

**Medicaid computer system facing bumpy launch/3**



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# CAROLINA JOURNAL

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FROM THE JOHN LOCKE FOUNDATION

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## Feds Unable or Unwilling to Stop Illegal Checks

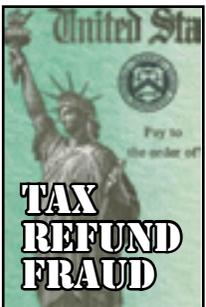
New York woman can't stop phony checks from being delivered

By DON CARRINGTON  
Executive Editor

SHIRLEY, N.Y.

A Long Island, N.Y., woman has spent nearly two years trying to convince the Internal Revenue Service and the U.S. Postal Service that persons with Hispanic-sounding surnames using her address to obtain tax refunds from the IRS are part of a fraud scheme.

She has not found a government agency that will stop the phony tax refunds from arriving in her mailbox. Instead, federal and state authorities pass the buck. The checks and correspondence, including the offer of assistance for Hurricane Sandy "relief" to people who may not exist,



New York resident Carol Cooke can't get anyone in the Internal Revenue Service or the U.S. Postal Service to take seriously the number of fraudulently obtained refund checks mailed to persons with Hispanic-sounding names at her Long Island address. (CJ Photo by Don Carrington)

keep coming.

Carol Cooke is frustrated. "This is fraud. It is our money, and they are giving it to people that don't deserve it. I have had 16 people using the address where I have paid the mortgage and taxes," she told *Carolina Journal*. "Nobody has the right to use this address, especially for fraud. Some of the correspondence was in Spanish only."

Cooke has lived at 557 Boxwood

Drive, Shirley, N.Y., for 37 years. She approached *CJ* about her situation after reading a *Carolina Journal Online* story about Stolen Identity Refund Fraud. Federal officials say it's the "No. 1 tax scam of 2013," with more than \$5.2 billion in losses to U.S. taxpayers estimated for tax year 2010.

*CJ's* initial report in March highlighted a similar scheme based in Durham. Subsequent stories elaborated on

other aspects of SIRF. Cooke said she had contacted other news organizations, but none expressed interest. *CJ* met with her in June at her home.

In October 2011 she began receiving IRS correspondence at her home addressed to other people. Initially she wrote on the envelope, "does not live at this address," and put the items back in the mailbox. Then she took others to the Shirley Post Office and asked an employee to tell her what she needed to do to stop getting other people's mail at her house. "I can't stop people from sending mail to your address," she said she was told.

The next month, IRS refund checks arrived in her mailbox. There was a \$7,113 check to Maribel Rodriguez Rosado, a \$7,613 check to Nadia Abad Hernandez, and a \$6,073 check to Dairysol Bonilla Ocasio. "I realized that those checks were probably part of a fraud scheme," she said.

She alerted the IRS to the situation with a phone call. The IRS representative told her to mark the envelope "return to sender." "I was just not satisfied with that. I wanted it to stop. How can these people receive mail and then checks at my address? It is fraud,"

Continued as "Feds," Page 14

## Changes Concern Transparency Advocates

Commerce overhaul worries those favoring open-door dealings

By DAN WAY  
Associate Editor

RALEIGH

While the McCrory administration is hailing an overhaul of the way North Carolina recruits business, open government advocates worry that the new North Carolina Economic Development Partnership may perpetuate the state's system of closed-door dealings and secret incentives.

"There has always been a concern with the Department of Commerce and economic development because they claim they can't make data available until they clinch the deal," said Jane Pinsky, director of the N.C. Coalition for Lobbying and Government Reform.

"Unfortunately, there's a lot of times when things are happening and no one knows what's going on, and I'm afraid this will follow right in that path," Pinsky said. "Every time we



Commerce Secretary Sharon Decker

See related story on Page 2

do something in secrecy, it diminishes citizens' confidence in government."

Commerce Secretary Sharon Decker defended the changes. "It will be subject to all of the laws that say we've got to be there in full disclosure. And we will publish an annual report like a privately held company would do," she said.

"If you're going to spend money on economic development and subsidize selective businesses, it needs to be done openly, it needs to be done accountably, it needs to be done fairly," said former state Supreme Court Justice Bob Orr, now an attorney with the

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## McCrory: Commerce Revamp Good for Business

By BARRY SMITH  
Associate Editor

RALEIGH

**G**ov. Pat McCrory's administration is repackaging the way it performs economic development efforts, moving the function from the Department of Commerce to a nonprofit private corporation.

Administration officials hope the move would free up efforts to recruit businesses while providing rewards for the individuals who bring jobs to the state, not just tax breaks and cash incentives to the businesses themselves.

Senate Bill 127 allowing the N.C. Department of Commerce to contract with a nonprofit corporation to conduct economic development functions has advanced in the General Assembly, although support for the bill was not unanimous.

During review in the House Commerce Committee, Commerce Secretary Sharon Decker urged members to approve the changes in law.

"We can't do things the same way and expect a different result," Decker said.

During House floor debate June 26, Rep. Tom Murry, R-Wake, the House handler of the bill, argued for the change.

"I think this is going to help the Department of Commerce move at the speed of business instead of the speed of government," Murry said.

A few House members expressed reservations. Rep. Joe Sam Queen, D-Haywood, said he felt the move would centralize power in Raleigh at the expense of outlying regions in the state.

"Our biggest trouble in western North Carolina is getting any attention out of Raleigh," Queen said.

Rep. Chris Millis, R-Pender, said he opposed the switch because it continued the practice of offering incentives to new or expanding corporations. He argued that incentives force businesses that pay taxes to wind up "funding their competitor[s]."

Supporters far outnumbered opponents in the House, as the bill passed its initial vote by a 76-38 margin.

Rep. Pat McElraft, R-Carteret, said that things needed to change in the Department of Commerce. Rep. Frank Iler, R-Brunswick, said a company decided not to move to his part of the state because South Carolina could put together an incentives package more promptly.

"South Carolina had a board in Columbia of department heads that could react very quickly to put offers on the table for this corporation," Iler said.

Commerce officials are hoping the nonprofit, which would not be bound by inflexible government compensation guidelines, can make it easier to retain the most productive recruiters.

"We want folks that are getting the job done to be rewarded for doing that, and those who don't ... not be rewarded," said department spokesman Josh Ellis.

Brent Lane, director of the Carolina Center for Competitive Economies at the Kenan-Flagler Business School at UNC-Chapel Hill, said it has been difficult for Commerce to hang on to its talent.

"We need to be able to reward high-performing economic developers," Lane said. "Otherwise, what are they

going to do?"

Ellis said that the business and industry team of the Commerce Department has 24 full-time economic developers, although two positions are vacant. Their salaries range from \$45,263 to \$85,505, not including the manager.

Decker said that the change would allow "us to create a new organization that can move a lot faster, be a lot more nimble."

Economic development functions "will be dispersed across the state of North Carolina," she added. "It won't all be in Raleigh."

She said those functions would include the recruitment of new business, support for existing business in North Carolina, and helping the travel and tourism industry.

"One of the things that we intend to do is restaff sports marketing for the state of North Carolina," Decker said. "There's a tremendous opportunity economically for travel and tourism around youth sports leagues, youth sports competitions across the state."

She cited the Cleveland County city of Shelby, which hosts baseball's American Legion World Series.

The nonprofit corporation's board would have 15 members, nine of them appointed by the governor. The speaker of the House and the president pro tem of the Senate each would appoint three members, filling the board.

Conflict-of-interest provisions aimed at preventing any member of the board from using his or her position for personal gain are part of the bill.

The nonprofit corporation would be overseen by an Economic Development Oversight Committee, including four Cabinet secretaries — Commerce, Transportation, Environment and Natural Resources,

and Revenue — along with the director of the Office of State Budget and Management. The speaker of the House and president pro tem of the Senate each would appoint a member to the committee; those appointees could not be members of the legislature.

Ellis said that too often North Carolina loses to other states in recruiting businesses because it takes too long to put the economic development pieces together.

"Any way that we can be faster in terms of coming up with a formal proposal to a company will put North Carolina in a competitive place," Ellis said. "If you think about it from a company's perspective, time is money."

The proposal also divides the state into eight geographic "prosperity zones." Those zones are designed to promote interdepartmental cooperation in industrial recruitment. The bill requires that the departments of Commerce, Environment and Natural Resources, and Transportation each provide one employee from their regional offices to serve as liaisons with other agencies and planning bodies to work toward economic development.

Lane cautioned against high expectations of a change in structure without a corresponding strategic change.

"The structure is not going to determine success if the strategy is flawed," Lane said.

Lane said that tax reform is a "necessary part" of the state's strategy, but added that it is "not a panacea." Changes in infrastructure, regulations, and education also are necessary, he said.



# State's New Medicaid Computer System May Face Bumpy Launch

By DAN WAY  
Associate Editor

**T**he Department of Health and Human Services is taking an "unbelievably risky" approach to activating a nearly half-billion-dollar, high-powered Medicaid computer system, one state senator says. And a blistering state audit says NCTracks, plagued by major delays and cost overruns, may not be ready.

"This thing isn't done yet in terms that we know for sure it's an absolute success. We're going to have some indication of that come July 1" (after this issue went to press) when the system is scheduled to go live, replacing an outdated, 25-year-old Medicaid Management Information System, said Sen. Jeff Tarte, R-Mecklenburg.

DHHS Secretary Aldona Wos has said repeatedly NCTracks will be ready. It is designed to process and pay more than \$12 billion a year in health care claims for 70,000 enrolled medical providers serving 1.5 million Medicaid recipients, along with state-paid mental health, public health, and rural health services.

Tarte, along with Sens. Louis Pate, R-Wayne, and Ben Clark, D-Hoke, recently were given an overview and demonstration of the new system by Wos and DHHS chief information officer Joe Cooper.

"All of us had some critical questions relative to stress testings, what this thing's going to be like in production, user training being ready, data being tested and loaded so it's ready to be used, [and making sure] claims checks [go] out to all the docs and hospitals," Tarte said.

"They're saying yes to everything, the critical stuff," he said. Even if the Medicaid computer launch goes well, ensuing problems are inevitable,

he said, based on his 30 years of experience with development and testing large systems for Blue Cross plans, hospitals across the country, and systems in several other nations.

Most worrisome to Tarte is a federal requirement to shut down the existing computer network operated by HP Enterprise Services when it fires up NCTracks.

"You cannot run two Medicaid systems in parallel," he said, calling that "stupid is as stupid does. Again, it's just the Forrest Gump rule of governance.

"That is unbelievably risky. That puts a tremendous burden to ensure you've done all the thorough and rigorous systems testing to minimize any exposures and risks," Tarte said.

"So when you turn one off and turn one on, you better dog-gone hope that it works," he said.

The correct approach would be to have a parallel period of running both systems, "at least something that's impactful," he said.

"When you're talking 80,000 checks per month for hospitals and providers throughout the state, it would be pretty ugly if we couldn't pay them on a timely basis," Tarte said. "We're being assured they will be able to. My only response to that is I hope so."

Tarte, an executive with Applied Revenue Analytics, a consulting firm, said regardless of any preparation, "there's going to be bumps on Day 1, you have to anticipate it."

Cooper agrees. "While the technology has been tested and remaining critical issues will be resolved prior to [going live], other states that have implemented a new claims processing and payment system say the first few months are bumpy as everyone adjusts to the new platform," Cooper said in a DHHS news release.

"For instance, we know from the experience in other states that the call center is going to be overwhelmed in the first couple of weeks after the [launch], and we're staffing it up as a result," said Ricky Diaz, DHHS communications director.

Tarte said NCTracks "will be a massive time-saver," much more flexible and functional than earlier systems. "It's pretty freaking off the charts."

Compared to the old system, "it's the difference [between] basically having a wax tablet and an iPad," he said.

"One thing we've got, if there's any hope for this thing going live, is the fact that they hired Joe Cooper. He's the real deal," Tarte said.

"He and [Wos] made some excruciatingly difficult decisions" to be in position to go live by July 1, Tarte said. "They know what they're doing, but they inherited a complete train wreck."

Tarte said the project has been delayed and costs have nearly doubled from the original contract because of "mismanagement, for no other reason. ... I guarantee you had I had a project like this, as a former partner of Ernst & Young, I would have been fired."

A 2013 performance audit by the Office of State Auditor disparaged DHHS for poor oversight of the project and questioned whether NCTracks could meet its deadline. An audit from last year also noted DHHS failings to keep the project on track.

Plans for a new system have been beset with problems for years. In 2004, DHHS awarded a \$171 million contract to Affiliated Computer Services for a system to be ready by the summer of 2006. The launch date was pushed back to August 2007, while another request for delay until November 2007 was denied. The contract was terminated, and ACS was paid about \$16.1 million.

A \$265 million contract to develop NCTracks then was awarded to Computer Sciences Corporation in December 2008. CSC missed its August 2011 startup, and was awarded an 18-to 22-month extension that hiked the contract price to \$484 million. Another contract amendment in December 2012 delayed the target launch date to July 1, where it now stands.

The current deadline matters because of the amount of money at stake.

The federal government provides up to 90 percent of the costs associated with NCTracks, but that support will drop to 50 percent of operational costs after the system goes live. If the system is certified by the federal Centers for Medicare and Medicaid Services, the share of federal support would rebound to 75 percent.

Yet the 2013 audit determined "hundreds of critical user test cases were not executed," including prescription drug claims, provider, recipient, financial, managed care, and medical claims. Moreover, the audit said, "critical NCTracks functions could have major errors on go-live and possibly lead to a delayed CMS certification of the system." *CJ*

**NCTracks  
plagued by  
major delays  
and cost  
overruns**

## Keep Up With the General Assembly

Be sure to visit [CarolinaJournal.com](http://CarolinaJournal.com) often for the latest on what's going on during the historic 2013 session of the General Assembly. CJ writers are posting several news stories daily. And for real-time coverage of breaking events, be sure to follow us on Twitter:

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The John Locke Foundation has five regional Web sites spanning the state from the mountains to the sea.

The Western regional page includes news, policy reports and research of interest to people in the N.C. mountains.

It also features the blog The Wild West, featuring commentary on issues confronting Western N.C. residents.

## State Briefs

## TABOR stalled

Tax reform legislation working its way through the General Assembly could affect a Taxpayer Bill of Rights measure originally intended to return budget surpluses to taxpayers. House Bill 274, a constitutional amendment limiting annual budget hikes by a set formula, was held up as the House and Senate tried to reconcile differing tax packages at press time.

As written, the bill would return to taxpayers any excess collection over 5 percent of budgeted revenue. If H.B. 274 passes both chambers with 60 percent majorities, voters would consider it as a constitutional amendment as early as 2014.

