DEAR MI FRIENDS AND SUPPORTERS,

Since the Manhattan Institute began its involvement in public debates more than thirty years ago, has there ever been a more critical moment for the future well-being of our states? With state and local budgets on the brink of collapse—and public-employee unions pulling out all the stops to block crucial reforms—the Manhattan Institute is proud that leaders in key battlegrounds such as Wisconsin and Ohio are turning to the very ideas developed by our scholars, who helped lay the groundwork for this all-important debate.

Long before state senators marched out of Madison and teachers called out sick to protest Governor Scott Walker’s public-sector union reforms, MI scholars were shining light on the billions in unfunded public-pension and other retirement liabilities for which taxpayers are on the hook. We have led the way in telling the story of how politically powerful public-employee unions strong-armed legislators into increasing benefits without regard for cost. Our proposed reforms to state pension and labor agreements go back many years—but are as current as the morning news. In writing about the Wisconsin labor showdown in the Washington Post, Jennifer Rubin cited a 2005 City Journal article by Steven Malanga. She declared: “Malanga’s piece should be read in full for an informative overview of the political control that unions now exercise over elected officials, making collective bargaining anything but an arms’ length negotiation.”

As the Wisconsin debacle neared its climax, the Institute’s rapid response provided thoughtful commentary and—in keeping with our core values—constructive solutions. In a Wall Street Journal essay published just as the Wisconsin protests were coming to a head, Malanga lifted the veil on several political campaigns waged by public unions and explained why they opposed any reforms that threatened to diminish their political clout. Other scholars who make up what we’re calling MI’s “Dream Team” of labor and fiscal experts—senior fellows
Josh Barro, Nicole Gelinas, and E. J. McMahon—are also helping to set the terms of this debate. McMahon—who Politico’s Ben Smith described as “a great call for reporters covering the Wisconsin fight”—posted a piece on our new PublicSectorInc.org website detailing the parallels between Walker’s reforms and those made more than sixty years ago under the Taft-Hartley Act—the first attempt to pull private sector unions out of political campaigning. Indeed, the Economist, on its web site, referred to Public Sector Inc., edited by Barro, the Institute’s Walter B. Wriston Fellow, as a “strong new site.”

Along with McMahon, Gelinas and Barro have also been explaining ways to reduce public-pension and benefit obligations to ensure that enough public resources remain to provide for the full range of our problems. Whether through proposals to change pensions to defined contributions or by detailing the ways to structure a property-tax cap, our fellows are making use of congressional testimony, personal one-on-one meetings, and articles in the pages of the nation’s most prestigious newspapers, magazines, and policy journals to reach elected officials, policymakers, and the general public. Indeed, their work has created a foundation for the reforms that our mayors and governors know are long overdue. BusinessWeek recently noted that Malanga is one of New Jersey governor Chris Christie’s prime “intellectual influences.” A February article by Greg David of Crain’s New York Business listed Malanga and McMahon among “those who made [New York governor Andrew] Cuomo’s policies possible.” Malanga, writes David, “was one of the first writers to raise alarms on the power of public sector unions…. For years, he was a voice in the wilderness on this subject, but now his views have become surprisingly mainstream.” The impact of McMahon’s work of over a decade at the Empire Center is undeniable, and his hugely influential body of work is finally getting the recognition it deserves. “Now,” says David, “the liberal Democrat Mr. Cuomo has adopted most of [McMahon’s views].”

If we are to get a handle on our public budget problems, reform of pensions and even the accounting systems that guide them will be crucial. That’s what led Walter B. Wriston Fellow Josh Barro to travel the country meeting with officials in various state capitals to discuss pension-reform proposals. He recently spent several days in Washington briefing the staffs of the Budget, Ways and Means, and Oversight Committees on pension transparency. Barro’s efforts helped to inform the newly proposed Public Employee Pension Transparency Act, which, if adopted, would set federal standards for how states disclose pension obligations and expected taxpayer contributions. His February Civic Report, Unmasking Hidden Costs: Best Practices for Public Pension Transparency, and his major essay in the current issue of National Affairs, titled “Dodging the Pension Disaster,” are important contributions to the now-national effort to reform our public-employee pension systems.

