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MI

2017

# President's Update

Summer 2017



2017 Hayek Prize recipient Deirdre McCloskey in conversation with MI's Howard Husock

**DEAR FRIENDS AND SUPPORTERS,**

# REVIVING ECONOMIC GROWTH

A revolutionary idea lies at the base of prosperity. So argues economic historian Deirdre McCloskey, author of *Bourgeois Equality* and winner of the Manhattan Institute's 2017 Hayek Book Prize. Inspired and made possible by MI trustee Thomas W. Smith, the \$50,000 prize goes to a scholar whose book best reflects Hayek's vision of economic and individual liberty. At the annual Hayek Lecture this past June, Professor McCloskey explained how it was ideas, not capital or institutions, that led to the "Great Enrichment"—a 3,000% rise in per-capita incomes since 1800, when the average American lived on just \$3 a day. The radical idea behind the Great Enrichment was to give ordinary people equality before the law and equality of social dignity—and leave them alone; to let them "have a go" at bettering their lives. Professor McCloskey's book, the third in a trilogy of sweeping intellectual history, provides us with a set of helpful first principles as we develop policy ideas to reinvigorate economic growth today.

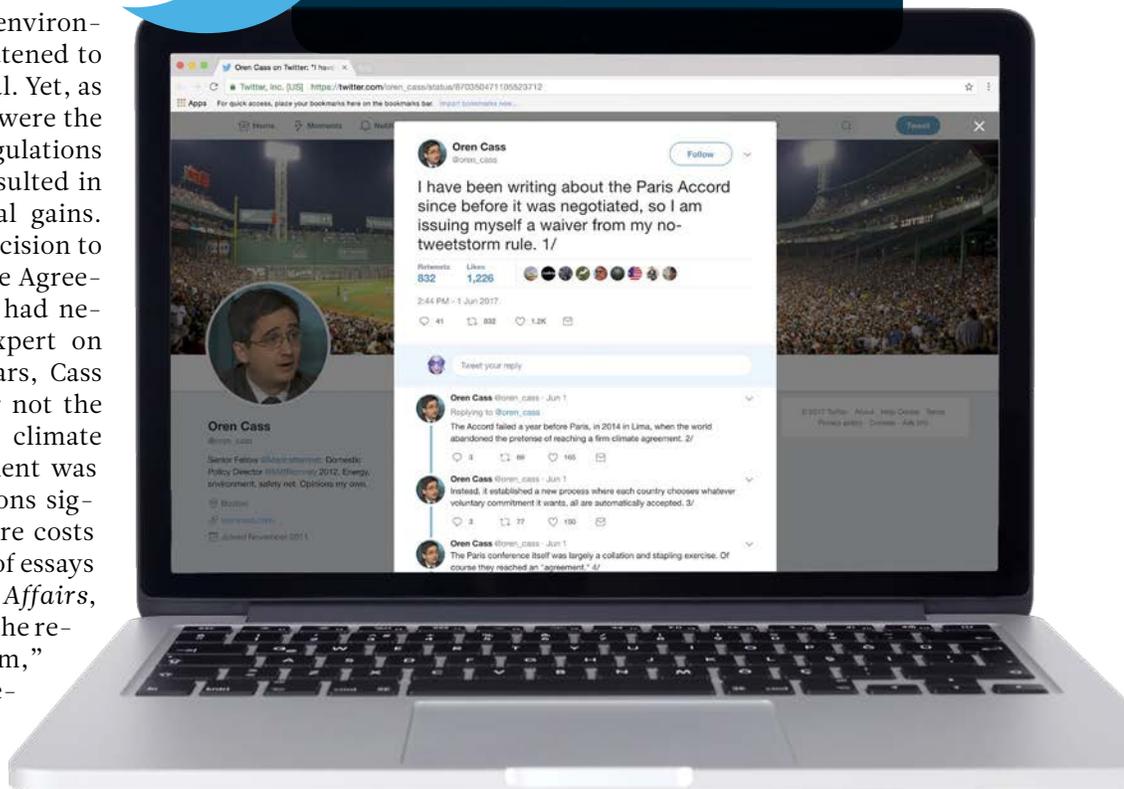


Oren Cass speaking about "Climate Catastrophism" at the Collision Conference 2017

