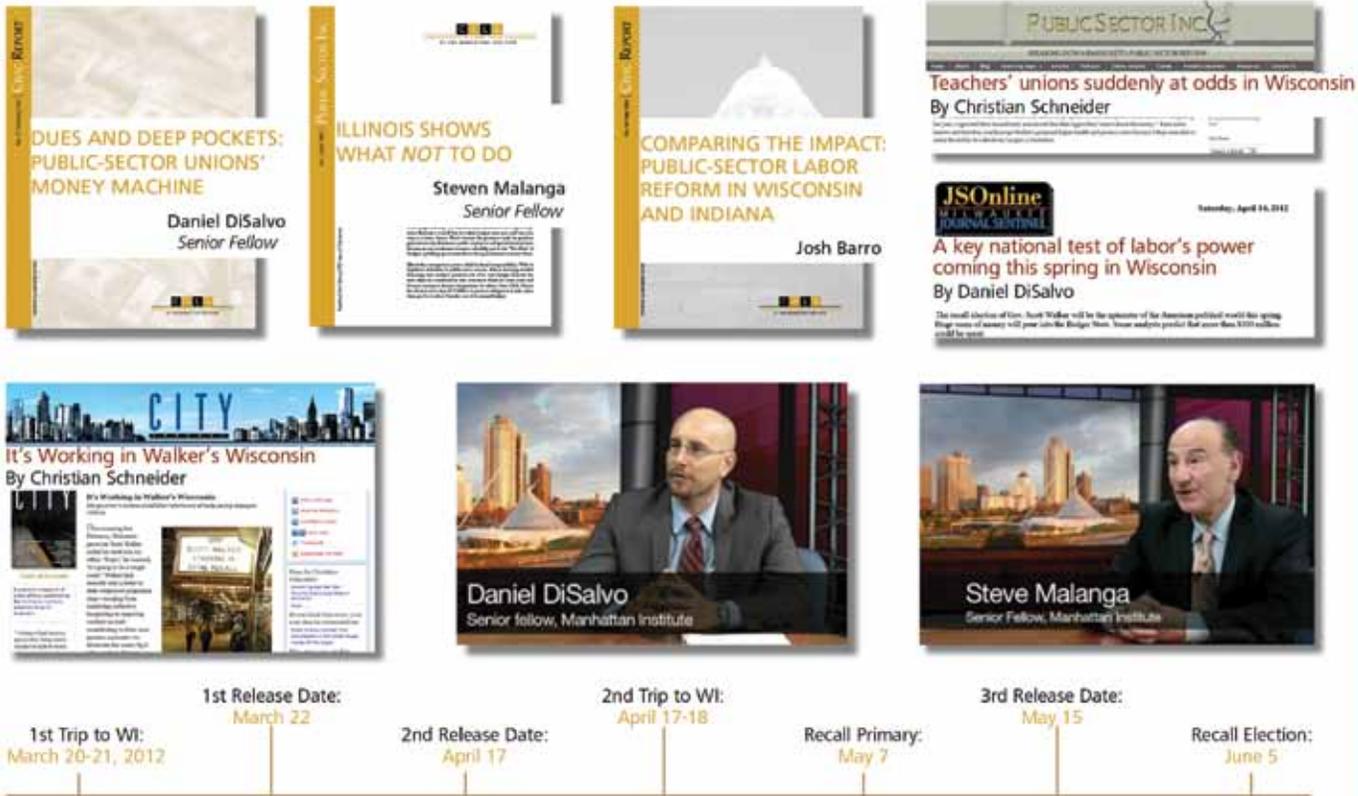
Roberta Wilson (left) and  
Heather Mac Donald



Gov. Mitchell E. Daniels

# WEIGHING IN ON WISCONSIN

Producing timely research and deploying our experts on the ground in Wisconsin



In a column published the day after last month's failed recall election in Wisconsin, Center for State and Local Leadership director Michael Allegretti neatly summarized the result as “a defeat for public-sector unions, but a win for everyone else—taxpayers, Republican and Democrat, who have been footing the bill for special interests that play by a different set of rules.” Governor Scott Walker’s victory is a boon to our continuing efforts to sound the alarm about well-funded and politically powerful public-sector unions. As senior fellow Steven Malanga (fresh off promoting his book *Shakedown: The Continuing Conspiracy Against the American Taxpayer*) wrote in his February *Wall Street Journal* op-ed “The Showdown over Public Union Power”; “If Gov. Walker succeeds in Wisconsin, it’s likely that other reformers will follow his lead.”