Revenue that exceeds budgeted amounts by up to 5 percent will be placed in an emergency reserve trust fund, said Rep. John Blust, R-Guilford, the sponsor of H.B. 274. Collections beyond 5 percent would become tax refunds.

The current version of the bill is under review by a task force appointed by House Majority Leader Edgar Starnes, R-Caldwell, and chaired by Speaker Pro Tem Paul "Skip" Stam, R-Wake.

## COPs handcuffed

Gov. Pat McCrory has signed a bill substantially scaling back the amount of debt the state can assume without voter approval. Senate Bill 129, sponsored by Sen. Tommy Tucker, R-Union, limits "special indebtedness" incurred through the State Capital Facilities Finance Act to 25 percent of all General Fund debt. It is currently at 40 percent.

Many of the projects are funded on behalf of local governments. Certificates of participation are the best known of the three types of special indebtedness permitted under the Capital Facilities Finance Act. The other two are lease purchase revenue bonds and limited obligation bonds.

General obligation bonds, whose repayments come from the General Fund, usually are linked to a state tax and require approval by voters. Special indebtedness requires nothing more than General Assembly approval, removing direct public approval from the process.

Currently, Tucker said, the state pays roughly \$700 million in principal and interest on debt through the General Fund.

State Treasurer Janet Cowell, a Democrat, who opposed an earlier version of the bill banning special indebtedness entirely, signed on in support of the version of the bill that became law. CJ

## Officials Mum on Joining Obamacare Lawsuits

By DAN WAY  
Associate Editor

One of the state's largest business organizations is keeping a close eye on two federal lawsuits challenging the authority of the IRS to collect Obamacare taxes in states, including North Carolina, that did not set up state-run health insurance exchanges.

"We are aware of what's happening in Oklahoma and other places. We're digging in and watching what's happening very carefully," said Gary Salamido, vice president of government affairs for the North Carolina Chamber of Commerce.

Notwithstanding the Chamber's interest, top state Republican elected officials have not taken a position on whether the state should join any of the lawsuits.

## Oklahoma suit

Oklahoma, which did not create a state-run exchange, is suing the federal government to block the IRS from enforcing the taxes that fund the significant federal subsidies uninsured individuals would use to buy insurance from the health exchanges.

As written, the law limits taxation funding the subsidies to states that have authorized state-run exchanges. North Carolina has not set up such an exchange.

Sam Kazman, general counsel for the Washington, D.C.-based Competitive Enterprise Institute, said his organization is suing to block the Obamacare taxes on behalf of several small businesses and four individuals in Virginia, West Virginia, Texas, Missouri, Tennessee, and Kansas.

If the lawsuit is successful, "Given the way that the court ruling on a federal issue works, it would pretty much invalidate the rule" in what Kazman called the 33 "refusenik states" that refused to set up state health exchanges.

There is some difference between the suits.

"Oklahoma as a state is raising a number of constitutional issues in addition to whether the regulation was authorized by Congress, whereas we're just raising that last point," Kazman said.

## 'Very concerned'

"Our members are very concerned about it, both the large companies and, in particular, the small companies," Salamido said of the Obamacare mandates.

"What we're doing is we're talking to our member companies, we're talking to folks in the [human resources] groups of those member companies. They're monitoring it. ... That being said, we've not taken any position or made any decision to go any further yet" with legal action, Salamido said.

"The key point for us is one of the leading impediments to economic recovery, and job creation, and job retention is the Affordable Care Act," the official name for Obamacare, Salamido said. "If the IRS was to get more aggressive in any regard, we would have a hard time not opposing it."

Karen Harned, an attorney in the National Federation of Independent Business Legal Center in Washington, D.C., helped to prepare arguments her organization used before the U.S. Supreme Court to block implementation of Obamacare's individual mandate. Though the NFIB's challenge was not successful, Harned thinks "there is a good statutory challenge" in the pending lawsuits.

"I think the statute clearly does say that the subsidy and the mandate applies to the state-run exchanges and not to the federal exchanges," Harned said.

RALEIGH

## Facing a penalty

Under Obamacare, employers face a penalty, which the Supreme Court deemed a tax, for failing to provide health insurance if an employee is not eligible for Medicaid.

"The subsidies are in effect the trigger point for the employer mandate," said Michael Tanner, senior fellow at the Washington, D.C.-based Cato Institute. "If there's no subsidy, there's no employer mandate."

The law as written "says subsidies are only available on a state-run exchange. The Obama administration says this is a typo," and will collect the tax regardless, Tanner said.

Tanner said if Oklahoma's lawsuit makes it through the first round of legal challenges by the Obama administration, "you'll see a lot of states joining."

It's uncertain how North Carolina would respond.

Kim Genardo, spokeswoman for Gov. Pat McCrory, said the administration would have no comment on the lawsuits as they progress through the courts.

Amy Auth, spokeswoman for Senate leader Phil Berger, R-Rockingham, said Senate staff has been busy with legislative deadlines, budget, and tax reform issues and has not

studied the lawsuits. The office of House Speaker Thom Tillis, R-Mecklenburg, did not respond to requests for comment.

## Obama seeks suit dismissal

The Obama administration has asked the court to dismiss the Oklahoma suit. "That may give you some indication of how they're going to approach our case," Kazman said.

If the courts rule in favor of the lawsuits, "as an immediate effect, you would have thousands of companies and millions of people in the refusenik states [that] would be free of the employer mandate, and to some extent the individual mandate itself," Kazman said.

It is possible more than the 33 federal exchange states could be excluded from participating in the Obamacare tax plan as well. Although the deadline has passed for states to decide whether they would create a state exchange or opt in for a federal exchange, "that's not set in stone," he said.

There are other concerns about how the law is being implemented.

In writing the law, Congress said companies relocating from a state where there are state-run exchanges to a state where there is not would not have to abide by the employer mandate.

## 'Control mechanism'

"Under the IRS rule, [companies] cannot do that any longer," Kazman said. "That's not the sort of thing that the IRS on its own can change." Taxation is "one of those powers that the framers were very careful about" because it is a formidable control mechanism, so they limited its imposition to Congress, not regulatory agencies, Kazman said.

Another significant concern is "if statutes like Obamacare become the norm, we're in for a lot of mega-statutes coming out of Congress" whose content nobody will know or understand until well after it's passed, he said.

That is the path Obamacare took, with then-House Speaker Nancy Pelosi, D-Calif., saying, "We have to pass the bill so that you can find out what is in it," Kazman said. "Now that we're seeing what's in it, it's not very appetizing." CJ



# Stimulus-Funded N.C. Health Information Exchange Languishing

By DAN WAY  
Associate Editor

RALEIGH

A multimillion-dollar computer system designed to collect and analyze massive amounts of statewide medical data and to improve North Carolina health outcomes and control costs appears to be one more questionable outlay funded in part by federal stimulus money.

The North Carolina Health Information Exchange originally was charged with creating a state-level information technology clearinghouse to store patient medical records that could be used to expedite care and aid researchers and health providers across the state.

Instead, said Mark Bell, vice president of health information technology and chief information officer at the North Carolina Hospital Association, NCHIE has “not produced a business model that was in the best interest of providers or affordable to providers. I think if they had a different business model and a different fee structure, they would be more successful than they are.”

## Not using its assets

Bell, who’s been involved with development of the NCHIE since its inception, said hospitals aren’t the only members of the medical community that helped create the state entity and are not using its technology assets.

“I don’t see that there’s a great adoption rate among physician practices, either, or anybody else,” Bell said. He projects it will be years before medical information can be exchanged statewide.

The exchange has its vocal defenders, however. “There is a massive



The North Carolina Health Information Exchange (website above) has not produced a business model that is in the best interest of provider, or that is affordable, say the program’s critics.

piece of technology that is very flexible and very versatile that can be used in our state,” said Whitney Baker, spokeswoman for the North Carolina Health Information Exchange. “Getting folks to jump on board and be the first, that’s the piece that’s really lacking.”

“We launched in 2011, ... and everybody sort of backed out at that point,” Baker said of agencies, trade groups, and organizations that helped to develop the exchange and its technology assets. “To be valuable it needs to reach that critical mass of information, but hospitals have not been willing to jump in,” Baker said.

## ‘Least likely to be successful’

“Data aggregated in one place is the model that is least likely to be successful because that data has a whole lot of value” to providers who collect it and to patients who value medical privacy, Bell said.

“Typically, a provider will not be thrilled with the idea of somebody else making money off of their data. That is

the hot-button topic,” Bell said.

Though the original idea was to create a statewide exchange, Baker said, “We’re under the management of Community Care of North Carolina now, so our focus has shifted a little bit,” trying to leverage the relationship CCNC has with the state and medical community to save Medicaid dollars. The nonprofit CCNC administers care for most Medicaid recipients in North Carolina through a contract with the state Department of Health and Human Services.

Baker referred specific questions about the health information exchange to Paul Mahoney, director of communications at CCNC.

When contacted, Mahoney repeatedly refused to discuss the tax-funded system, instead issuing a profanity-laced series of insults against the reporter and his employer over past articles that were unflattering to CCNC’s operations. Gov. Pat McCrory has said repeatedly that transparency and good customer relations will be a hallmark of his administration.

## \$12.9 million stimulus grant

It is unclear how much NCHIE has cost the state. North Carolina received a \$12.9 million grant in 2009 through the American Recovery and Reinvestment Act (aka the stimulus program) to launch the technology agency. That was to cover 90 percent of costs for two years, with the state paying 10 percent.

A Feb. 12, 2010, press release from U.S. Health and Human Services Secretary Kathleen Sebelius touted nearly \$1 billion in stimulus funding for health information technology. The funding went to 40 states (including North Carolina) and 32 nonprofits, according to the release.

The cost-share formula was supposed to flip to 90 percent state/10 percent federal after two years. Requests to get spending amounts from the Office of State Budget and Management were not successful.

Dr. Devdutta Sangvai, president-elect of the North Carolina Medical

Society, said the medical community is trying to extract population health metrics from obsolete technology systems “and it’s not working. ... In some ways you’re getting the wrong outputs because you’re getting the wrong inputs” when it comes to improving health outcomes.

“It’s going to require a fundamental change to the way we actually analyze data, collect data, interpret the data, and use it. In addition to the data is the analytics. It’s great if you can collect the data, but if you don’t know what to do with it, all you’ve got is a big stack of paper,” Sangvai said.

Stephen Keen, general counsel of the Medical Society, said NCHIE is “a very, very good, private-sector-driven, top-notch health information exchange that is sitting on idle over in the corner.”

## ‘Parochial interests’

He blamed “parochial interests of a number of big health systems and a number of private interests that simply haven’t seen the wisdom ... of using the North Carolina Health Information Exchange to provide information” to policymakers and the private sector.

Statewide population health analysis and improvement will not be possible if there are “cells of data dotted around in electronic medical records all over the state and no way for them to talk to each other,” Keen said.

“The vitality of the NCHIE is going to be absolutely critical to addressing the cost problem that we have” by targeting the most obvious, most expensive problems, said Melanie Phelps, associate executive director of the Medical Society.

Bell sees interoperable regional networks as a better option. “I would say just because the state has received federal funding for health information exchange, that doesn’t mean it can necessarily produce the best solutions for health information exchange,” Bell said.

There are several health information exchanges around the state, he added. “I think we will never have a single [statewide] system. I think we will have a system of systems,” he said, but no time soon.

WNC Data Link, North Carolina’s first health information exchange, established in Asheville in 2006, allows authorized physicians and clinics to access medical records of patients at 17 western North Carolina hospitals and Department of Veterans Affairs facilities.

Wilmington-based Coastal Carolina Health Information Exchange serves five hospitals and many physician practices in 39 counties of southeastern North Carolina. And the N.C. Hospital Association has started a health information exchange with three hospitals and about a dozen physician practices.

## Interested in N.C. history?

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The screenshot shows the North Carolina History Project website. At the top is the logo 'NCHP' and the text 'North Carolina History Project'. Below the logo is a navigation menu with links for 'About Us', 'Encyclopedia', 'Educator's Center', 'Community Calendar', 'Commentary', 'Site Help', and 'Contact Us'. The main content area features a 'Featured Entry' section with the following text: 'The Salem Brass Band served the Confederacy from the first days of the Civil War until June 1865, when members were finally released from prison.' Below the featured entry is a 'View Encyclopedia Entries By Category' section with a dropdown menu for 'Select a Category'. At the bottom of the screenshot is the text 'The North Carolina History Project is a project of the John Locke Foundation'.

# Group: Negotiation With Pharmacies Key to Medicaid Savings

By DAN WAY  
Associate Editor

RALEIGH

North Carolina could save hundreds of millions of dollars in Medicaid prescription costs over the coming decade by negotiating discounts through pharmacy networks and using more generic drugs, a national trade organization says.

"Almost everybody in America who has prescription drug benefits, maybe 220 million people except those in the Medicaid program and the Veterans Administration, have a PBM [pharmacy benefits manager] or PBM tools working for them to save money," said Mark Merritt, president of the national Pharmaceutical Care Management Association.

"The key is it's a free-market solution here that is not political and has worked for both Democratic and Republican governors, and Medicare, and Fortune 500 companies, and small businesses all across the country," Merritt said.

Spokesmen for the trade associations representing pharmacists and retailers question the projected savings.

Fred Eckel, interim executive director of the North Carolina Association of Pharmacists, said the third-party pharmacy benefits managers are not subject to professional board oversight. And they often rely on mail-order prescriptions that eliminate the pharmacist-patient relationship necessary to ensure good health outcomes.

Merritt insists Medicaid "overspends on pharmacy, and it's an area where very few people know there is a huge amount of savings available."

The Pharmaceutical Care Management Association released a report in May prepared by The Menges Group projecting nationwide savings of \$74.4 billion from 2014-23 if all states adopted a PBM approach.

States would save \$31.4 billion of that total, with the rest resulting from federal reductions, said Menges, a health policy and coordinated care consulting firm.