“ THE @OREN\_CASS 20-PART TWEETSTORM FROM YESTERDAY IS STILL THE BEST COMMENTARY ON TRUMP AND PARIS. ”

@ByronYork

The Obama administration’s environmental regulatory agenda threatened to limit America’s growth potential. Yet, as Oren Cass has argued, not only were the administration’s proposed regulations very costly they would have resulted in minimal, if any, environmental gains. Following President Trump’s decision to withdraw from the Paris Climate Agreement, which President Obama had negotiated, Cass was a go-to expert on the issue. For the past two years, Cass has explained that, whether or not the conventional wisdom around climate change is accurate, the agreement was toothless to limit global emissions significantly, while imposing severe costs on the United States. In a series of essays in *National Affairs* and *Foreign Affairs*, Cass debunked the ideology that he refers to as “climate catastrophism,” which assumes worst-case scenarios, predicts consequences that climate science cannot substantiate, and ignores the





EPA administrator Scott Pruitt in conversation with MI's Howard Husock

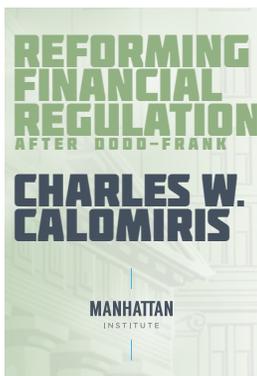
potential of economic growth and innovation to manage whatever costs do arise. A policy agenda that reconciles environmental protection and economic growth was the subject of an MI forum on June 30 featuring EPA administrator Scott Pruitt, with whom we previously collaborated on regulatory issues when he was attorney general of Oklahoma.

MI has focused, too, on reforming regulations that have distorted financial markets, leading to an inefficient allocation of capital and discouraging entrepreneurs from starting new firms. This spring, as Congress and the Treasury Department were considering reform of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, we published the results of a year long study of how that law and various regulatory mandates have affected banks, credit-card companies, individual borrowers and savers, and the economy as a whole. At a May conference, the leader of the study, MI adjunct fellow and Columbia Business School professor Charles Calomiris, as well as other scholars whom we commissioned, presented their findings. Around the same time, we published a book by Calomiris, *Reforming Financial Regulation After Dodd-Frank*, in which he presents the main problems with the law and proposes principles that should inform financial-markets regulation. This book has the virtue of being short (fewer

than 90 pages) and accessible to nonexperts. According to legendary monetary economist Allan Meltzer: "*Reforming Financial Regulation After Dodd-Frank* is the very best analysis of the general problem of financial regulation and the 2008 financial collapse that has been written."

Meltzer, who died in May, accomplished many things throughout his storied career, including founding, along with professor Karl Brunner, the Shadow Open Market Committee (SOMC). This group of economists monitors and critiques the actions of the Federal Reserve's Open Market Committee, and it promotes predictable monetary policy that fosters growth and limits inflation. For the past several years, the SOMC has been housed under MI's Washington, D.C.-based economic-policy research division, e21. In early June, it was widely reported that Marvin Goodfriend, an SOMC member and professor of economics and finance at Carnegie Mellon University, is being considered by President Trump for an appointment to the Board of Governors of the Federal Reserve System, which oversees the Federal Reserve Banks and makes key decisions on monetary policy. At the spring 2017 SOMC meeting, which focused on the theme "Reforming the Fed and Government-Sponsored Enterprises," Goodfriend presented a paper, "The Fed Needs a Credible Commitment to Price Sta-

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Marvin Goodfriend at the spring 2017 SOMC meeting