When Wisconsin emerged last year as the hot center of the battle between taxpayers and public-employee unions, MI weighed in early and often

with policy analysis and recommendations. With our long history of influential work on state and local fiscal policy, CSLL scholars worked diligently with a steady stream of research projects and “boots on the ground” to educate the Badger State public on the benefits of reform.

Showing that the reforms were already delivering concrete benefits to the citizens of Wisconsin was crucial to our strategy. Christian Schneider of the Wisconsin Policy Research Institute made this point in a long-form essay in the winter 2012 issue of *City Journal*. “It’s Working in Walker’s Wisconsin” described how the reform law has already saved Wisconsin taxpayers millions of dollars and helped keep teachers in the classroom.

Next, with much of the debate about June’s recall election focused on the amount of money raised by Walker—and where it came from—senior fellow Daniel DiSalvo shined a much-needed light on the public-sector

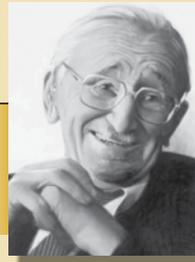
unions' "money machine" in his March Civic Report, *Dues and Deep Pockets*. DiSalvo's analysis revealed that far from being financially disadvantaged, public-sector unions benefit from an abundant and reliable stream of money for use in political campaigns as a result of "dues checkoff" and "agency shop" laws—the latter requiring nonunion workers covered by collective bargaining agreements to pay an "agency fee" for representation. DiSalvo traveled to the Badger State to disseminate his findings among citizens and to extensively engage with the in-state media.

Shortly after DiSalvo returned to New York, the CSLL sent Steven Malanga to Wisconsin to promote his latest report, *Illinois Shows What Not to Do*. Published originally as an article in the spring 2012 issue of *City Journal*, this report compared the approaches that Wisconsin and Illinois took last year in response to their budget problems. Malanga explained how Illinois's attempt to close its budget deficit by raising taxes has made the local business climate increasingly unattractive, while one year later the state remains mired in unpaid bills: raising taxes did nothing to address the roots of the state's budget crisis. Wisconsin, by contrast, has laid the groundwork for long-term stability.

Finally, in mid-May, the CSLL released Josh Barro's Civic Report, *Comparing the Impact: Public-Sector Labor Reform in Wisconsin and Indiana*. Barro found that Indiana's experience with reform of collective bargaining rules suggested that Wisconsin's similar reforms will lead to substantial benefits—if they are given enough time to actually work. *National Review's* Reihan Salam called the report "a detailed account of how Indiana has fared in the six years since Gov. Daniels abolished collective bargaining for state employees that is worth reading carefully."

The fight to reduce the cost of government by rolling back the political and financial might of public-sector unions does not end in Wisconsin. There is still much more to be done in places such as California and New York, where the Manhattan Institute and the Center for State and Local Leadership continue to advance common-sense fiscal reforms. As Malanga told the editorial page editor of the *Milwaukee Journal Sentinel* in a broadcast interview in April, "Other states are going to have to do something to fix their problems. This issue is not going away."

2012



## THE HAYEK LECTURE

The Eighth Annual Lecture  
May 31, 2012

Thanks to the Thomas W. Smith Foundation, the Institute awards the annual \$50,000 Hayek Prize to the book published within the previous two years that best reflects Nobel laureate F. A. Hayek's vision of economic and political liberty. This year's winner was *First Principles: Five Keys to Restoring America's Prosperity*, by John B. Taylor, the distinguished economist from the Hoover Institution at Stanford University, former member of the President's Council of Economic Advisors, and former Treasury undersecretary for international affairs.

Taylor's book reminds us that the path to growth and prosperity will be found in a return to the traditional American principles of individual freedom, limited government, and stable economic policy—values that the Manhattan Institute exemplifies. In accepting the Hayek Prize, Taylor delivered the annual Hayek Lecture on May 31. His remarks were adapted in *The Wall Street Journal* the following day.