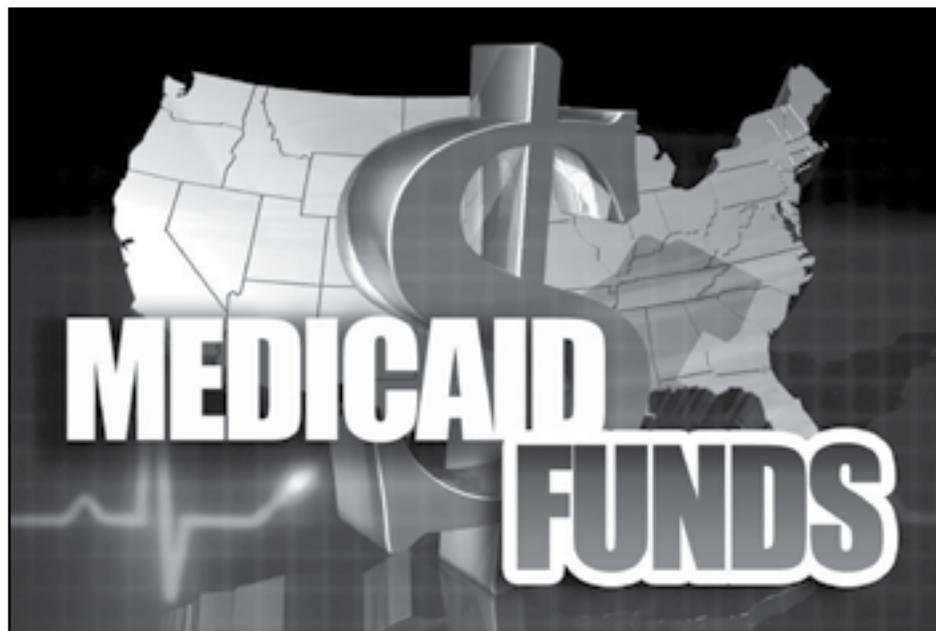
Overall savings in North Carolina would be \$3.3 billion over that same period, the study said. The state share would be \$1.15 billion.

Those savings were projected under the assumption that North Carolina would expand its Medicaid population under Obamacare. The state has refused to do so for now.

"It's still unclear over the next 10 years what each state's going to do, but you'd still have probably 60 percent of the savings [\$690 million] even if that population didn't expand. The principles are still the same," Merritt said.

PBMs use a number of cost-saving measures, including higher use of lower-cost generic drugs.

In North Carolina's fee-for-service Medicaid program, only 72 percent of medications are generic, com-



pared to an average dispensing rate exceeding 80 percent in managed Medicaid settings.

North Carolina pays up to \$5.60 per prescription, the Menges study found, which is "significantly higher" than the average dispensing fee of about \$2 paid by Medicare Part D plans, Medicaid managed care organizations, and other health plans. Negotiating lower fees would bring costs more in line.

Rooting out waste and fraud through a variety of PBM audits and detection programs would account for about 5 percent of the savings, according to the report.

"Our challenge in Medicaid is that co-pays are so low by federal statute, \$1 for generic and \$3 for brand. A Medicaid patient doesn't really have much incentive to not get the brand," even if it costs twice as much for Medicaid, Merritt said. "It's not a market-based program."

Pharmacy benefits managers "want to do the right thing, they want to make sure people have access to all the medications they need," Merritt said.

"If the government is paying the tab, there's no reason to start somebody on the most expensive drug at this particular stage if there's no evidence that it works any better for them than a drug that costs a fraction of the price," Merritt said.

Doctors retain authority to prescribe brand drugs if necessary or when a patient's condition is stabilized in the long term by using them, he said.

Pharmacies are paid a dispensing fee based on a per-prescription/per-month model.

"All that is politically driven," Merritt said. "The drug store lobby lobbies, and whoever sets the rates, it's usually a political decision" based on what the drug stores demand.

Instead of allowing all drug stores to participate, PBMs set up networks that would compete for Medicaid business through a bidding process.

port.

Several other lawmakers on legislative health care committees did not respond to requests for interviews.

Andy Ellen, president and general counsel of the North Carolina Retail Merchants Association, said Merritt's claim that money would be saved by moving to managed care "is just not accurate."

As an example, he cited a program developed by the N.C. Division of Medical Assistance and North Carolina's Community Pharmacists that increased the dispensing rate of generic drugs from 66 percent in November 2009 to 80.7 percent as of March 31. The program "paid community pharmacies a slightly higher dispensing fee if their individual pharmacy hit certain generic dispensing rate targets and a much lower dispensing fee if their generic dispensing rate targets fell short of designated benchmarks," Ellen said.

Community pharmacists worry their service would be replaced by an economic principle "where the cheapest price is the best price," Eckel said.

"The mail order PBM model ... tries to make the filling of a prescription just sort of a commodity action. Whether you're buying a drug or you're buying a cake of soap, you know, what's the difference?" he said.

Community pharmacies argue that they provide "a professional activity ... that assures the appropriateness of that drug with all the other drugs you are taking, looking for drug interactions, etc.," Eckel said.

Such personal interaction with a pharmacist is vital, he said. A variety of reports show that patients who do not follow prescription drug therapy raise health care costs from \$100 billion to \$300 billion and cause up to 125,000 deaths yearly, he said. CJ

"Medicaid is a big player, [it] ought to operate like a big player, and use leverage like a big player," Merritt said. "Why should the Medicaid program be paying two or three times more than private insurers are paying for the same service?"

"I saw that report," Eckel said. "I don't know what methodology they used and how that would stand up in terms of those savings."

However, he said, "I think the legislature itself is looking at perhaps a different way of computing drug costs for reimbursement, thinking that there is some savings that could come from actual acquisition costs instead of the method they are now using. There are some potential savings there, it seems."

"That sounds very promising," said Sen. Louis Pate, R-Wayne, chairman of the Senate Health Care Committee, of the Pharmaceutical Care Management Association report. Pate cautioned that he had not seen the re-

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# Reformers Making Another Push for Nonpartisan Redistricting

By BARRY SMITH  
Associate Editor

RALEIGH

A good-government group made another push for redistricting reform as the General Assembly entered the final weeks of its 2013 session.

The N.C. Coalition for Lobbying and Government Reform is using a new study showing how gerrymandering leads to the majority party having a disproportionate share of the General Assembly.

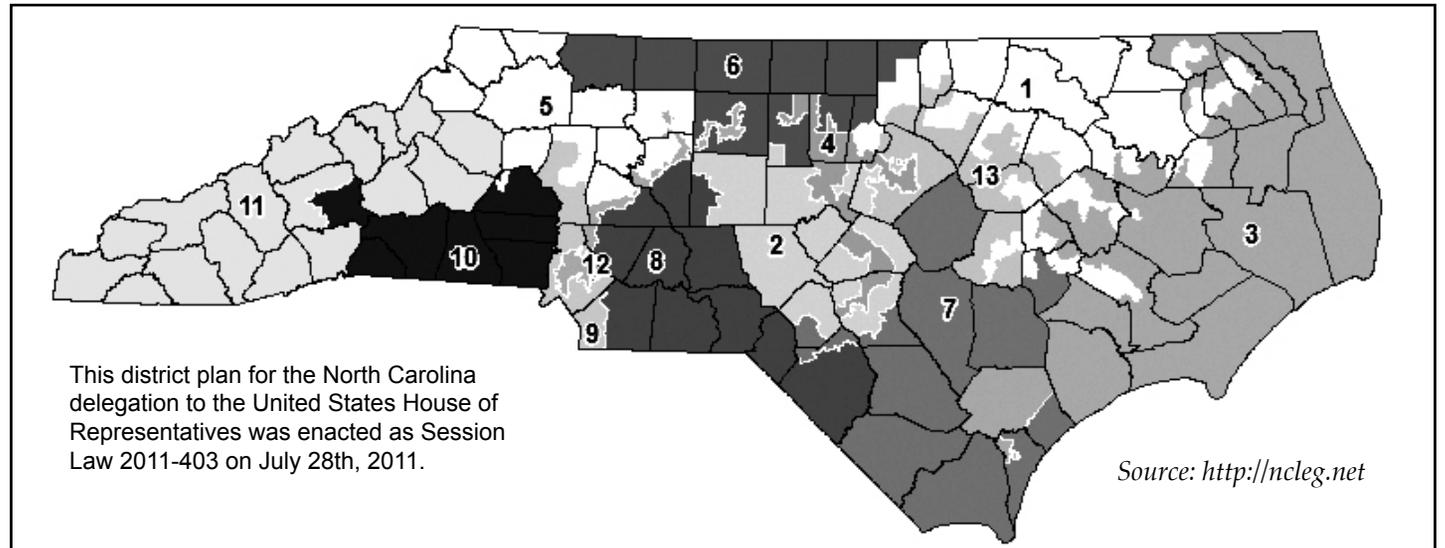
The study, done by assistant professor Mark Nance of the School of International and Public Affairs at N.C. State University and Larry King, a retired N.C. State professor, looks at how Democrats benefited from gerrymandering when they were in power in the 1990s, and how Republicans are benefiting from power now.

Jane Pinsky, director of the N.C. Coalition for Lobbying and Government Reform, said that the effort to change the way congressional and legislative districts are determined speaks to the level of trust between those who make the laws and those who have to abide by those laws.

"We do hear from a lot of citizens — a lot of distrust," Pinsky said. "People who've been around a while understand that that undermines everything they want to do."

The bill is based on a redistricting plan that is in effect in Iowa. It would require the General Assembly's nonpartisan Legislative Service Commission to draw up congressional, state Senate, and state House districts following the 2020 census and every census thereafter.

The commission staff would use census data to draw the state's con-



gressional and legislative districts. It would require adherence to federal and state law, including the "whole county" provisions in the N.C. Constitution stating that, when possible, districts should not divide counties. It also would require districts to be as compact as possible.

It would forbid drawing districts favoring a political party or incumbent. In addition, it would prohibit the dilution of the voting strength of a language or racial minority group.

"In establishing districts, no use shall be made of any of the addresses or geographic locations of incumbents," the bill says.

"They go in there with the census data," Pinsky said. "That's all that they can look at."

It also requires prompt preparation of the districts by the commission staff and quick turnaround times for legislative action.

While legislators would be able to make technical changes in the bill, they would not be allowed to make

substantive changes. Lawmakers otherwise could give a proposed plan only an up or down vote.

If lawmakers fail to approve a plan, they must instruct the staff as to their concerns and allow the staff to draw plans as many as two additional times. If, after three tries, the General Assembly has not approved a redistricting plan, then lawmakers would draw their own.

The study done by King and Nance shows a disproportionate percentage of members of the majority party getting elected in North Carolina compared with the total statewide vote.

In 1992, using new districts drawn by Democrats, Democratic candidates for state House seats received 52 percent of the votes, but Democrats got 67 percent of the seats. That same year, Democrats got 55 percent of the votes statewide for N.C. Senate, but held 78 percent of the seats.

During the 2012 election, after Republicans drew the congressional

and legislative districts, they were able to win 64 percent of the N.C. House seats, though they got 54 percent of the vote statewide. For N.C. Senate, Republicans won 66 percent of the seats while getting only 50 percent of the vote statewide.

Pinsky is still hoping that the bill will make progress during the closing weeks of the legislative session. She noted that House Speaker Thom Tillis, R-Mecklenburg, has been a supporter of the concept.

Jordan Shaw, a spokesman for Tillis, acknowledged Tillis' support and said the bill's fate this year may come down to timing.

"What comes up throughout the remainder of the session depends on our capacity to move bills while dealing with the budget, tax reform, etc.," Shaw said.

The N.C. Coalition for Lobbying and Government Reform represents more than 50 groups and individuals, including the John Locke Foundation. *CJ*

## JLF: 'Reverse Logrolling' Would Give Budget Writers Flexibility

By CJ STAFF

RALEIGH

North Carolina legislators could maximize their flexibility for tax reform and unanticipated Medicaid spending by using a "reverse logrolling" approach to the final state budget deal. That's the conclusion of a John Locke Foundation Spotlight report published in late June, as budget negotiations were continuing.

This approach would lead to surpluses of almost \$600 million in the new budget year that started July 1, and almost \$1 billion in 2014-15, before taking tax reform into account.

"Traditional logrolling is a tried-and-true tactic in which lawmakers otherwise predisposed not to favor an expenditure or program agree to support it because fellow lawmakers agree to do the same for other items," said

report author Sarah Curry, JLF director of fiscal policy studies. "This practice often results in a poor outcome for average citizens, as lower-priority or so-called 'pork-barrel' items are funded and mediocre legislation enacted."

"Reverse logrolling flips this practice on its head," Curry explained. "Rather than one set of budget negotiators accepting particular programs or higher levels of spending from their counterparts, with the expectation that those counterparts will do the same, legislators should agree to accept the lower spending numbers for each departmental budget."

"After all, a majority of voters in at least one chamber already has decided that the expenditure in question will satisfy citizens' needs under current budgetary constraints," Curry said.

The report offers a department-by-department listing of potential savings from the reverse logrolling approach. For example, the total education budget would be \$11.422 billion in 2013-14, roughly \$56 million less than the House plan and \$67 million less than the Senate's proposal. State Health and Human Services spending would total \$4.975 billion in the first year of the two-year budget plan, about \$8 million less than the Senate plan and \$44 million less than the House budget.

The bottom line is a \$20.6 billion General Fund budget in 2013-14, and a \$20.8 billion General Fund budget the following year, Curry said. "This leaves approximately \$594 million in surplus in the first year and more than \$940 million in the second year without tax reform adjustments."

Factoring in the revenue changes linked to competing tax reform proposals, lawmakers would see \$851 million in surplus over two years with the Senate plan, and \$1.1 billion from the House plan.

Those numbers also incorporate an "ever-growing" Medicaid shortfall, which was expected to reach \$330 million by the time the report was finalized. That shortfall had been pegged at \$123 million when the governor released his original budget plan.

"Even with significant tax reform changes and a large, unanticipated Medicaid shortfall, the legislature still has many options," Curry said. "If state budget negotiators use the reverse logrolling method and leave their chamber's pride at the door, then everyone will benefit from the large surplus, taxpayers and state government alike." *CJ*

## COMMENTARY

## Time For A Testing Revolt

Traditional schooling is finished until fall, but controversy over end-of-year testing has fueled a movement that is just getting started. Around the nation this spring, simmering parental anger over student testing boiled over into all-out revolt. As testing increasingly co-opts curriculum and classroom, many parents have grown weary of talk, talk, talk. No glib platitudes can quell this uprising; instead, moms and dads are taking action.

In Texas, fed-up parents (dubbed the “mamas”) channeled their ire into a grass-roots coalition, Texans Advocating for Meaningful Student Assessment, and lobbied hard to reduce student testing. They prevailed with panache: Weeks ago, state lawmakers overwhelmingly passed a bill cutting from 15 to five the number of state high school assessments required for graduation. Gov. Rick Perry signed the bill into law June 10, saying it (and other education legislation) “strikes a balance ... between accountability and an appropriate level of testing in the classroom.”