**“ Allan Meltzer...was the leading monetary policy economist of his generation.... In recent years Allan was concerned about the Fed’s accommodative monetary policy. He said that such broad expansions had always ended in inflation, and warned about the misallocation of assets caused by the continually low interest rates....The search for the right answer, irrespective of the fashions of the time, inspired Allan until the end. He will be truly missed, and it is up to all of us to carry on his work. ”**

*MI senior fellow Diana Furchtgott-Roth*

—Excerpted from “Remembering Allan Meltzer,” *Investor’s Business Daily*, May 10, 2017

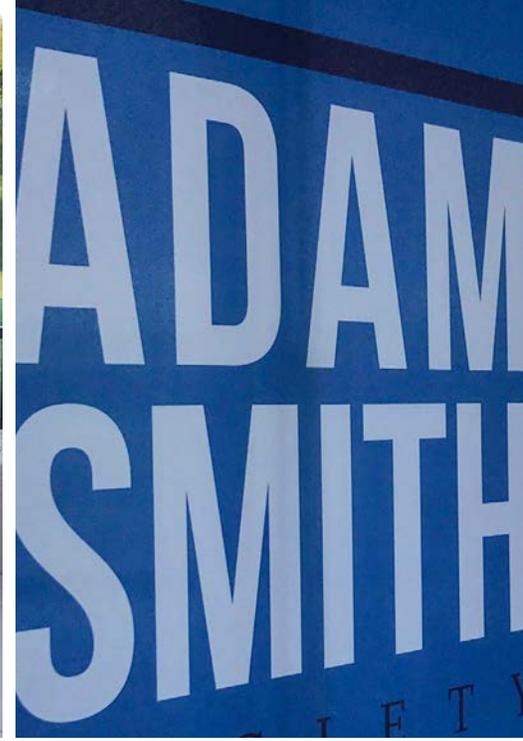
## REMEMBERING ALLAN MELTZER (1928–2017)

bility.” In addition to having presentations by Goodfriend and others, we were delighted to welcome San Francisco Fed president John Williams as our keynote speaker.

As economic growth has lagged over the past decade, a crisis of long-term joblessness has arisen, with greatest salience in rural and postindustrial parts of the country. In response to concerns about how automation, globalization, and other trends may exacerbate social unraveling and leave more Americans behind, MI’s *City Journal* published a special issue this summer, “The Shape of Work to Come.” Edward Glaeser, in the lead essay, addresses the problem of long-term unemployment and presents a big-think agenda on how to open the economy to individual drive and ambition. Subsequent essays drill down into specific issues: Steven Malanga on revamping vocational education; Howard Husock on reintegrating ex-offenders into the workforce; Oren Cass on new forms of collective action that can meet the needs of today’s workers better than old-style unions; and Aaron Renn on what rural locales can do to promote opportunity, as they reckon with opioid addiction and family breakdown, among others. We will promote the contents of the special issue at the same time as we publicize the findings of a related research report by senior fellow Mark Mills, “Prometheus Bound: How Regulations Stifle a U.S. Manufacturing Renais-

sance.” In it, Mills explores the potential for a manufacturing boom in areas such as semiconductors, pharmaceuticals, refined hydrocarbons, chemicals, and cloud infrastructure, provided that Washington can reduce the regulatory burden on firms.





**“The connections [the Adam Smith Society] creates among students and the freedom members feel to have difficult conversations and ask tough questions are the real intellectual benefits. The business school curriculum is not known for its intellectual rigor, but Adam Smith has created a space for those discussions. Business schools don’t know how much they’re benefiting from what the Adam Smith Society creates, but they and the rest of the economy will figure it out eventually.”**

*— I. S. Dunklin, coleader of the Adam Smith Society chapter at the University of Virginia Darden School of Business*





Reforms to encourage entrepreneurship, the future of work, and the challenge of social unraveling were all themes of the fifth annual National Meeting of the Adam Smith Society, held in New York this April. The Adam Smith Society is an MI program, with chapters at 30 business schools across the country, dedicated to promoting on-campus debate and discussion about the moral, social, and economic benefits of capitalism. Through the Adam Smith Society, MI seeks to educate and cultivate a network of future business leaders who will promote the fundamentals of the free-enterprise system—primarily from within the private sector. Just as the Federalist Society has had far-ranging effects in the legal world, we look to have commensurate influence within the U.S. business community.