You can find this work, as well as a stream of good ideas, on PublicSectorInc.org, which is dedicated to spotlighting the unsustainable burdens of high levels of public-employee benefits. Edited by Barro, PSI provides a national forum to probe problems and develop solutions on issues of the public sector at the state and local levels. With a critical focus on the urgent topics
of compensation and retirement benefits for public employees, PSI highlights significant research, reporting, and commentary and provides original thought leadership to help America’s citizen stakeholders grapple with issues that are key to a sustainable fiscal future for our communities. With regular commentary from our Dream Team, Public Sector Inc. also boasts feature articles and blog postings from outside contributors such as Andrew Biggs, Daniel DiSalvo, Steven Greenhut, and Eileen Norcross.

Public Sector Inc. is a project of our newly mounted Center for State and Local Leadership. Because the Institute continues to believe that states and cities remain the laboratories of democracy and are hungry for ideas, we have directed an increase in MI resources to ensure that we have a powerful center with the ability to recommend the right way forward. The CSLL will focus on budget and finance issues, of course, but we’ll cast our net more widely, too, in search of the best new approaches to the delivery of public services.

As important as the focus on state and local issues remains, we well understand that recovery and prosperity will not take hold in an atmosphere of smothering regulation and long-term debt and deficits. That concern leads us to a new partnership with the think tank e21, which provides rapid-fire responses to economic policy ideas and original essays about the right directions for economic policy to take. It will provide a showcase for MI scholars whose ideas Washington needs to be aware of.

The results of the November elections demonstrated that the public has heard what e21 senior advisor and MI’s Searle Freedom Trust Fellow Nicole Gelinas has been saying all along: market-oriented, back-to-basics regulatory policies—not centralized government micromanagement—will lead our nation back to an era of economic stability and prosperity. “Although the economy is ‘recovering,’” Gelinas wrote in a recent USA Today op-ed, “the government is distorting that recovery, and perhaps setting up bigger problems for the future.” In 2011, Gelinas’s book, After the Fall: Saving Capitalism from Wall Street—and Washington, will continue to serve

Just as regulation and its attendant costs threaten to undermine America’s entrepreneurial spirit, so, too, does a new explosion of activist shareholders using the proxy process to threaten the commercial creativity of America’s corporations. Increasingly, such proposals seek to advance social or political goals unrelated to issues of corporate governance. This trend has yet to be subjected to in-depth analysis. To help fill this gap, the Manhattan Institute’s Center for Legal Policy has developed a free public database that allows users to compare trends in shareholder activity by industry, year, proposal type, company size, and corporate sponsor. ProxyMonitor.org contains records of all proxy proposals submitted by shareholders of the 100 largest American public companies between 2008 and 2010. Searches on the Proxy Monitor database generate tabulated data that can be exported or downloaded. We expect Proxy Monitor to facilitate research into the nature and characteristics of recent shareholder proxy proposals and the overall patterns and trends that they exhibit.
as a road map for policymakers hoping to understand the causes of the financial crisis and how to avoid the next one. Indiana governor Mitch Daniels listed it as one of his top nine book recommendations of 2010.

In February, Gelinas testified before the House Committee on Oversight and Government Reform on the inadvisability of allowing states to declare bankruptcy: “There is good reason to expect that a state bankruptcy would create more problems than it would solve.”

MI and e21 are also working together on our “Conversations With…” series at the National Press Club in Washington. Wall Street Journal editorial-page editor Paul Gigot moderated a wide-ranging discussion with Wisconsin Republican Rep. Paul Ryan, the new chairman of the House Budget Committee. “We need to have a growth agenda: trade, low tax rates, sound money, sound regulations. Those are the kind of building blocks we need to have an economic growth and prosperity agenda.” We couldn’t agree more, and in the months ahead, the Institute and e21 will continue to vigorously promote a return to market-based, fiscally prudent principles as the only sure route to recovery.