In New York, frustration erupted in April over new state tests aligned with Common Core, the math and English standards adopted by 45 states, including North Carolina. Hundreds of parents participated in boycotts or pulled children out of testing. Fifty principals sent a letter to New York State Education Commissioner John King, saying the tests created undue stress for students: “The extremes were unprecedented: vomiting, nosebleeds, suicidal ideation, and even hospitalization.”

Reported problems were legion. Time allocated for tests was inadequate; students burst into tears as the clock ran out. *The New York Post* wrote that test material was unfairly “déjà viewed” by some: On sixth- and eighth-grade exams, test publisher Pearson “unintentionally” used reading passages that also appeared in Pearson-written textbooks. Some schools had purchased the textbooks; others had not.

What does this testing back-

lash portend for North Carolina? Plenty: There’s a revolt brewing here, too. But parents have a powerful ally. On June 5, Gov. Pat McCrory addressed the State Board of Education, calling the number of student assessments “excessive.” This year under the federal Race to the Top program, North Carolina added 30 tests in grades four through 12 (for a total of 194 tests), the governor noted in a press release. The governor’s senior education adviser is reviewing the state’s testing program.



**KRISTEN  
BLAIR**

A critical review is timely: New online Common Core tests arrive in 2014-15. A governing member of the Smarter Balanced Assessment Consortium (one of two national consortia developing Common Core assessments), North Carolina is expected to use the tests. That could shift, however: Anger over testing excess and Common Core standards in general is building statewide. The state board decides this fall whether to use SBAC tests.

It’s too early to judge SBAC tests on content and rigor, but there are myriad other reasons to give them the boot. The federal government is enmeshed deeply in what has been billed as a states’ effort: SBAC is 99 percent funded by federal dollars; the U.S. Department of Education has implemented a technical review process to oversee test development.

Moreover, the price tag is prohibitive: North Carolina’s Department of Public Instruction estimates SBAC tests will cost more than twice as much as DPI’s current assessments. Additional costs undoubtedly will accrue, as some districts will need to make technology upgrades to deliver tests online.

What to do? There’s a simple solution I and others have advocated for years: Replace excessive, onerous assessments with a nationally normed achievement test. Love it or hate it, some standardized testing is necessary, providing accountability and objective feedback on student learning. But I won’t argue with the mad mamas. They know when kids have had enough. *CJ*

*Kristen Blair is a North Carolina Education Alliance fellow.*

## Several Education Bills Remain In Limbo As Session Nears End

By CJ STAFF

RALEIGH

A number of bills affecting elementary and secondary education remained unresolved as the 2013 session of the General Assembly drew to a close. The session had not adjourned at press time. Among the measures that had not passed both chambers were the following:

- House Bill 944, Opportunity Scholarship Act. The bill, by Rep. Rob Bryan, R-Mecklenburg, would provide vouchers of up to \$4,200 to students attending nonpublic schools, with \$50 million shifted from the state’s education budget to the program over the next two years. Fifty percent of the grants would go to students receiving free and reduced-price lunches. The State Education Assistance Authority would administer the opportunity scholarships, which also would be available to children in foster care and newly adopted children.

Because of an anticipated reduction in enrollment resulting from the vouchers, public school appropriations would be reduced by \$12.1 million in 2013-14 and \$35.9 million in 2014-15. Rep. Linda Johnson, R-Cabarrus, who co-chairs the House Appropriations Committee, said there would be a net savings to the state treasury in some school districts for children who leave the public schools and use the vouchers to attend a private school.

The bill passed the House Education Committee, 27-21, and was incorporated in the House budget proposal. It was unclear whether the final budget agreement passed by the Senate and the House and signed by Gov. Pat McCrory would include the voucher provision.

- House Bill 269, Children w/ Disabilities Scholarship Grants. The bill, from House Speaker Pro Tem Paul “Skip” Stam, R-Wake, would provide reimbursement of \$3,000 per semester or \$6,000 a year for tuition and special education services. Parents would get assistance if they enrolled their children in private schools to receive psychological, speech, occupational, or other therapy provided to the students. It would replace a tax credit for such services that was approved by the General Assembly in 2011.

Stam said grants were an improvement over tax credits because more low-income families would

qualify for reimbursement. The proposal would set aside \$3.7 million in the 2013-14 school year for the grants. The measure passed the House by a 75-36 vote and was in the Senate Education Committee. Chairman Jerry Tillman, R-Randolph, said in late June he wanted more information about the proposal before he would submit it for a vote. Legislative staff said replacing the tax credit with grants would increase spending by about \$2 million a year for the next five years.

- House Bill 719, Education Improvement Act of 2013. The bill, by Rep. Bryan Holloway, R-Stokes, would, among other things, modify teacher tenure. To obtain career status, teachers would have to receive “highly effective” ratings by state evaluators for the first four years the bill was in effect. Any teacher receiving a “needs improvement” rating during that initial period would be terminated at the

end of the school year. Any teachers with career status receiving “needs improvement” ratings two consecutive years could be terminated.

The bill also would establish new performance standards for individual schools. H.B. 719 passed the House 113-1 and was in the Senate at press time.

- Senate Bill 361, Excellent Public Schools Act of 2013. The bill, by Senate leader Phil Berger, R-Rockingham, would end teacher tenure in five years, even for teachers who now have tenure. Replacing the tenure system would be one-year contracts issued by local school boards for teachers with fewer than three years employment. Teachers employed three or more years would be offered contracts ranging from one to four years. Top teachers would be offered \$500 salary supplements.

End-of-course tests would be limited to the last 10 days of a calendar year for year long courses, or the last five days of a semester for semester-long courses. The bill would modify the letter-grade system given to schools that was passed in last year’s education reform act. Berger said his proposal would expand on last year’s reforms by having a component telling parents whether the school made or failed to make growth goals. The bill was incorporated in the Senate budget proposal. *CJ*



# Constitutional Concerns Help Sink Independent Charter Board

By DAN WAY  
Associate Editor

RALEIGH

Amid pushback from charter schools and concerns about violations of constitutional separation of powers, a Senate bill to create an independent public charter school board was revised June 25 to make the panel advisory in nature.

"The State Board of Education and governor were all in accord on that one, that they thought we needed a constitutional divide there to make sure that we didn't really cross over onto their constitutional grounds," state Sen. Jerry Tillman, R-Randolph, said after the House Education Committee passed Senate Bill 337.

The bill, which the Senate passed along party-line votes, now goes to the House Finance Committee, and to the Appropriations Committee after that. If it passes the full House, it would return to the Senate.

The original bill called for the charter school board to operate independently from the State Board of Education, and required the state board to garner a three-fourths majority vote before it could reject any actions from the charter school board.

Under the revised bill, "The State Board of Education has total authority to overrule any recommendation" from the charter advisory board, Tillman said.

Recommendations are "all they may make in policy or procedure or anything else," he said of the advisory board. The State Board of Education "has total power to overrule anything that they may suggest."

Even before the bill reached the House Education Committee, it was facing challenges over its constitutionality. "I don't know of any effort in the history of the state, certainly not since

the current constitution was written, to try to usurp the State Board of Education's authority like this," said Jeanette Doran, executive director and general counsel of the North Carolina Institute for Constitutional Law, earlier in June.

"Article 9 of the state constitution is ... very, very clear that [the State Board of Education runs] the public schools in the state, and charter schools are public schools," Doran said. "The State Board of Education's authority isn't over just the uniform system, it's over all public schools."

Tillman said Senate leadership backs the switch to advisory status, and he is confident the changes and several amendments made in the House Education Committee will meet with concurrence, with one possible exception, should the bill go back to the Senate.

"The only little part that I quibble with is that the governor's office would name the chair and vice chair" of the charter advisory board, Tillman said. "It's always better for an advisory committee to pick their own, in my opinion, but that's something we can work with."

As it stands, the bill would establish an 11-member advisory panel. The governor, House speaker, and Senate president pro tem each would appoint three members. The lieutenant governor and state treasurer would be voting members. The state superintendent of public instruction would be a non-voting secretary to the board.

Tillman said he doubts a constitutional amendment would be pursued

in the future to create an independent charter school board.

"We're going to see if it works," he said of the proposed structure, particularly since newly appointed members of the State Board of Education appear to be friendlier to charter schools.

"We had an earlier situation where it wasn't working. The state board was blocking some of the charter initiatives, and we felt like there was an adversarial relationship there," Tillman said. "That's why we went with a charter board. I believe we got a better situation."

Even so, the revised measure did not win over some committee Democrats. "The advisory board that we have in place works, and what this is doing now is strengthening the division between the traditional public schools and the charter schools," said Rep. Paul Luebke, D-Durham. "I see no need for a separate board to be set up."

A significant concession made to charter school advocates was the removal from the bill of an application fee for new charter schools. A number of technical amendments also were adopted clarifying language and directing the flow of money from a school district to a charter school, and from a charter school to a school district as students migrate back and forth.

"A lot of [school districts] and public schools resent charters in that it's taking away a lot of their kids. They see this as an erosion of their public schools," Tillman said. "And I see it as a marketplace telling you go to the best

place you can go in education, and the money follows the kids, so if you have the kids you get the money wherever you are."

Rep. Paul Tine, D-Dare, raised objections to the bill because, he said, it seems like charter schools are moving more and more into a separate system.

"It's not created to clone the public schools, otherwise we wouldn't need the charter schools," Tillman said.

Matt Ellinwood of the North Carolina Justice Center spoke to the committee in opposition to the bill.

Among concerns he cited were the lowered requirements for having certified teachers in charter school classrooms. He cited a recent study from Duke University that students "suffered significant learning losses" when taught by uncertified teachers.

"I object to this objection about teacher certification," said Rep. Larry Pittman, R-Cabarrus.

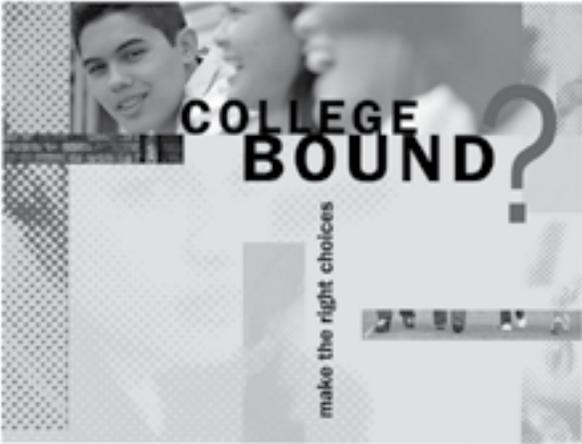
"You know a lot of the impetus for having charter schools is because some parents who have the real responsibility and authority for their children's education are not buying what traditional public schools are selling," Pittman said.

"I know in the case of my family, the public schools were doing a lousy job of teaching our kids" when he and his wife pulled their children from traditional public schools and homeschooled them instead, Pittman said. They had one son in third grade who was reading at a first-grade level.

"Neither my wife nor I were certified teachers," he said, yet the education their children got at home prepared them to make the dean's list in college. He believes that competition between traditional and charter schools "will help the traditional public schools improve what they're doing." CJ

Fear of quick court challenges led legislators to strip powers from the bill

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# Opponents: Longer CMS School Day Creating Hardships

By KAREN McMAHAN  
Contributor

RALEIGH

Charlotte-Mecklenburg Schools is continuing a two-year-old program expanding the elementary school day by 45 minutes to seven hours, even though many parents, teachers, and students have raised objections to the "late bell" program.

The program was expanded systemwide in 2011 with no public input despite an internal review that concluded a pilot program at one CMS elementary school resulted in "few positive outcomes."

District officials have acknowledged some missteps in communicating the expanded school day schedule with parents but have no plans to abandon it. They have engaged the Council of Great City Schools, a Washington, D.C.-based trade association representing urban school districts, to study the program and offer recommendations. CMS is a member of the council. Superintendent Heath Morrison and school board member Mary McCray are on the council's board of directors.

The expanded day was a pilot program CMS implemented in 2007-08 at Billingsville Elementary School. A December 2008 report from the Office of Accountability, Center for Research and Evaluation, said CMS researchers chose Billingsville because fewer than 50 percent of its fifth-grade students were performing at or above grade level on state tests in 2006. Officials wanted to see if an additional hour would have a positive effect on children's achievement.

But researchers reported "few positive outcomes" during its first year of implementation. Among the findings were that many teachers did not utilize the extra hour for project-based instruction as the plan envisioned. Instead, they tended to engage in such activities as reteaching, planning, and standardized test preparation.

Surveys and focus groups from the pilot program showed that staff perceptions were negative and "half believed that [the expanded day] should not be continued in the future." Children were too tired at the end of the day to focus, disciplinary problems increased, and staff reported feeling "burned out." Staff also reported no increase in parental involvement.

There was no public input before implementing the schedule district-wide; the plan was a line item in the transportation section of the 2011-12 budget. The board approved the budget July 26 — a few weeks before the school year opened — by an 8-1 vote.

Staff said the expanded day and late-bell schedule would save \$4 million in transportation costs. Kaye Mc-

Garry, who served on the board from 2003-11, was the only member to vote against the 2011-12 budget.

McGarry told *Carolina Journal* in a phone interview that she voted no for several reasons, including the change in the elementary school schedule. "I wasn't against a longer school day in principle, but the board and CMS leaders had no plan for what to do with the extra time, and the transportation report was not thorough enough to show it would save money. The budget process is from January through May, yet three budget workshops had been canceled, so there was little planning," McGarry said.

Parents and teachers had little opportunity to voice concerns over a plan that affected more than 71,000 students in 88 elementary schools. Opposition from parents and teachers has gotten stronger in the two years since the schedule was implemented.

A group of parents formed Community Advocates for Child First School Schedules in fall 2011 to urge the school board and CMS leaders to reconsider the schedule. CFSS member Susan Plaza told *CJ* that the late-bell schedule has posed a special burden on magnet school students and their parents because more travel is involved. Most magnet schools are on the 9:15 a.m. to 4:15 p.m. bell schedule, so many students aren't getting home until after 6 p.m.

In September 2011, more than 1,000 people responded to an online petition asking the school board to change the late-bell schedule. Petitioner comments were similar to findings from the Billingsville evaluation, saying children were too tired to do homework, participate in extracurricular activities, or spend quality time with their families and teachers.

Judy Kidd, president of Classroom Teachers Association of North Carolina, a nonpartisan trade association, said "teachers are not only not getting compensated for the loss of planning time and longer days, but they're being penalized in their annual leave by having to take time off for doctor appointments or care for their families and children, and they're having to pay for additional day care for their own children."

CTANC has conducted several

teacher surveys showing teachers and staff have noticed greater student disengagement, an increase in off-task and behavioral problems, diminished student motivation, a loss of teacher planning time, a rise in teacher turnover, and lack of time for parent-teacher conferences as a result of the schedule change.