“ **THROUGH THE ADAM SMITH SOCIETY, MI AIMS TO EDUCATE AND CULTIVATE A NETWORK OF FUTURE BUSINESS LEADERS WHO WILL PROMOTE THE FUNDAMENTALS OF THE FREE-ENTERPRISE SYSTEM—PRIMARILY FROM WITHIN THE PRIVATE SECTOR.** ”

The aim of the national meeting, as with all Adam Smith Society programming, was to inspire business students and professionals to become active in the battle of ideas. To that end, the agenda featured a mix of scholars and public intellectuals, as well as market-minded business leaders whom we hope the members will aspire to emulate. These business leaders included Marilyn G. Fedak, vice president emeritus of AllianceBernstein and founder of the Marilyn G. Fedak Capitalism Project; Kenneth Griffin, Citadel’s CEO, to whom we presented our Principled Leadership Award; Howard Milstein, president and CEO of New York Private Bank & Trust and its operating bank, Emigrant Bank; Anthony Scaramucci, founder of SkyBridge Capital; and MI chairman and Elliott Management CEO Paul Singer. We closed with a keynote address by J. D. Vance, author of the bestselling book *Hillbilly Elegy: A Memoir of a Family and Culture in Crisis*.

# PROMOTING SOCIAL ORDER

The Adam Smith Society provides a forum for discussion and debate at a time when the free exchange of ideas has been increasingly resisted on college campuses, with some students attempting to silence and intimidate conservative speakers—as experienced by MI's Heather Mac Donald in early April. Mac Donald was invited to speak at UCLA and Claremont-McKenna College about her 2016 bestselling book, *The War on Cops: How the New Attack on Law and Order Makes Everyone Less Safe*. At UCLA, following her lecture, protesters interrupted the question-and-answer session.

At Claremont, an estimated crowd of 250 protesters encircled the lecture hall where Mac Donald was to speak, preventing other students from attending. She was forced to depart campus early under the protection of a police escort. A

prominent national voice on cultural trends within higher education, Mac Donald has since appeared on TV and radio dozens of times to discuss these issues, as well as authoring several articles, including for MI's *City Journal* and the *Wall Street Journal*.

Though many pundits and officials prefer to ignore the



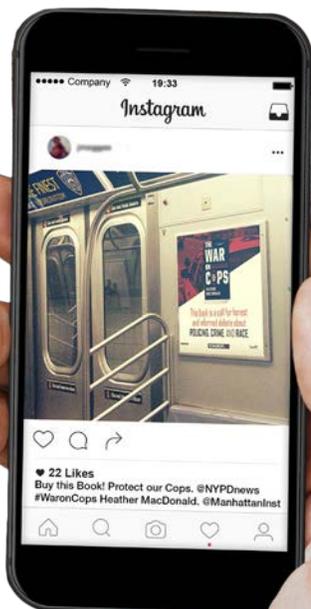
facts about the high rates of crime—and victimization—in many black communities, the national conversation about policing must be grounded in an awareness of these realities.

**“THIS SPRING, AS PART OF OUR STRATEGY TO PROMOTE GREATER PUBLIC AWARENESS OF MAC DONALD'S RESEARCH, WE CARRIED OUT A PUBLICITY CAMPAIGN INSIDE THE NEW YORK CITY SUBWAY SYSTEM.”**

This spring, as part of our strategy to promote greater public awareness of Mac Donald's research, we carried out a publicity campaign inside the New York City subway system. We placed 1,000 posters highlighting *The War on Cops* throughout sub-

way cars, which, during April, were seen by riders an estimated 8.7 million times.