**"[B]y moving away from the basic principles of economic freedom, government policy has become the source of our recent economic problems.... The good news is that a change in government policy will alleviate these problems and restore economic prosperity. I have faith that we will turn things around." —John B. Taylor, Eighth Annual Hayek Lecture**

# POWER AND GROWTH INITIATIVE

North America has massive, underappreciated, and newly accessible reserves of natural resources that can allow the United States to become an energy-export powerhouse within the next decade. The benefits will include hundreds of dollars in savings on the monthly household energy bills of American families, millions of new jobs for our economy, and billions in royalties to the U.S. Treasury. However, this potential is far from inevitable. To realize this future, we need appropriate regulatory policies—ones that understand that commerce and environmental protection are not mutually exclusive but can peacefully coexist.

In July, the Center for Energy Policy and the Environment will sponsor a daylong conference launching our Power and Growth Initiative—a strategic effort to unshackle our domestic energy “colossus” and realize our potential as a global supplier. The conference will see the release of a new white paper by physicist and MI fellow Mark P. Mills, coauthor (with MI senior fellow Peter Huber) of *The Bottomless Well: The Twilight of Fuel, The Virtue of Waste, and Why We Will Never Run Out of Energy* (Basic Books, 2005). Mills, along with prominent policymakers, industry leaders, and experts, will explore the implications for our economy of a new approach to power and growth—particularly the creation of millions of new, well-paying energy-sector-related jobs. With regulatory reform, the energy industry can be exactly the engine the U.S. needs to get our economy going.

In contrast, current policy seems intent on vilifying this important industry rather than sup-

porting it. In his 2013 budget sent to Congress in February, President Obama suggested raising \$5 billion in 2013 and \$41 billion over the next decade from tax increases on the oil and gas industry. The proposal—and the president’s rhetoric toward the oil and gas industry—is misguided and misadvised, noted MI senior fellow and former chief economist at the U.S. Department of Labor Diana Furchtgott-Roth.

In her April Issues 2012 report, “Who Really Owns the Oil Companies?,” Furchtgott-Roth combed through filings from the Securities and

Exchange Commission for evidence of oil-company ownership—given the president’s rhetoric about “wealthy oil companies.” As it turns out, the data show that the officers and directors of the five largest oil

companies hold an insignificant fraction of ownership shares. The oil and gas industry is not owned by a few wealthy industrialists whose profits can easily be taxed away but, like most large American corporations, by millions of ordinary Americans, often through their retirement savings. In fact, private and public pension funds own 31 percent of all U.S. oil and natural gas companies.

Among the many losers from higher oil and gas taxes would be the millions of Americans with retirement accounts. Among the many winners from a national energy policy focused on unleashing the massive growth potential of our natural resources would be the tens of millions of unemployed and underemployed Americans still struggling to survive a Great Recession with no end in sight.

**Raising taxes on oil companies would hurt Americans who benefit from oil company stocks in their retirement portfolios.**

**—Diana Furchtgott-Roth**

**Issues 2012, No. 11**

# CENTER FOR THE AMERICAN UNIVERSITY

Free markets are moral, contrary to the Hollywood and political caricature.

—Steve Forbes,

Columbia University chapter, Adam Smith Society



Over the last few years, the Manhattan Institute's Center for the American University has emerged as a force to be reckoned with in the sphere of higher education. In this academic year alone, we have established chapters of the Adam Smith Society—our growing national network of market-minded MBA students—on five U.S. campuses: Harvard Business School, Columbia Business School, the University of Chicago Booth School of Business, Yale School of Management, and McCombs School of Business at the University of Texas at Austin. In each case, the CAU has identified students who are eager to spearhead a vibrant organization and become advocates for the economic system that enables their own success.

This September, in an effort to solidify and expand this growing force for free enterprise, the Manhattan Institute will host the first national Adam Smith Society conference in New York City. The conference will feature panel discussions with academics, journalists, and business leaders; break-out sessions for student members to discuss important issues with prominent practitioners; and information sessions about strengthening chapters on campus.

While working hard to organize and promote the Adam Smith Society among graduate business students, we haven't lost sight of the desperate need for reform of undergraduate education. The CAU's *Minding the Campus* web magazine, helmed by editor John Leo, is now one of the country's foremost watchdogs of political correctness and liberal groupthink in our colleges and universities. With unique visitors up 70 percent over last year and mainstream media mentions for the site's work becoming daily occurrences (for example, in April, *The Wall Street Journal* featured a portion of contributor John S. Rosenberg's post on the University of Texas's decision to hire an expensive L.A. law firm in its "Notable & Quotable" section), the site is quickly multiplying its influence.

