

August 9, 2005

To: Members of the Terre Haute City Council, Mr. Bill Olah, and other Interested Persons

I appreciate the time that Mr. Olah took to put his points on paper. That certainly makes it clearer regarding the arguments he makes.

Due to some personal matters, I am just now able to sit down and respond.

The statement concerning competitiveness, that all businesses are highly competitive, arose because it was the petitioner that used that line of reasoning as a basis for granting the abatement. On page 1 of their petition, in bold print, it cites the fact that they operate in a highly competitive market. It clearly implies that the abatement is necessary for them to remain competitive. If that is so, then we owe all businesses a lower tax burden because, in a free market, all businesses compete with each other.

My business competes with Councilman Azar's business. I attempt to induce citizens to buy flowers with their dollars; he attempts to induce them to buy prime rib dinners instead, and so on, ad infinitum, throughout the marketplace. To use Mr. Olah's example, Cinergy attempts to induce builders to install electric heat, Indiana Gas attempts to induce them to install gas heat, wood stove and solar energy purveyors also join the fray. The examples can go on and on, I think we all get the idea. All producers compete with each other for the available dollars of the consumer, whether that consumer is an individual or a giant multinational corporation. In fact, that is the correct definition of competition, when a consumer has alternative choices with how their resources will be spent. The ability of a business to raise or not raise prices is a result of, not the definition of competition or "competitive business".

The attempt to throw in the example of the monopoly is classic misdirection away from the main point. Since it was brought up, though, I would say this. A monopoly, in a free market, can only exist for a very short time. It can only exist for an appreciable length of time with the active assistance of government or when the government itself creates the monopoly and suppresses competitors. Cinergy is no example of a monopoly. Real examples are postal service, public schools, Amtrak, and similar entities. I have no doubt that, if they paid property taxes, they all would seek abatements. Regardless, it doesn't have anything to do with the basis for granting an abatement.

The next point about tying the abatement request with "good, \$30K" jobs versus those pathetic, low wage restaurant jobs that have no future and can't support a family, well, I'm not sure where to begin to rebut this distorted logic. Employees at every restaurant make what the market will bear for that type of work. To trumpet a \$30K/year job as something wonderful, deserving of shifting taxes from Schwans to all other taxpayers, is erroneous. \$30K may or may not be a great wage for these jobs. Compared to an attorney, a construction foreman, or thousands of other jobs, these in fact might be jobs that the compensation is pathetically small. The truth is, we don't know if they are "good" jobs or "bad" jobs. There is no way we can know. Only the free exchange of the market in employment can discover this answer. To cite this as a basis for approving this favored treatment is incorrect and should be rejected.

Does Schwan's compete with local food purveyors? Of course they do! They also compete with garden centers, gas stations, CD sellers, carpet cleaners, electric suppliers, manufacturers, and every single other producer in the market. They compete for the available dollars from buyers, they compete for the available employees that might be hired, they compete in all aspects of their operations that might be alternatively put

to use by someone else, whether in a related field or not. It is poor public policy for government to offer an advantage to one that is not offered to all.

It is true that the council has offered tax abatements to the competitors cited on page 3 of Mr. Olah's letter. Mr. Olah asks, "Does the council really want to get into the business of picking and choosing...?" The answer is, NO, we shouldn't get into this business of picking and choosing winners and losers, whether they might or might not be direct competitors. All the members of the council are intelligent, well meaning persons, as is Mr. Olah. All of us together, with all the other intelligent, well meaning people in Terre Haute are not capable of knowing all that would have to be known to make such choices. It is an incredible arrogance to believe that we can. We possess no unique insight or knowledge to divine who should or shouldn't get the breaks. The good news is that this unique insight and knowledge does exist! It exists within the hundreds of thousands of decisions that are made by each person, operating within the extraordinary power of the free market.

I like Mr. Olah's example of Marshall Field and his quandary on spending his advertising dollars. It is a legitimate analogy in all respects except one. The one exception is so critical, so important, so vital, that understanding the exception should lead us to use the analogy to reject this and all other abatement requests. Marshall Field was using his own money, Mr. Olah is asking the council to use someone else's money. I was elected to insure the efficient, effective, judicious use of other people's money. I was not elected to be anyone's mommy, make their life wonderful, or make their business successful, or get them a job. That is up to each citizen for themselves. They can do it if they can keep more of the resources they earn. Maybe their decision will be to invest in Schwan's. Or maybe not.

I have provided to council, to attorney's who represent abatement petitioners, and to any other interested persons large amounts of information on this issue. Research articles by IU and Ball State economists on use of abatement in Indiana; analysis of the use of incentives in Michigan, Ohio, Kentucky, and Illinois by knowledgeable, qualified authors; books, essays, and forums on the consequences of choices made by us as public officials and interested citizens, and more.

The conclusions are consistent. The intervention by government in these ways are counterproductive, they distort the market for all, they unfairly charge some (most) citizens for the benefit of a few, they don't achieve the goals they claim to, they cannot be verified in any meaningful way, they cannot be measured in any objective fashion, they put elected officials in the position of doling out favors, they exemplify Bastiat's explanation of legal plunder. None of these are those efficient, effective outcomes we seek. We will achieve those objectives when we insure a fair field with no favors. In doing so, Terre Haute will become the prosperous community that will be the example for the rest of Indiana to follow.

Sincerely,

Ryan Cummins
Terre Haute City Council, District 2