Just as citizens deserve safe neighborhoods, students deserve safe schools. But as senior fellow Max Eden has shown, schools have become more dangerous and unruly in recent years. Obama administration policies may be to blame: beginning in 2014, the Obama administration pressured school districts to address the disproportionality in





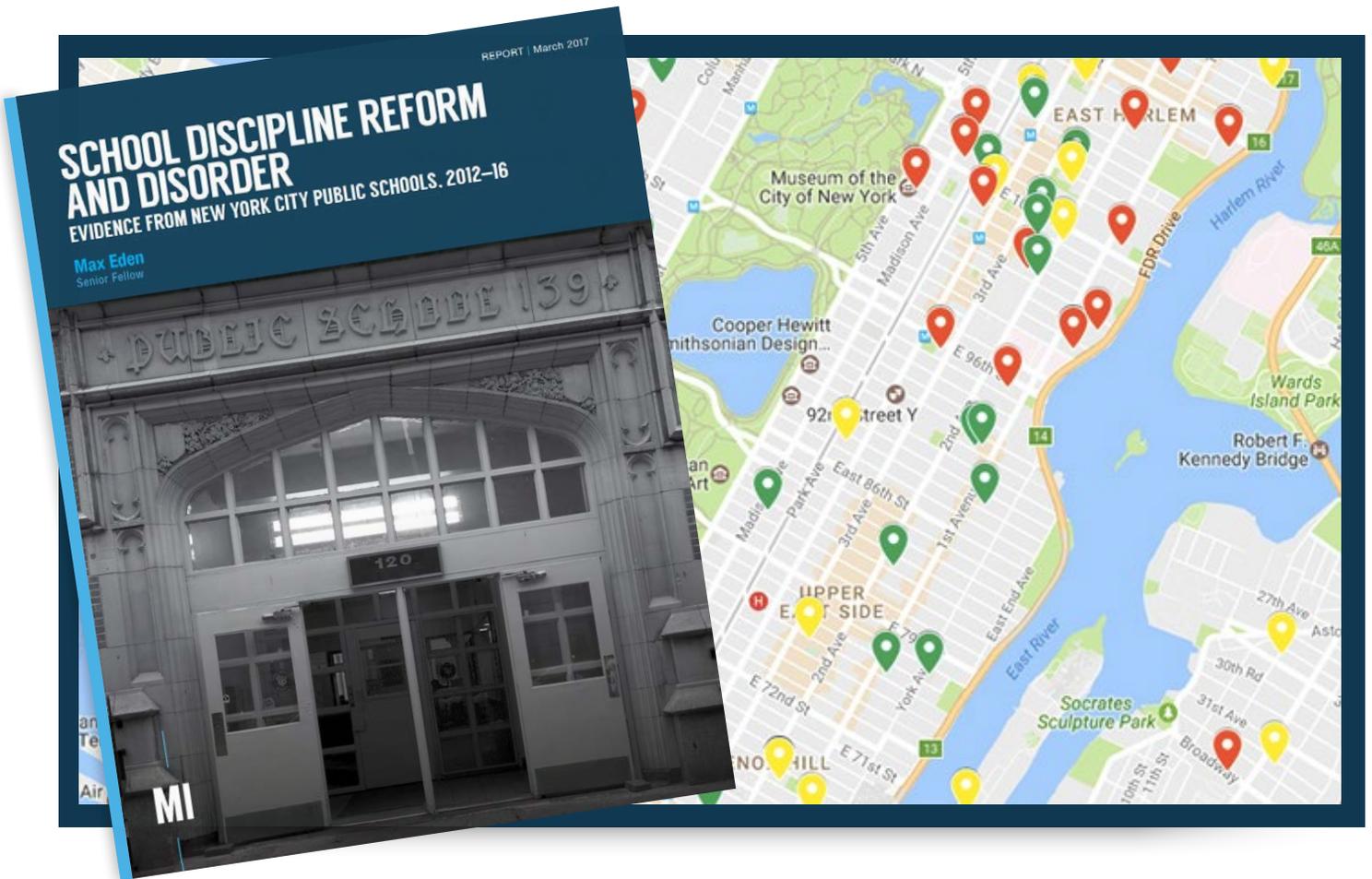
suspension rates between black and white students, arguing that teacher bias was the main reason blacks were disciplined at higher rates. In an MI paper, Eden analyzed annual surveys of New York City public school teachers and students, who reported a dramatic deterioration in orderliness following city-wide reductions in suspensions. The decline in order has been most pronounced in schools that are disproportionately minority, further disadvantaging many kids. Eden has become a leading commentator on school-discipline issues in New York and nationally. His findings have been the subject of reporting and editorials in the *New York Post* and *New York Daily News*, and he has authored related op-eds in *USA Today*, *Orange County Register*, and *The Federalist*, urging Secretary of Education Betsy DeVos to rescind the Obama-era guidance on suspensions.