Kidd said parents and teachers have attended school board meetings to engage with school leaders, but they've become frustrated over the lack of response. "It's easier for school officials to send parents down rabbit trails rather than coming up with a real solution," Kidd said.

## Timeline

In February 2012, CFSS presented a proposal to CMS board member McCray that would save money on transportation while resolving the late-bell problem. The group was told its plan would save \$1 million, and that was not enough, Plaza said.

Shortly after Morrison took over as superintendent in 2012, CFSS met with him. After presenting data from CTANC teacher surveys and outlining five possible solutions, Morrison agreed to work with the group. Morrison also set up a task force including CFSS, CMS staffers, and CMS teachers

to recommend changes for the 2013-14 budget year.

Nothing has developed. CFSS says school officials are throwing up roadblocks. CMS counters that plans suggested by CFSS don't yield the needed savings or would cause too much upheaval.

In April 2013, the group sent a memo to Morrison with its findings and recommendations and another in May to the school board saying the schedule possibly violates two different state statutes. To date, the group has not received a response.

## CMS responds

Asked why there'd been no public input before implementing this change, CMS chief of staff Earnest Winston said by phone the changes came about during a tough budget year and the board "gave its blessing as part of the budget discussion." He also said CMS transportation staff came up with the plan.

Winston defended the extended day and late-bell schedule as the best solution at the time to protect classrooms and teachers.

"We agree we could've done a better job at getting feedback in advance, but that's why we want to be cautious before making further changes because one model these parents suggested would cause too much upheaval for high school students," Winston said.

Winston also notified *CJ* that CMS has engaged Robert Carlson, director of management services for the Council of the Great City Schools, to assemble a team of top transportation officials to study the issue and make recommendations. *CJ*



## Share your CJ

Finished reading all the great articles in this month's *Carolina Journal*? Don't just throw it in the recycling bin, pass it along to a friend or neighbor, and ask them to do the same.

Thanks.



# Rural Areas Seek Higher Taxes To Compensate Firefighters

By MICHAEL LOWREY  
Associate Editor

**R**ural and small-town fire departments are having a hard time attracting volunteer firefighters. Fire department heads blame a changing economy, and increasingly are requesting higher fire district taxes to pay for more professionals, reports the *Greensboro News & Record*.

Guilford County has 19 fire districts that provide service in unincorporated areas outside Greensboro and High Point. Nine districts asked to raise taxes this year, with much of the extra money budgeted to hire or compensate full- or part-time professional firefighters.

"When a lot of these departments were started, they were made up by farmers," said McLeansville Fire Chief Roy Rimmer.

"If there was a fire, they could all stop and respond to it. Nowadays, you've got people working two jobs — and they usually live here and work in a bigger city."

Rimmer started out as a volunteer, living in McLeansville and working at Cone Mills in Greensboro, which allowed him to take time off to go on calls. Jobs offering such flexibility can be harder to find.

The McLeansville Fire Department currently has 33 volunteers. Rimmer says that's down from about 50, and that other area departments have seen similar drop-offs.

Part of the reduction in volunteers results from high certification standards.

"What we require now for state certification takes a year to a year and a half of classes," Rimmer said. "When I came in, there were nine or 10 classes, and it took about six months."

## Leland changes directions

The Brunswick County town of Leland may have the most unusual financial model of any municipality in the state. Now its town manager is proposing to do the exact opposite of what the town has done in the past to encourage growth, reports the *Wilmington Star-News*.

Financial data filed with the state shows that Leland collected an unusually high percentage of its tax and fee revenue from building permit and inspection fees. The high fee revenues result from Leland charging some of the highest permit and inspection fees

in the area. Leland currently charges about \$2,400 in permit and inspection fees for a 2,000-square-foot house. By comparison, the fees in unincorporated Brunswick County are \$800. Neighboring Pender County charges \$670, while fees in New Hanover County come to about \$650.

Under the town's tentative budget, Leland would cut its building and inspection fees to \$1. The idea is to get developers to ask for their land to be annexed into the town before starting construction on new houses.

"The town would ultimately benefit from having this tax base within its boundaries," said Town Manager David Hollis. "So if a developer comes in and builds a large residential subdivision, all those houses would be paying

taxes. It builds our base, and building that base is a long-term way to build our revenue."

Hollis estimates it will take less than six years for the town to recover the lost inspection revenue.

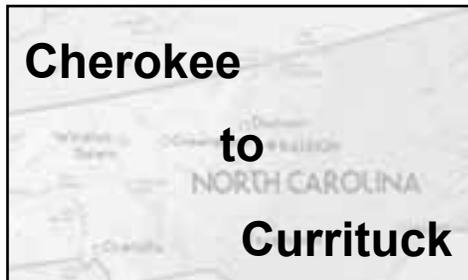
## Raleigh water capacity

The city of Raleigh is seeking permission to take more drinking water from Falls Lake. The move comes as the city, which also supplies water to six smaller Wake County towns, seeks adequate water for its rapidly growing population, reports the *Raleigh News & Observer*.

Falls Lake serves as Raleigh's main water supply. A portion of the lake's water is set aside to serve as a "water quality storage pool" to assure that pollutants are diluted to safe levels. The city is asking the Army Corps of Engineers for permission to reduce the portion assigned to assure water quality. It expects an answer in one to three years and is funding a \$450,000 study on possible impacts.

"Even with the most aggressive water conservation and efficiency goals, we recognize that we will need new water resources," said assistant public utilities director Kenny Walldrop. "This alternative could provide those resources for the next 30 years."

Should the request be denied, the city may be able to take water from the Neuse River watershed downstream of the Falls Lake dam through the use of quarries. If Raleigh can't get more water from the Neuse, it would have to turn to the Little River. A dam to create a reservoir there has been projected to cost \$263 million. *CJ*



## COMMENTARY

# Airport Authority Would Solve Nothing

**T**he bill affecting local governments during the 2013 session of the General Assembly that has generated the most news coverage may be a proposal transferring control of Charlotte Douglas International Airport from the city of Charlotte to an independent regional authority.

Whether an independent authority would manage the airport better is an open question. What seems certain is that the transfer as currently proposed is a classic example of the cure being worse than underlying illness.

The issue largely centers around Jerry Orr, the airport's longtime director. Orr has been in charge of the airport since 1989 and, along the way, has come to operate it without much outside supervision. While the airport does have an advisory committee, it has been little more than a rubber stamp for Orr's vision. Charlotte City Council hasn't been much more active in providing oversight. Nor has there been much questioning of Orr's leadership in Charlotte's business community; quite the contrary, as Orr's pronouncements are taken as gospel.

Things began to change in late 2010, after a teenager named Delvonte Tisdale evaded security and stowed away in the wheel well of a US Airways flight to Boston, the first time since 1972 such a stow-away has happened in the United States. Hiding in the unpressurized section of a jetliner usually doesn't have a happy ending, and Tisdale's case proved no exception.

Unsurprisingly, the city's elected and appointed leadership began to pay much more attention to how the airport was run. The airport's police force was placed under the control of the Charlotte-Mecklenburg Police Department. CMPD, in turn, assigned more officers to the airport, resulting in an additional expense for the airlines flying out of Charlotte Douglas.

This didn't sit well with Orr. As *The Charlotte Observer's* reporting later showed, no one involved behaved very well. The situation soon degenerated to the point at which powerful Friends of Jerry — Sen.

Bob Rucho and Rep. Bill Brawley, both Republicans from suburban Mecklenburg County — introduced legislation creating the new authority.

Under Rucho and Brawley's proposal, Mecklenburg County and each of the five adjacent counties would name one member to the panel. Charlotte would have two representatives, one appointed by city council, the other by the mayor. Additional appointments would

come from the leaders of the House and Senate as well as the governor.

What Charlotte Douglas International Airport needs is active and effective oversight while maintaining a good relationship with the city. The current bill doesn't guarantee that.

If Rucho and Brawley expect that an independent authority would end the bickering, they

are mistaken. Rather, such a move likely would perpetuate conflict between the airport and the city. Think nasty divorce, with lots of distrust on both sides, and absolutely no reason for either party to be nice to the other.

The problems extend beyond that. Is there any reason to expect an independent authority to provide meaningful oversight of the airport in general and Jerry Orr in particular? If such an authority comes about, Orr effectively would have succeeded in getting his former bosses fired (OK, removed from his chain of command) for daring to cross him. That point won't be lost on authority members, and it will make them unlikely to question anything Orr or his successor says.

Nor is it obvious why a regional authority should be responsible for Charlotte's airport but not also those in the surrounding counties that have seats on the new board.

How we structure local government matters. The current proposal to create an independent Charlotte airport authority simply creates a structure that perpetuates an unhealthy relationship between the city and the airport. *CJ*

*Michael Lowrey is an associate editor of Carolina Journal.*



**MICHAEL LOWREY**

## Town and County

## Beach renourishment

Many North Carolina beach communities long have depended on the federal government to pick up most of the costs of beach renourishment projects. Such federal aid may be coming to an end soon, reports the *Wilmington Star-News*.

In 1962, Congress passed legislation allowing for 50-year partnerships between local communities, states, and the federal government to renourish beaches by importing sand that had been lost from erosion. Carolina Beach was among the first towns to sign such an agreement; its deal expires next year.

It's unclear whether Congress will renew beach renourishment funding partnerships for towns as their agreements expire. U.S. Rep. Mike McIntyre, D-7th District, has introduced a bill allowing new 15-year pacts, but its fate is uncertain.

Based on a consultant's recommendation, Carolina Beach officials are not optimistic that the town can pay for beach renourishment on its own. It could tap into New Hanover County's room occupancy tax revenues, but the hotel-motel tax dollars will stretch only so far.

"[The] total annual investment the town would have to make to cover nourishment would be \$586,000," said Assistant Town Manager Ed Parvin.

## Charlotte housing

A new study highlights the impact of local government regulations on housing affordability. The paper by two Johnson C. Smith University professors and a local lawyer shows that Charlotte alone adds \$17,100 to the cost of the typical house, reports *The Charlotte Observer*.

The paper focuses on three city regulations: the Post-Construction Controls Ordinance, which involves storm water controls; the Urban Street Design Guidelines; and the Tree Ordinance. The study estimates the direct costs of these regulations and then applies industry-standard multiplier effects to show how these regulatory costs translate in home prices.

These higher home prices reduce the number of families who can afford to buy a house.

"Too much regulation can hurt the people it was intended to help," said Nick Desai, a JCSU professor of business administration and economics who co-authored the report. *CJ*

## CLT Airport Authority Bill Stuck on Runway

By DAN WAY  
Associate Editor

RALEIGH

A Senate bill transferring ownership of Charlotte Douglas International Airport from the City of Charlotte to a regional authority was put on standby in mid-June when the House Finance Committee raised several objections to the proposal.

Senate Bill 81 passed that chamber in March, 32-18, with Republican Sen. Fletcher Hartsell of Cabarrus County joining 17 Democrats in opposition. The House Transportation Committee June 6 approved a revised version of the measure by voice vote and sent it to the Finance Committee, where it resided at press time. Even if the General Assembly's long session adjourns before the House takes up the bill, it could be revisited at any time until the short session closes in 2014.

## Clarifying language

Rep. William Brawley, R-Mecklenburg, who presented the bill to the Transportation Committee, said the measure now includes revisions intended to clarify language and address prior complaints. But ownership transfer, he said, remains vital to protect the "economic engine" of the airport and to avoid it being used as a cash cow by the city.

Committee members opposing an immediate vote on the bill downplayed the findings of a consultant's study done specifically at the request of Charlotte City Council, as action on the bill was delayed to accommodate the analysis. The study concluded that a regional authority would be the best option for airport operation.

"We have had some conversations with the City of Charlotte, ... but right now we're at a point of an impasse," Brawley said. He, Rep. Ruth Samuelson, R-Mecklenburg, and House Speaker Thom Tillis spoke with Charlotte representatives to no avail, he said.

"The other side is totally unwilling to work with us," Samuelson said. She said she was "surprised" when "there was zero" cooperation from Charlotte City Council representatives discussing with the trio their recommendations for further study of contentious issues.

"We're still willing to do that," Samuelson said.

## Not yet an 'impasse'

"I want the committee to know that the City of Charlotte is interested in continuing to have discussions and negotiations to resolve the future of the airport in the most amicable and most businesslike way," said Charlotte City Manager Ron Carlee. "We're not prepared to declare an impasse."

Rep. Becky Carney, D-Mecklenburg, told committee members not to "bank votes" on the consultant's study because there is a lot of data independent of that. She said many questions remain unanswered, such as employee status with a conversion, and a variety of transition issues that could spawn "unintended consequences as we roll forward."

"Why would we not want to be good stewards as the representatives of the people of this state to take the time, to take us a step further," and continue to study the bill, she said.

Brawley said the latest offer was to create a joint legislative study committee comprising House, Senate, and Charlotte City Council voting delegates, with a final report to be delivered to the General Assembly in May 2014, with implementation that July.

The interim study group would determine the authority's structure, membership selection, transition tasks, and

how to divide airport operations between the city and out-sourced vendors.

## Blue-ribbon panel

The city countered with a suggestion to appoint a blue-ribbon commission comprising business leaders in Mecklenburg County to determine "what changes in structure if any should be implemented," Brawley said.

Gerry Cohen, legislative special counsel, said the House version of the bill reduces the regional authority's governing board from 13 to 11 members. There are provisions for transfer of the airport property and consideration and compensation for the city, he said.

"Whatever benefits [employees] have would carry over," including retirement, Cohen said, but health insurance now provided by the city would have to be worked out.

The revised bill clarifies language that "appeared to give the new airport authority the power to take over or establish airports in all the surrounding counties," Cohen said. An airport's governing board and county commissioners would have to approve any such move, Cohen said.

Rep. Larry Pittman, R-Cabarrus, said Concord officials were concerned the city-owned Concord airport could be taken over.

Rep. Dana Bumgardner, R-Gaston, said the airport in Gastonia was built from city funds, and the city is concerned about losing its investment under this bill.

"There is no authority to acquire property, take over an airport, or operate an airport, or do anything in Gaston County without the permission of local leaders," Brawley said. "We're not going to take their airport."

Brawley said with a nearby intermodal facility nearing completion, now is the time to install a regional authority, as recommended for airports and intermodal facilities by former Democratic Lt. Gov. Walter Dalton as part of a study committee whose members were appointed by former Democratic Gov. Bev Perdue.

## Larger base of support

A regional authority spanning six counties would provide a larger base of legislative support, he said.