MTC expanded its roster of contributors with the addition of Herbert London, the CAU's newest senior fellow. While producing written content for the site, London has also been participating in a series of podcast interviews: "From the Desk of the Dean." Drawing upon his vast experience in academia, London weighed in on topics such as affirmative action in admissions, cheating and fraud, the morality of college sports, and the salaries of university presidents.



In December 2011, President Obama gave a speech in Osawatomie, Kansas, in which he declared that “for most Americans, the basic bargain that made this country great has eroded”—a remark that embodies the recent “Occupy” movement. It is, as Yeshiva University philosophy and economics professor James R. Otteson notes in his recent contribution to the Institute’s Issues 2012 series, “all too easy for us, among the wealthiest people who have ever lived, in one of the richest places on earth, to disdain the institutions that have enabled us to escape the strictures of poverty.” In “An Audacious Promise: The Moral Case for Capitalism,” a beautifully written defense of the free market released to coincide with the occupiers’ nationwide May Day protests,

**Keeping people in poverty seems too high a price to pay in the service of equality. One is tempted to say that only a person who has never experienced poverty could think differently.**

**—James R. Otteson**

Issues 2012, No.12

Otteson summarily dispenses with the notion that capitalism is failing or has failed Americans. On the contrary, he argues, constraining capitalism—the institution that has

given humanity the only hope it has ever known of rising out of its natural state of destitution—is the true failure and an immoral impulse.

“The benefits of the free-enterprise society are enormous and unprecedented; they have meant the difference between life and death for hundreds of millions....

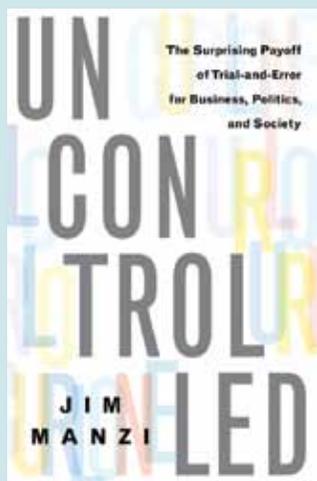
We should wish to extend these benefits rather than to curtail them,” Otteson writes. With the insight and impact that the fast-paced news cycle demands, Otteson’s Issues 2012 brief dispels the idea that, as the president seems to suggest, a market system can’t and hasn’t worked.

As I am sure you have read, capitalism's most fervent critics have, of late, seized on studies purporting to show rising income inequality in the United States, and offered them as evidence of capitalism's failure. But, as Diana Furchtgott-Roth notes in a recent *Issues 2012* brief, "Many commentators today bemoan a supposed inequality in the United States. Much of this concern is a problem in search of reality, caused by problems of measurement and changes in demographic patterns over the past quarter-century. Government data on spending patterns show remarkable stability over the past 25 years and, if anything, a narrowing rather than an expansion of inequality."

The debate over income inequality has provided some policymakers with the pretext to argue for more distribution of wealth, which, as Christopher Papagianis, e21 managing director and former domestic policy adviser to President George W. Bush, points out in his most recent contribution to the *Issues 2012* series, does nothing to meaningfully address income inequality: "While a shifting of wealth may reduce reported or measured

income inequality, it would do little to change actual wealth disparities across American households." With commentators overstating conclusions drawn from the data, Papagianis outlines six factors to bear in mind when considering inequality, and he directly addresses the oft-repeated claim that 93 percent of the income gains during this recovery have gone to the top 1 percent. "The reason that the share is so large for the top 1 percent is that the gains for the bottom 99 percent were so modest. Imagine that the top 1 percent received a one-dollar increase in wages and the bottom 99 percent saw no increase. In this example, the top 1 percent would have seen a full 100 percent of the growth in incomes over that year—even though the net change was small. Thus, while spotlighting this statistic might be a good way to generate a headline, the underlying dynamics are not particularly revealing." In truth, no income group has really seen a sizable gain during the current recovery—all the more reason our policymakers should be focused on developing or advancing public policies that lead to, or generate, job growth rather than simply transfer income.