Minority students and their families have been among the greatest beneficiaries of the expansion of competition and choice in K-12 education in recent decades. Though education is primarily a matter of state and local policy, a federal tax credit to support scholarships for

# FALSE BLACK POWER?

JASON L. RILEY  
author of *Please Stop Helping Us*

Since the 1960s, black leaders have placed a heavy emphasis on gaining political power, and Barack Obama's presidency represented the apex of those efforts. The assumption—rarely challenged—is that black political clout must come before black social and economic advancement. But, as MI senior fellow Jason Riley argues in his new book, *False Black Power?* (Templeton Press), political success has not been a major factor in the rise of other racial and ethnic groups from poverty to prosperity, and the key to black economic advancement today is overcoming cultural handicaps, not attaining more political power. The book closes with responses from Glenn Loury, professor of economics at Brown University, and John McWhorter, associate professor of English and comparative literature at Columbia University.



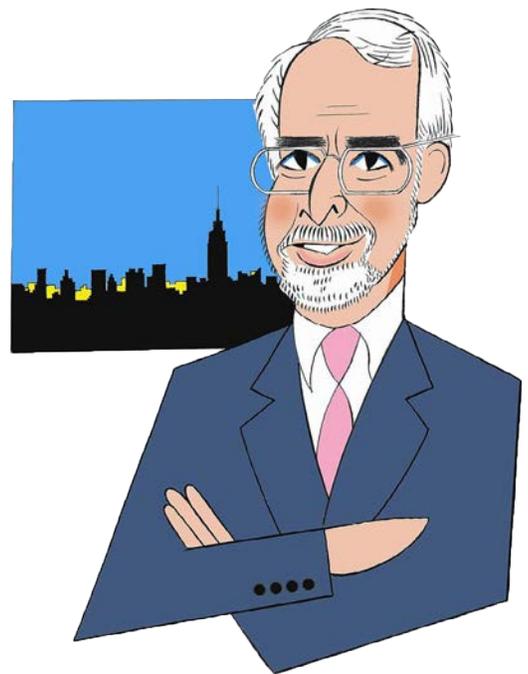
needy kids could further encourage greater school choice. Tax-credit scholarships could help sustain parochial and other private schools that provide low-income students with essential academic preparation, character formation, and a sense of community. I made the case for this policy idea in an op-ed for the *New York Post*, “A Tax Credit Is a Great Way to Fulfill Trump’s Pledge on School Choice.”

On all the aforementioned issues, from climate to the economy to race relations, MI endeavors to provide a voice of reason and sobriety, both of which are often in short supply in today’s public debate. Thank you for your help in advancing this mission at all levels of government, on the campus, and in the culture at large. I wish you, your family, and friends an enjoyable summer.

Sincerely,

*Lawrence Mone*

Larry Mone





**On May 4, 2017, the Manhattan Institute awarded the Alexander Hamilton Award to William J. Bratton, former commissioner of the Boston, Los Angeles, and New York police departments; and Ravenel B. Curry III, MI trustee, philanthropist, and cofounder of Eagle Capital Management. This year's event was particularly special, as MI celebrated its 40th anniversary. The Hamilton Award Dinner is an essential source of support for the work of our scholars. We thank our friends and patrons for making the event such a success.**





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