"The airport should not be seen as a source of revenue for the City of Charlotte," he said, because average airline industry profits are 21 cents per passenger per flight, with US Airways at 37 cents. Still, margins are slim, and increases in charges for nonessential services by the city "could endanger the health of the hub."

Brawley said within the past year Charlotte has floated the idea of putting a tax on airport parking and using that revenue for other purposes, and a more recent study committee envisioned possible use of airport revenues and subsidies to help pay for operations of a proposed street car.

The city's consultant "came back with a lot of recommendations on how an authority should be structured, but was of the opinion that for the long-term health of the airport a regional authority was the best answer," Brawley said.

"But the consultant also said that the Charlotte airport was the most unlikely city-operated airport for consideration of an authority, remembering that as a city department, this airport is the lowest-cost" among the largest hubs in the nation, Carlee said. "Seven of the 10 lowest-cost and seven of the 10 largest hubs are, in fact, city departments."

Chuck Allen, managing director of government affairs at US Airways, said the airline is neutral on the authority issue. *CJ*



# Appeals Court Decision on Towing Has Broad Implications

By MICHAEL LOWREY  
Associate Editor

RALEIGH

To what degree can a city or town in North Carolina regulate the towing of vehicles parked illegally on private property? Quite a lot, ruled the state's second-highest court in June, in a case involving a challenge to a new set of Chapel Hill towing regulations.

The ruling could have far-reaching implications in other cities with strict towing laws, including Raleigh, Durham, and Asheville. Moreover, the court's ruling may give cities greater leeway to enact stricter regulations controlling a much larger variety of activities under the umbrella of protecting "the health, safety, and welfare" of their residents.

Last year, Chapel Hill adopted an ordinance regulating tow truck operations within town limits. The ordinance's provisions include setting a fee schedule for towing, requiring towing businesses to take credit and debit cards, providing a notice requirement for private lots, and mandating that towing companies notify the police when removing an illegally parked ve-

hicle from private property.

Before the new rules went into effect, George King, proprietor of George's Towing & Recovery, went to court to challenge the validity of the regulations. After Superior Court Judge Orlando Hudson ruled in favor of King, the town brought the matter before the Court of Appeals.

"In support of its contention that the Towing Ordinance is enforceable via the town's general police power, Defendant cites to sections 160A-174(a) ... of the North Carolina General Statutes as enabling legislation," wrote Judge Linda Stephens for the appeals court. "We agree that the Towing Ordinance is a valid exercise of the town's police power under section 174(a)."

The question of exactly how much authority local governments have to act under North Carolina law is complex. Indeed, the appeals court decision spends seven pages describ-

ing how case law has developed since 1971, when the General Assembly changed the basic framework by enacting chapter 160A.



Of particular importance is N.C. Gen. Stat. § 160A-4, stating that "grants of power shall be construed to include any additional and supplementary powers that are reasonably necessary or expedient to carry

them into execution and effect."

The appeals court notes that whether this applies depends on the specifics of the grant of power by the General Assembly to municipalities at issue. Section 4 comes into play only "where there is an ambiguity in the authorizing language, or [where] the powers clearly authorized [by the legislature] reasonably necessitate 'additional and supplementary powers' 'to carry them into execution and effect.' However, where the plain meaning of the statute is without ambiguity, it must be enforced as written."

The court thus turned to section 174(a) of Chapter 160A of the N.C. General Statutes, which states that:

"A city may by ordinance define, prohibit, regulate, or abate acts, omissions, or conditions detrimental to the health, safety, or welfare of its citizens and the peace and dignity of the city, and may define and abate nuisances."

The appeals court held that towns and cities are given a broad grant of authority under the section, and that the towing ordinance was a valid exer-

cise of the town's police powers.

"Section 174(a) fails to list specific circumstances where the general ordinance-making power may be employed. Rather, it enables municipalities to regulate the broad categories of 'health,' 'safety,' and 'welfare' to the end of ensuring 'peace and dignity' and defin[ing] and abat[ing] nuisances," wrote Stephens.

"Given the far-reaching meanings contained within these terms, section 174(a) is ... ambiguous. Given that conclusion, the broad construction required by the General Assembly in section 4 of Chapter 160A is applicable here."

The court then went on to reject King's assertions that, even if read broadly, the ordinance was improper. For example, King contended that the ordinance was not valid as "[towing on private lots] is not detrimental to the health or safety of the public ... [and] is not a nuisance that needs to be abated."

"While plaintiff is correct that '[t]owing on private lots is done and allowed by state law for the purpose of protecting private property,' this does not obviate the need to regulate that process when it has become 'detrimental to the health, safety, or welfare' of the citizens of the town," wrote Stephens.

N.C. Court of Appeals decisions are controlling interpretations of state law unless overruled by the N.C. Supreme Court. Because the ruling by the three-judge panel of the appeals court was unanimous, the high court is not required to hear the case should King seek review of the decision.

The case is *King v. Town of Chapel Hill* (12-1262). CJ

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The John Locke Foundation has five regional Web sites spanning the state from the mountains to the sea.

The Triangle regional page includes news, policy reports and research of interest to people in the Research Triangle area.

It also features the blog Right Angles, featuring commentary on issues confronting Triangle residents.

# Feds Unable or Unwilling to Stop Fraudulent Tax Refund Schemes

Continued from Page 1

she told *CJ*.

A spokesman for the IRS told *CJ* that the agency could not discuss specific cases or situations.

Instead of returning the checks via mail, she decided to notify another government agency, the New York attorney general's office. She copied the checks and completed a consumer complaint form provided by the AG's office.

The AG did nothing. "We appreciate your alerting us to this matter. We believe the organization shown below" — the IRS — "may be able to assist you and we are forwarding your correspondence there," wrote Judy Blumenberg from the Bureau of Consumer Fraud and Protection in the AG's office.

On the IRS website, Cooke found a form titled "IRS Fraud Reward Whistleblower." She thought she could receive financial compensation for reporting fraudulent activity involving the IRS.

She completed the form and decided to involve her congressman, Democratic Rep. Tim Bishop, in the correspondence. She also filled out a "Case Information and Privacy Release Form Authorization" provided by Bishop's office.

"This case has been forwarded to the [IRS] Criminal Investigation Division," wrote IRS Local Taxpayer Advocate Bernardita Tehrani in a letter Bishop's office received March 12, 2012. Bishop's office forwarded a copy to Cooke. A spokesman for Bishop told Cooke she did not qualify for a reward. She said her main concern wasn't the potential for a financial payday; she reported the tax fraud because it was wrong and needed to stop.

Cooke told *CJ* that some of her neighbors have seen strangers opening mailboxes and sifting through the contents. Several neighbors have received checks and correspondence from the IRS addressed to persons who did not live there. One woman who requested to remain anonymous told *CJ* that she and her husband received more than 20 pieces of correspondence or checks from the IRS, all of which were addressed to people with Hispanic-sounding names. Her husband delivered the material to a regional postmaster.

## 'Why did you return it?'

More than a year after the IRS was notified of Cooke's situation, she has heard nothing from the agency, and the checks and correspondence have not stopped.

"Ada Gonzalez Collazo" was one name on IRS correspondence Cooke turned over to Bishop in 2012.

In March, Cooke recovered from her mailbox a letter dated March 6, 2013, addressed to Ada Gonzalez Col-



Even after alerting federal and state officials that her mailbox is being used as a drop for illegal tax fraud schemes, Long Island resident Carol Cooke continues to receive tax refund checks from the Internal Revenue Service. (CJ photo by Don Carrington)

lazo and referencing tax year 2010.

The letter read: "Dear Taxpayer: We received a returned refund check of \$7,756 for the tax period listed above. However, we aren't sure why you returned it. If you sent an explanation, we are sorry but we have no record of receiving it."

"Therefore, we must ask you to send us your reason for returning the refund check."

"If you have any questions please call Denise Pen at 978-474-9784 between the hours of 8:00 a.m. and 4:30 p.m. EST. If the number is outside your local calling area, there will be a long-distance charge to you."

Cooke found another letter June 18 from the IRS addressed to Collazo. The notice stated that Collazo had unpaid taxes for 2010 of \$5,979.25 and the total needed to be paid by June 27 to avoid additional penalty and interest charges.

"If you don't pay the amount due or call us to make payment arrangements, we can file a Notice of Federal Tax Lien on your property at any time, if we haven't already done so," the letter read.

"If the lien is in place, you may find it difficult to sell or borrow against your property. The tax lien would also appear on your credit report — which may harm your credit rating — and your creditors would also be publicly notified that the IRS has priority to seize your property."

"If you don't pay your tax debt, we have the right to seize your property."

Cooke said that she is concerned that the IRS might encumber her property based on Collazo's unpaid taxes, even though Collazo doesn't live at her

address and may not be a real person.

## Cardona and Medina

In May, Cooke received a \$410.17 check made out to Daniel Alvarez Cardona and another \$410.17 check made out to Milagros Lopez Medina. Each check was accompanied by a letter stating that \$10.17 was the amount of interest due on an overpayment of \$400 for tax year 2012.

Along with those checks were notices of disaster relief assistance from the IRS. "If you have been impacted by the recent disaster in your area and are unable to meet your tax obligations,

the IRS may be able to assist with payment and filing extensions, and if qualified, with an expedited tax refund for casualty losses," stated the notices.

Separate IRS letters addressed to Cardona and Medina dated Oct. 3, 2011, said the 2010 return of each was on hold pending the receipt of additional employer information. Cooke doesn't know if the IRS issued original checks to Cardona or Medina, or if someone recovered them from her mailbox.

She later received a notice dated June 10, 2013, from the IRS to Cardona stating that he didn't file a 2011 tax return.

## Some are caught

Cooke called the IRS and Postal Service responses to her situation a big disappointment. "An alert should have gone out that this is not right. Those Social Security numbers and those names should be listed in the IRS computer somewhere. Don't send anything else to these people because they are not real. They are fraudulent," she said.

Even though the IRS recently has cracked down on Long Island-based fraud, it is unclear whether the crackdown snared those using Cooke's address.

In December a federal grand jury indicted six Long Island men for their involvement in schemes using stolen Social Security numbers to file more than 11,000 fraudulent tax returns seeking refunds worth up to \$73 million.

According to the indictments, the defendants illegally obtained identification information including Social Security numbers for Puerto Rican residents, and used that information to file false returns claiming large refunds. The returns were filed using addresses in Shirley, West Babylon, and other Long Island towns. Then defendants are charged with bribing Postal Service employees to intercept mailed tax refund checks. The fraudulently obtained checks were cashed at a check cashing service.

## Government response

"By and large, postal employees are honest people. There can be some bad apples in any group," said Donna Harris, a spokeswoman for the Postal Inspection Service in New York, told *CJ*. "If they do something like this, they will be taken care of," she said. She didn't know the status of the employees who allegedly accepted the bribes and said it's the responsibility of the U.S. Postal Service rather than the Postal Inspector's Office to deal with them.

As for Cooke's situation, Harris said carriers are expected to deliver mail to the address on the envelope. A mail carrier suspecting fraud should contact the postal inspector in his area.

*CJ* also contacted the IRS Criminal Investigation Office in New York. "I'm sure you're aware that federal disclosure laws prohibit IRS from discussing specific cases or situations," IRS spokesman Dan Boone wrote in an email.

"For the 2013 tax season, the IRS has put in place a number of additional steps to prevent identity theft and detect refund fraud before it occurs. During 2012, the IRS detected \$20 billion of fraudulent refunds, including those related to identity theft, compared with \$14 billion in 2011," he wrote. "We have new and additional filters in place for the 2013 filing season aimed at preventing and detecting fraudulent returns."

"This continually updated system enhances our ability to block accounts when we know of or detect a problem. We added screening filters, including ones that target multiple refunds deposited into a single bank account or those sent to a single address."

The IRS rebuked  
Cooke for  
returning a  
refund check for  
\$7,756

# Changes in Business Recruitment Concern Transparency Advocates

Continued from Page 1

Poyner Spruill law firm in Raleigh.

“Jobs’ is the most powerful four-letter word in politics these days, and very few politicians are willing to stand up” to demand that public business be done openly, Orr said.

The North Carolina Economic Development Partnership would do away with the cluster of regional economic development agencies and consolidate them, along with a number of existing economic development-related agencies, under a public-private partnership.

Senate Bill 127, authorizing the Department of Commerce to establish a nonprofit corporation to handle economic development functions, passed the Senate by a 33-15 vote. An amended version passed an initial House vote June 26 by a 76-38 margin. At press time, the measure was set to return to the Senate for concurrence.

## 15-member board

The nonprofit partnership would have a 15-member governing board and would consolidate all grant-awarding functions such as Job Development Investment Grants, the One North Carolina fund, and Community Development Block Grants into one streamlined process. It would be authorized to create a venture capital fund for startup businesses and establish a job-recruitment fund to couple with state incentives to entice companies to move to or expand in North Carolina.

The public would be able to see the nonprofit board’s records and reports as though it were a state agency, said Decker.

“I serve on two public company boards and have a real sensitivity to this issue of transparency, so you’ll see an annual report that will detail what we’ve done, what we’ve been engaged in, and the work we’ve been about,” Decker said.

“We believe in full transparency in terms of making that information available when our projects are publicly announced,” said Commerce Department spokesman Josh Ellis. As an example, Ellis said, “[if] Acme Anvil company says they’re coming to North Carolina, bam!, that’s one trigger.”

## Announcement trigger

If the company announced it was locating in another state, or not moving at all, the Commerce Department would consider that a trigger for a public announcement if the state was continuing to pursue a deal with the business.

Compared with South Carolina and other states, North Carolina has a strong tradition of providing “the level of detail in terms of jobs, the amount of state incentives, what those terms are,



Transparency advocates fear that access to public records on projects such as the Spirit AeroSystems facility at the Global TransPark in Kinston (above) will not be available under the changes, but Commerce officials say that’s not the case. (CJ file photo by Don Carrington)

what the average wages are, what the investments of the project are, and the records requests [from the public],” Ellis said.

As an example, he said the Commerce Department released 6,000 pages of material requested when insurance giant MetLife announced it was bringing 2,600 jobs to Cary and Charlotte.

“It would not be appropriate to make some of the information on deals public prior to an announcement because it very often jeopardizes a project. You are dealing with companies that are still deliberating on where they will be going, there are other states involved, other countries involved in certain cases,” he said.

“It’s a balancing act” between public interest and private negotiations, he said.

## Deal killers

MetLife officials canceled trips to the state when the story was leaked that North Carolina was a possible site, Ellis said. “These types of deals are very hard to work out the details in public. ... but absolutely, [premature disclosure] can kill deals.”