## FROM THE MANHATTAN INSTITUTE BOOKSHELF



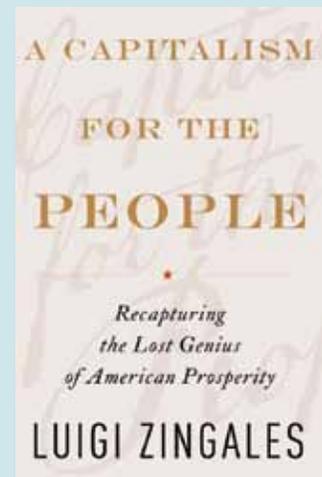
*"Uncontrolled...is a vigorous book, pulsing with ideas."*

—Trevor Butterworth, *The Wall Street Journal*

*"This is a truly stimulating book."* —Tyler Cowen, *Marginal Revolution*

With his very first book, and the second under our *City Journal* imprint, MI senior fellow Jim Manzi achieved rare success for a work on policy. *Uncontrolled: The Surprising Payoff of Trial-and-Error for Business, Politics, and Society* (Basic Books) was reviewed and discussed in venues across the political spectrum, from *Mother Jones* to *The Weekly Standard*. *New York Times* columnist David Brooks devoted an entire column to discussion and analysis of Manzi's proposals. *Uncontrolled* is a serious work with broad appeal—just the kind of book that we intended to produce when we established the *City Journal* imprint.

*City Journal* contributing editor Luigi Zingales's new book, *A Capitalism for the People: Recapturing the Lost Genius of American Prosperity* (Basic Books), couldn't have landed at a more opportune time. Congressman Paul Ryan called his real-world recommendations for restoring true competition to our economic system a "must read for policymakers and citizens alike." *New York Times* columnist Ross Douthat urged Mitt Romney to read this "provocative account" and consider its prescriptions to "restore American competitiveness." Zingales's media tour brought him to MSNBC's *Dylan Ratigan Show*, PBS's *Nightly Business Report*, and WNYC's *Brian Lehrer Show*. His op-eds appeared in *The Wall Street Journal*, *The New York Times*, and the *Financial Times*.



# PROXY MONITOR MAKES NEWS

THE WALL STREET JOURNAL.

Thursday, May 31, 2012

## Where Have All the Proxies Gone?

It's halftime in the shareholder proxy season, so how's that big push to limit corporate political spending working out? According to new findings from the Manhattan Institute's ProxyMonitor, the campaign is something short of a tour de force.

Among the 150 Fortune 200 companies that had held

panies to negotiate to avoid a proxy brawl.

Other activists include the so-called social investing funds like NorthStar Asset Management, Walden Asset Management and Trillium, which claim their goal is to improve shareholder value. As former Federal Election Commission Chairman Brad Smith has noted, however, NorthStar has made those claims while also

Shareholders are rejecting efforts to limit political speech.



Corp Board Member

@JamesRCopland interview w former SEC Comish Paul Atkins on #shareholderactivism & corporate political speech [youtu.be/4DA7EMXfPzE](http://youtu.be/4DA7EMXfPzE) #corpgov

Reply Retweet Favorite



"According to ProxyMonitor.org, operated by the Manhattan Institute, a plurality of all proposals introduced to date this proxy season call for more corporate disclosure of political spending or lobbying."



"Jim Copland of the Manhattan Institute says that 'some of these proposals may serve primarily to chill corporate political speech broadly, including on issues that most diversified shareholders—as distinguished from the proposals' sponsors—might prefer that the corporation's views be heard.'"



"The one arena in which unions have made some headway this year is shareholder capitalism," wrote the *Washington Post's* Harold Meyerson recently—a troubling sentiment which highlights the need for the Institute's fast-growing and increasingly influential Proxy Monitor project. For over a year now, Center for Legal Policy director Jim Copland has tracked union efforts to manipulate the corporate governance process. *The New*

*York Times*, *The Economist*, and *The Wall Street Journal* each featured Proxy Monitor recently, confirming that the database has become the go-to resource for journalists seeking to understand the influence of outside shareholder proposals on publicly traded companies.

To read the latest findings or explore the ever-expanding database, visit [www.ProxyMonitor.org](http://www.ProxyMonitor.org).

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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