Perhaps no institution has greater influence on the shape and direction of the American economy than the Federal Reserve. We were happy to host Richard W. Fisher, president and CEO of the Federal Reserve Bank of Dallas and a voting member of the Federal Open Market Committee, for a January address on the “limits of monetary policy.” His remarks were widely covered by the financial press. While warning against further expansion of the Fed’s balance sheet, Fisher noted that “the Manhattan Institute and e21 are powerful proponents...
of the free-market capitalism that made our country the richest and the most successful democracy in the history of humankind.”

This is high praise, indeed, and we accept it with humility. But we remain mindful that the argument in favor of free markets must be made, and made repeatedly, if we are to preserve our political freedoms and restore economic growth. Which brings me to one issue with the very real potential to undermine economic recovery: health care.

We remain concerned that the Patient Protection and Affordable Care Act—so-called Obamacare—will not only impede improvement in our health-care system but will burden our overall economy. Those concerns led Center for Medical Progress director Paul Howard to tell the House Education and the Workforce Committee that “[this law] is not the solution to our health-care woes. If anything, the Affordable Care Act ‘doubles down’ on many of the worst aspects of our current system, while adding new cost pressures and problems that will serve as a drag on economic growth and job creation for years to come.” As always, however, we are ready not just with criticism but with proposals. Markets and commercial investment have a role to play in health care as described in Howard’s important new essay on retail health clinics. Located in malls, “big box” stores, and pharmacies, these clinics could serve as a convenient and affordable way to access basic health-care services, but are too often blocked, as they are here in New York, by state regulation.
As we close the first quarter of 2011, a host of challenges must be met. The problems facing America are not insolvable, but they require us, in the words of Lincoln, to “think anew and act anew.” The Manhattan Institute is dedicated to this proposition and to doing everything we can to help reignite the nation’s economic engine and put the country on the path to a sound, sustainable fiscal future.

The first few months of 2011 have been tremendously productive. Our ideas are reaching more people in more places than ever before, thanks to your continued support. Please stop by our website often to see what our scholars are up to. One look, and I’m sure you’ll agree that, as Karl Rove once said, “pound for pound, no think tank has more throw weight than the Manhattan Institute.”

Sincerely,

Lawrence Mone
President

City Journal’s winter 2011 issue combines analysis of the financial problems of government with the magazine’s distinctive style of cultural criticism. Among the highlights: Steven Malanga’s “State Budget Bunk,” an examination of the fiscal gimmicks that states use to make their finances look sound; and Nicole Gelinas’s “Twenty-First-Century Reaganomics,” which suggests that our economically embattled country can look for guidance to our fortieth president’s example.

Over the last two years, City Journal has expanded its reporting and analysis of issues affecting California—from the state’s budget crisis and economic woes to education, public order, and immigration. We’re proud to announce the imminent launch of our new California webpage, which will regularly post original web content and articles from the print magazine, as well as offering an archive of older pieces. Our past work on the Golden State has always generated a vigorous response, and we look forward to influencing the policy discussion in constructive ways. Please visit our California page—accessible from the City Journal homepage—and spread the word about this new resource.
Manhattan Institute books have an unmatched record of opening new intellectual frontiers and catalyzing change. Our book program is unique in the world of policy research. Whereas other think tanks self-publish, our scholars pass a “market test,” meeting the highest standards set by academic and commercial publishers. This spring, we are proud to release three new books that are sure to make an impact.

In Manning Up: How the Rise of Women Has Turned Men into Boys, Manhattan Institute senior fellow and City Journal contributing editor Kay S. Hymowitz argues that the gains of the feminist revolution had a dramatic, unanticipated effect on the current generation of young men. Traditional roles of family man and provider have been turned upside down as “pre-adult” men, stuck between adolescence and “real” adulthood, find themselves lost in a world where women make more money, are more educated, and are less likely to want to settle down and build a family. Hymowitz argues that it’s time for these young men to “man up,” and her book is sure to cause quite a stir.

In Lawyer Barons: What Their Contingency Fees Really Cost America, visiting scholar Lester Brickman gives us a broad and deep inquiry into how contingency fees distort our civil justice system, influence our political system, and endanger democratic governance. Challenging a broad academic consensus, Brickman argues that the financial incentives for lawyers to litigate are so inordinately high that they perversely affect our civil justice system and impose other unconscionable costs.
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