S.B. 127 outlines some disclosure and conflict-of-interest safeguards.

But Harry Hammitt, editor/publisher of Access Reports in Lynchburg, Va., a freedom of information and privacy law publication, said his experience in other states is that there are sticking points to bringing these types of economic development agencies into the orbit of the public records law.

Often, Hammitt said, “the sorts of records that you think smack of public accountability are the records they won’t disclose.”

For example, there may be an exemption in the law that certain terms

of a deal between the state and a company are exempt until the contract is negotiated.

“But unfortunately the temporal exemption may become elastic” as to what constitutes completion of negotiations, Hammitt said. And there might be times when “not necessarily all” terms would be released, hidden under the protection of proprietary information or trade secrets, he said.

When a private entity is created to do essentially what a public agency would do, it is “typically analyzed under what’s known as the functional equivalency test ... those bodies are public if they are essentially fulfilling a role that the government would otherwise,” Hammitt said.

However, “There’s typically an exemption that the legislature provides for them,” he said.

One reason the state might want to withhold deal details is because “almost invariably businesses end up getting more from the state than it’s worth,” Hammitt said. “When you find out the state’s actually losing money on the deal, that doesn’t sound as good as it did originally.”

“The state I don’t think is ever going to back off the lack of transparency because they all argue that it would impede the deal if people knew in advance who the project was,” Orr said.

## Project X

He cited the recent example of GE Aviation in Asheville receiving city-approved incentives “and you didn’t even know who it was. It was identified as Project X,” even at public hearings on the awarding of incentives.

“I think it’s fundamentally wrong in the context of the public [not] having a right to know in advance,” Orr said. “You don’t give the public

an opportunity to say, ‘Don’t do it,’ or to ask questions. I’m operating on the assumption, giving the governor the benefit of the doubt, that he and his policy people think that it will at least improve the system,” Orr said.

Abolishing the seven regional commissions is a good step. “Certainly one of the greater issues with the regional economic development model has been sort of the free hand and not very well supervised use of the tax money,” Orr said. “You know the Northeast [Partnership] issue coming out of the Randy Parton Theatre is a glaring example.”

## Theater was boondoggle

The theater was a financial boondoggle shrouded in conflicts of interest, overpriced contracts, wildly ambitious projections, and poor decisions. The \$21.5 million project left Roanoke Rapids holding the bag after theater manager Parton, Dolly Parton’s brother, was fired, and the promised huge crowds and spin-off businesses failed to materialize.

“I always learned it was the private sector’s responsibility to create jobs,” Orr said. “Now it looks like it’s government’s responsibility to subsidize that and then claim it was government that created the jobs. They’ve taken sort of the free-market economic model and turned it on its head.”

“For those of us who have questioned the use of incentives in the past, I don’t know that this system changes much there,” Orr said. “It’s a system that I see no end to.”

## ‘Major concern’

Pinsky questioned whether the 15 members of the partnership board would be required to file publicly available statements of economic interest with the N.C. State Ethics Commission. She said members of the N.C. Rural Economic Development Center, the N.C. Biotech Center, and the N.C. Biofuels Center don’t have to file such disclosures, “so that’s a major concern.”

“If they’re making any votes on public dollars, then yes. If they’re voting on private [funding], I don’t believe that they would,” Ellis said. All the public grant dollars stay subject to State Ethics Commission rules. “There’s no mixing of [money].”

Those pushing economic development projects currently can delay filing lobbying reports and other documents “while they are — ‘quote’ — working on an economic development project,” Pinsky said. “In this case, it looks like it’s going to be a step further away, so we have some concerns about that.”

“I’d love a job, and I’m sure you would, too, where nobody knows what you’re doing and can’t verify the results,” Pinsky said. “If you know nobody’s ever going to know what you’re doing, then if you want to cheat you’re going to cheat.” CJ

# Livingston: 'Honorable Entrepreneurship' Trumps 'Crony Capitalism'

By CJ STAFF

RALEIGH

Critics often blast entrepreneurs as people who think only about ways to make a buck. That characterization bothers Felix Livingston, professor of economics at Flagler College. During a spring visit to Campbell University, Livingston explained why he's promoting a concept called "honorable entrepreneurship." Livingston shared his ideas with Mitch Kokai in a conversation for Carolina Journal Radio. (Head to <http://www.carolina-journal.com/cjradio/> to find a station near you or to learn about the weekly CJ Radio podcast.)

**Kokai:** What do you mean by honorable entrepreneurship?

**Livingston:** Well, the concept of honorable entrepreneurship was inspired by Alexis de Tocqueville's discussion of honor in his book *Democracy in America*. In that book he pointed out that groups, in order to advance their position in society, it makes sense for them to praise the actions of their members that strengthen the group, and to condemn the actions of members that undermine and weaken the group.

And so, in a sense, historically, conceptions of honor were sometimes in conflict with religious doctrine and written law. But honorable entrepreneurs as a group, entrepreneurial flourishing, is actually compatible with freedom, general prosperity, and the rule of law. And so that's basically what it's all about, is entrepreneurs who behave in such a way that strengthens the rule of law. Liberty and private property rights are honorable. And those entrepreneurs that engage in activities that undermine the rule of law — liberty — are dishonorable.

**Kokai:** Some people will hear the words "honorable entrepreneur" and think, "That must be an oxymoron." What do you say to people who have a negative impression of entrepreneurs?

**Livingston:** There is a segment of entrepreneurs that are bad, and they're called crony capitalists. Crony capitalism is a worm that's rotting the core of the private enterprise system. But entrepreneurs who make their profits and advance themselves the old-fashioned way are actually honorable. ... As Adam Smith pointed out, when people advance their self-interest in ways that ... devise new products and services that meet the needs of people, we invent new systems, we adapt technologies, and so on. ... Think of the market as a daily election, a daily plurality, and consumers are the electors, and they cast their dollars ... as votes.

It's a very tough way to be successful, but as Adam Smith pointed out, it's the cause of the wealth of nations.

*"There are numerous ways to, in effect, create mutual benefits. The essence of honorable entrepreneurship is mutually beneficial transactions — mutual benefits among entrepreneurs, among entrepreneurs and their workers, among entrepreneurs and consumers."*

*Felix Livingston  
Professor of Economics  
Flagler College*



**Kokai:** Do negative perceptions of entrepreneurs stem from the growth or increasing pervasiveness of crony capitalism?

**Livingston:** There are a number of social costs associated with crony capitalism. One is, look, if I can get ahead ... with a complacent or a compliant political authority, to gain preferences and privileges — to gain at the expense of consumers, to gain at the expense of my competitors — in effect, what happens is people lose their respect for the law or they lose their moral sense. Either way, they lose their respect for government. They lose their trust in government.

**Kokai:** Let's say I have the entrepreneurial spirit. How could I be an honorable entrepreneur?

**Livingston:** Be successful the old-fashioned way. Again, you know, win a daily election where the electors are consumers casting dollar votes. Find a better way of doing things. Find a more convenient place to make things available at a more convenient time. There are numerous ways to, in effect, create mutual benefits. The essence of honorable entrepreneurship is mutually beneficial transactions — mutual benefits among entrepreneurs, among entrepreneurs and their workers, among entrepreneurs and consumers.

**Kokai:** What kind of damage does crony capitalism cause to our economic system?

**Livingston:** People lose respect for the system. They think the system is basically a manifestation of these crony capitalists and everybody is that

way. They're not. Not everybody is that way. There are lots of honorable entrepreneurs who are in the trenches every day, trying to satisfy their customers.

The economic cost is immense. For example, a number of years ago when President Bush put a tariff on imported steel to save jobs in the steel industry, more jobs were lost in the steel-using industries than the entire amount of employment in the steel industry. You can't create benefits for one industry without decimating, often, other industries.

Here's another example: tariffs on sugar. Sometimes the U.S. price for sugar is twice the world price. It's estimated — I just read this recently — that for every sugar job saved, customers pay \$500,000 a year. That's the extra expense of having to buy American sugar because of the sugar tariffs.

But you can go on and on. ... There are lots of variations of crony capitalism. The problem is that this is creating a web, a complex web, and it — you know, honest entrepreneurs don't know where to turn. They don't know what to do. It becomes very difficult. They become stultified, in a sense, within this system — this growing web of regulation and restriction.

**Kokai:** With all of the crony capitalism hurting our economic system, is it still possible for someone to be an honorable entrepreneur and succeed?

**Livingston:** Absolutely. It's done all the time. We just don't hear about it. We don't elevate the ones who are honorable that strengthen the social fabric. We only hear about the negative cases. The fact is that many, many entrepreneurs are honorable. So, yes.

Now someone might say, "Well, why not launch a program on hon-

orable public policy?" Well, I'll tell you why: because politicians haven't changed in 3,000 years, that's why. Because, as Machiavelli said, the study of politics is a study of the quest for power. And there are always in every era some people who are willing to do anything it takes, within the law or outside of the law, to achieve their ends.

**Kokai:** For those of us who aren't entrepreneurs, is there anything we can do to help the honorable entrepreneur to succeed and not the crony capitalists?

**Livingston:** You know, there is a multitude of ways that the free society is under attack. So I think the best thing is to become knowledgeable in a certain area, write letters to the editor, be vigilant. If someone gets a handout in a way that is targeted, that's unfair, that's kind of a manifestation of crony capitalism, just don't let that go by. You know, make some type of commentary. Write letters.

So, other than that, the way I see it is if we could create a society that draws in like-minded people, both people who are not entrepreneurs and people who are entrepreneurs, who, in effect, embrace this idea of private property, the rule of law, general rules of justice and property, and we elevate the great examples in history ... The problem is that entrepreneurs who are honorable only affect their families, the people they deal with immediately, but they aren't raised up generally. They aren't known. And when they die or when they sell their business, they're forgotten. So I think a society that raises up these people as role models and says, "This is the way you conduct business." CJ

# Campus Gun-Rights Bill Sidelined By Amendments

BY SARA BURROWS  
Contributor

**A** bill that would expand the rights of gun owners on university campuses has been sidetracked, at least temporarily, by amendments addressing a host of other Second Amendment concerns.

The version of House Bill 937 that passed the state House in May, among other things, would allow concealed handgun permit holders to keep guns in a locked compartment on college campuses and let motorists on campuses keep guns locked in their vehicles. It also would allow faculty and staff living on campus — except in dorms — to keep guns in their residences.

The version before the Senate expanded those provisions to all educational facilities, including K-12 schools, other than private schools that ban firearms on campus. It also would bar cities and counties from outlawing firearms on parks and greenways, though they could enforce bans at athletic fields. And the measure would end the requirement that residents receive a permit from their home county's sheriff's office before buying a handgun.

The gun-rights group Grassroots North Carolina lambasted University of North Carolina system President Tom Ross for opposing the original bill. In a press release, the group said H.B. 937 would allow students and faculty to "better protect themselves" from "rampant" violent crime by allowing them to keep guns locked in their cars on campus.

The group's president, Paul Valone, said his preference would be a measure allowing concealed carry campuswide, but H.B. 937 would serve to deter violent predators away from college campuses.

The original measure passed the House 78-42. At press time, the amended version was in the Senate Rules Committee.

In the release, Valone cited statistics showing the rate of sexual assault on UNC campuses is higher than that of the average American college campus. He argued letting students keep guns in their cars could reduce the rate drastically and questioned why UNC officials oppose the policy so adamantly.

Ross and campus police say the bill would hamper their ability to protect students, and that vehicle break-ins could result in guns "falling into the wrong hands."

Valone accused Ross and the system's chancellors and police chiefs — who oppose the bill — of "malfeasance" for not protecting students or allowing them to protect themselves.

Joni Worthington, a spokeswoman for Ross, responded to the accusation in an email, saying:

"Campus police and security officers across the University work diligently to promote campus safety, and data collected and reported by the Federal Bureau of Investigation show that the incidence of violent crimes on UNC campuses is below the national rate."

Worthington provided a link to the FBI's general crime statistics Web page to reinforce her assertion.

"All UNC chancellors and

chiefs of police believe allowing guns on campus would increase the risk to public safety and hamper our ability to protect not only our students, staff, and faculty, but also campus visitors, including parents, siblings of students, and summer camp participants," Ross said April 29.

He added, "Vehicle break-ins are one of the leading crimes on college campuses, and even guns brought lawfully onto campus, as contemplated by this bill, could fall into the wrong hands and result in serious injury or death."

Outlawing guns on college campuses leaves students unprotected not only on campus, but also on their way to and from campus, Valone said.

"Anytime you transit campus — even if you drive down Hillsborough Street, since the University says it owns half of Hillsborough Street — with a gun in your car, you're a felon," Valone said.

In addition to allowing people to protect themselves on their way to and from campus, Valone said, allowing guns in cars can protect people on campus. Aside from creating a general deterrent effect, the locked-away guns can be retrieved to stop violent predators in their tracks.

Valone noted that the assistant principal at the Pearl High School shooting in Pearl, Miss., retrieved his firearm from his truck and detained the shooter in the parking lot. The same thing happened at Appalachian School of Law in Grundy, Va., he said.

While it is possible for a vehicle break-in to occur on campus and for a gun to end up in a criminal's hands, Valone said, that scenario could happen anywhere.



COMMENTARY

## Course Correction

**N**ot long ago I publicly criticized a course in American government at North Carolina State University because it was biased. The class was an online section of Political Science 201, American Politics and Government, the introductory class for political science majors, which also serves as a general education course.

Most of the nontextbook readings were leftist or "progressive" policy arguments, with no rebuttals or alternative views. For example, one was the website Democracy North Carolina, which promotes public financing of electoral campaigns. What about the argument against public financing? It wasn't there.

Another link was to MoveOn.org, the organization created by billionaire George Soros that ironically is supposed to counter "a political process where big money and corporate lobbyists wield far too much influence." The third was an article from the *Progressive* magazine, "Bullies at the Voting Booth, 2004." And those were just in one week's lesson!

The professor, somewhat irritated, asked me what changes I would recommend for his course. This article is my response.

For advice, I spoke to Jenna Ashley Robinson, the Pope Center's director of outreach. Robinson, an N.C. State graduate, received her Ph.D. in political science from UNC-Chapel Hill in 2012 and has taught an introduction to American government and politics course at three colleges.

"Public policy is great for illustrating concepts," said Robinson. "But there's really no need to take sides or even explore the pros and cons of particular policies." The course should be about how the governmental process works, she explained, not about what policy ought to be.

For example, federalism is a key concept. Abortion, gun control, and state laws that allow medical use of marijuana all illustrate the relationship between the states and federal government. They can be used to illustrate policy conflicts or principles — not to argue which policy is better.

Another familiar topic is

the Iron Triangle, a traditional label for long-term relationships among agencies, congressional committees, and interest groups that benefit those groups but not necessarily the public. The Iron Triangle is a subset of the broader principal-agent problem that exists throughout society. The principals or owners (in government, the citizens) rely on agents — Congress and bureaucrats — that may not respect their wishes. Often, those agents make deals with third parties (special interests) largely unknown to citizens.

Bank bailouts illustrate the problem. Government officials are supposed to act in the interest of the taxpayers, but they have interests of their own, such as raising large sums of money for election campaigns and finding lucrative landings once they leave office. Rather than serving the public, politicians may serve themselves by colluding with special private interests, such as banks, which can provide those things to them in exchange for benefits such as subsidies.

Finally, future political scientists — and educated people in general — need to learn the many reasons public opinion may not translate directly into public policy in a republic. One reason is constitutional constraints. Consider that a majority of the public is (according to polls) offended at the thought of burning the American flag as a gesture of protest. However, no one ever will be arrested for flag burning in this country. The U.S. Supreme Court has decided that burning a flag is a constitutionally protected expression of free speech. In this case, majority opinion is blocked by constitutional restraint.

The issue is not whether students think bank bailouts are a good idea or whether they think flag burning is acceptable. The idea is to illustrate the concepts and elucidate the forces that guide the political process.

A professor should be able to teach without attempting to indoctrinate. Let the bull sessions occur outside of class.

Jane S. Shaw is president of the John W. Pope Center for Higher Education Policy.



JANE SHAW

## Campus Briefs

What kinds of books do North Carolina colleges think their students should be reading? Many of the books that Oprah Winfrey endorses, so it seems.

Of the 15 colleges that told the Pope Center they were asking incoming freshmen to read a common book, nine assigned titles that have been featured on the popular television host and entertainment entrepreneur's website.

Here is the list of Oprah's recommendations and the colleges that recommended them:

- Salem College: *The Twelve Tribes of Hattie*, by Ayana Mathis. *Twelve* tells the story of Hattie Shepherd, a poor black woman who left Georgia for Pennsylvania in the 1920s, and her descendents.

- Fayetteville State University and UNC-Greensboro: *The Immortal Life of Henrietta Lacks*, by Rebecca Skloot. This book gives the personal and family background of Henrietta Lacks, a deceased woman whose cancerous cells still are used in biological experiments all over the world.

- Davidson College: *The Sanctuary of Outcasts*, by Neil White. A man "discovers the secret to happiness" in an American leper colony.

- Elon University: *Little Princes*, by Conor Grennan. *Princes* is the story of one man's battle to save "the lost children of Nepal."

- Appalachian State University: *American Dervish*, by Ayad Akhtar. A novel about growing up Muslim in America.

- Barton College: *Unbroken*, by Laura Hillenbrand. World War II airman Louis Zamperini survived a crash, battling sharks, thirst, and more to make it home.

- Duke University: *Let the Great World Spin*, by Colum McCann. McCann gives a novel-sized snapshot of life and lust in New York City amid a tightrope stunt in 1974.

- UNC-Chapel Hill: *Home*, by Toni Morrison. A veteran finds meaning when he returns home to find his little sister is in danger.

- UNC-Wilmington: *The Wave*, by Susan Casey. Casey follows surfers and scientists looking for the biggest waves on the planet. CJ

Compiled by Duke Cheston, a writer at the John W. Pope Center for Higher Education Policy.



# Tribal Colleges: High Costs, Weak Academic Results

By TOM BURNETT  
Contributor

RALEIGH

Few Americans know anything about the country's tribal colleges. There are 75 campuses and their funding comes overwhelmingly from federal taxpayers. State funds and casino profits contribute a small portion of total funding.

Enrollments at tribal colleges range from a few hundred to nearly 2,000. The schools emphasize cultural preservation and preparation for service in tribal government and social service agencies. Ready students for transfer to rigorous colleges and to compete in the global job market has a low priority.

These colleges not only have high costs per graduate, but also weak educational results. The reasons are complex, but they start with the fact that many reservations are places of despair with levels of alcoholism, drug use, suicide, out-of-wedlock childbearing, violence, and unemployment that would shock the average American. The hope behind these colleges is that heroic levels of spending on education can dissipate the despair.

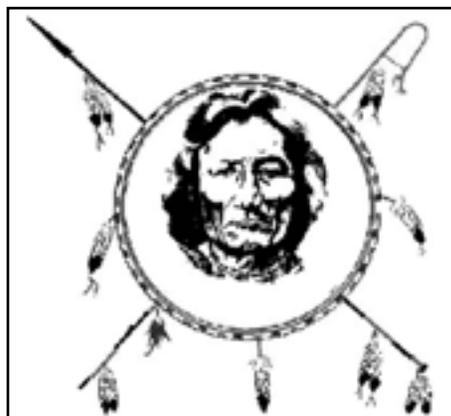
Crucially, tribal students at these colleges pay little or nothing. One faculty member told me, "If you're Native American, it basically costs you nothing to come to college," adding, "If you're handed something, it means absolutely nothing."

Graduation rates are low. Those students who complete school receive certificates or degrees in a variety of subjects, including accounting, business, Indian arts, native language, nursing, customer service, office technology, and commercial driving. For example, in 2012, Oglala Lakota College awarded 178 credentials. Thirty-six were in Lakota studies, and 37 in elementary or early childhood education. Twelve students earned degrees titled Master of Arts in Lakota Leadership and Management.

The main emphasis is on training students to serve the medley of social programs on a reservation, including health, administration, tribal housing, addiction counseling, child care, policing, and schools, and on preserving languages and arts. The needs of tribes determine the course offerings; the idea that an individual would advance himself, probably leaving reservation boundaries and succeeding in the market economy, seems incidental, and possibly in conflict with the program design.

The faculty member quoted above said, "Most graduates go back to their village, and their earnings are unchanged. We train and train. They'll get a stack of certificates an inch-and-a-half thick, but they never get a job."

Cultural transmission is a primary focus. Comanche Nation College, for example, "recognizes the strength of the Comanche culture and language.



The logo of Chief Dull Knife College in Lambe Deer Montana.

Therefore they are the foundation for teaching and learning at Comanche Nation College." And it appears that the sole goal of Red Lake Nation College in Minnesota is to "preserve the Anishinaabe language and culture."

But even cultural transmission efforts founder. An official at Little Bighorn College admitted that for all the money schools spend to teach native language, few students show interest.

Another problem is that enrollment numbers often are inflated to create a positive impression for budget negotiations with Congress, and for self-congratulation.

When asked to confirm that the published number of enrolled students at his college was correct, one faculty member who asked not to be identified, said, "No way. Administrators triple-count students. If a student has a plumbing course for five credits, a

math course for one credit, and a prerequisite course for three credits, that counts as three students. As a faculty, we've always questioned administration's enrollment numbers. It all comes down to justification."

He also said, "Graduation numbers can be very misleading." A student may concurrently get an associate degree and a certificate, taking classes that apply to both credentials. But that student's awards would both be counted as degrees awarded.

That faculty member also questions the level of commitment of many students and professors. He traveled to tribal colleges in several states during a sabbatical and found that they exhibited the same problems of low attendance and students failing to persist as at the college where he taught. One college canceled classes the day he visited, apparently for lack of interest.

One solution to this ineffective federal spending that suggests itself

is to identify Indian students who are prepared for and interested in serious education and to help them enroll and succeed at actual universities. This has been tried. Indian students can attend many state universities at no cost. Some go; few

make it through. Incentives to return to the subsidies and kin of the reservation seem to dampen desires for educational advancement.

As they currently exist and operate, tribal colleges seem not to be having great success in their stated goal of solving the problems facing Indians. CJ

Even efforts  
at cultural  
transmission  
are not having  
great success



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Opinion

# Using Pop Psychology To Keep From Making Real Arguments

When I was in high school, I had a friend who accepted much of the liberal critique of America in the '60s. When I would raise an argument against his ideas favoring activist government, he would usually retort something like, "You conservatives just say that because you're paranoid." Rather than engaging in actual arguments, he avoided them with pop psychology.

In his recent book *Why Are Professors Liberal and Why Do Conservatives Care?*, sociology professor Neil Gross employs the same tactic, but with enough equivocation that he still sounds scholarly.

In trying to explain why conservatives care about the liberalism of the faculty, he refers to leftist writers who argue that conservatives are driven by "status anxiety" to oppose social changes that academic liberals champion.

Consider this passage: "Scholars like Robert Horwitz ... have argued that the status anxiety generated by these changes (rights for gays and lesbians) ... was a crucial factor propelling the rise of the Tea Party after Obama's election in 2008, and with it the distinctive style of politics — which some have described, not without reason, as paranoid and anti-intellectual — that Tea Party supporters have practiced."

Gross sure can pack a lot of tar into one sentence. Conservatives

allegedly dislike faculty liberalism because they're insecure, atavistic people who fly off the handle over social changes that disturb them at a gut level.

But then he makes a scholarly retreat, writing, "While these arguments make some theoretical sense, the evidence is not overwhelming that Americans who agree with conservative critics ... are insecure about their status."

So this pop psychology "explanation" continues to hover even though the evidence is "not overwhelming." This reminds me of a trial lawyer who asks a question he knows won't be allowed and says, "Withdrawn," before opposing counsel objects. The idea has been planted even though the jury is told to ignore it.

Later, Gross takes a different tack and argues that conservatives' attack on liberal professors is just a skirmish in the war between Republicans and Democrats for political power. Gross sees the efforts of higher education reform groups as merely an aspect of that war. He even makes the ridiculous assertion that part of those groups' mission has been to destroy the reputation of academic research so as to make the output of conservative



think tanks seem better in comparison.

Nowhere does he entertain the idea that there might be sound reasons for criticizing what has happened to higher education

in America.

Conservatives and libertarians have often explained why they find the politicization of the faculty to be a problem. The problem isn't their politics per se, but that so many faculty members turn their courses into re-education camps for students who have been "misled" in their formative years.

Gross pooh-poohs that by reporting that among the 57 professors he interviewed, only

two said that they aimed to shape their students' beliefs rather than teach objectively. Such a miniscule sample wouldn't pass muster in serious research.

In preparation for the book, Gross interviewed a number of people who play important roles in the higher education reform movement, including National Academy of Scholars founder Steve Balch. Why didn't he just ask them why they care that most professors are liberal?

During his interview with Balch, for example, Gross learned

that during his teaching days, Balch concluded that the intelligentsia had "betrayed the cause of freedom." That would have been a good point to explore further. It certainly could have led to a clear explanation as to why the heavy liberal tilt in the professoriate matters to him. If Gross and Balch had that conversation, however, it didn't make it into the book.

But if Gross had sought a direct answer to the big question, it would have made his pop psychology look pointless. Same for his theorizing about the political function of the "attacks on higher education." Most of all, it would have made it hard to maintain his stance that criticism of faculty politicization is both silly and malevolent. Liberal readers wouldn't have been so pleased.

At the end of the book, Gross suggests that further research is in order. It certainly is.

If he actually is interested in testing his idea that political/philosophical hostility has almost nothing to do with the small number of conservatives and libertarians in the professorial ranks, he ought to talk to more than the small number he interviewed, including some who work outside of academia. He ought to take a serious look at obstacles that nonleftists face in a wide array of fields, first in earning their doctorates and then in getting hired.

Finally, he ought to look around for evidence that politicized teaching is not as rare as he claims. He will find plenty of it. CJ

*George Leef is director of research for the John W. Pope Center for Higher Education Policy.*



GEORGE LEEF

Too many faculty members turn classes into liberal re-education camps

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## Book review

## Authors: Stalin Agents in U.S. High Posts in Cold War

• M. Stanton Evans and Herbert Romerstein, *Stalin’s Secret Agents: The Subversion of Roosevelt’s Government*, Threshold Editions, 2012, 294 pages, \$26.00.

By LLOYD BILLINGSLEY  
Contributor

The introduction of this timely and important book proclaims “The Greatest Story Never Told,” and that is no exaggeration. Indeed, “Stalin’s American Government” also would have been on target because his agents achieved massive penetration of the U.S. government and society during the administration of President Franklin Roosevelt. Once in place, the Stalinist agents wielded huge influence that damaged the United States and left casualties in the millions.

One reason Stalin’s agents were able to achieve such success is because FDR, whose disabilities long had been concealed from the public, was declining into decrepitude at a time when adulation of Stalin and his Communist regime was at its peak. In this account, FDR is surprised by policy positions to which he already had agreed.

It also will come as news to many that, at Yalta, FDR’s concession to Saudi Arabia’s King Ibn Saud “was to give him the 6 million Jews in the United States.” This was edited out of the official record, but survives in the Roosevelt library and the papers of Secretary of State Edward Stettinius. The authors helpfully show it here and note that the president’s statement suggests “a lack of judgment, mental balance, or just plain common sense.” The book makes a strong case that FDR’s posture toward Stalin, to say the least, also lacked judgment and common sense.

U.S. policy was to give Stalin, a totalitarian dictator, everything he wanted without asking anything in return. A key architect of that policy, FDR’s most powerful adviser, was Harry Hopkins, a social worker and Socialist Party alum who excelled at giving away other people’s money. For most of his time in Washington, Hopkins held no cabinet post, though he resided at the White House for three years, giving Stalin the inside track.

The authors — journalists and Cold War-era experts Stan Evans and Herb Romerstein — show how Hopkins, Moscow’s “principal agent” during the war, made sure Stalin got U.S. documents about the American nuclear program, and even a shipment of uranium 235. Hopkins further wanted Stalin to keep all the Polish territory he grabbed under the Nazi-Soviet Pact, when then-allies Hitler and Stalin invaded Poland in 1939. Hopkins also blocked aid to Polish anti-Nazi fighters and backed Stalin on every demand.

“To read statements about these matters by Hopkins, FDR, and some historians of the era,” say the authors, “is to enter a mental world where reality counts for little and delusion is set forth as self-evident wisdom.” The authors also find it odd that FDR should single out Alger Hiss, a mid-level State Department employee, as someone who should go to the Yalta conference. *Stalin’s Secret Agents* shows how Hiss served his Soviet bosses well.

By World War II, Stalin had murdered millions within the USSR, and he wanted to execute 50,000 Germans after that nation surrendered. U.S. Treasury Secretary Henry Morgenthau wanted to help Stalin in that cause. The authors find it strange that the Treasury Department should be involved in such a move, perhaps explained by the reality that three key Treasury advisers were Soviet secret agents. So Stalin’s influence was pervasive indeed, and giving him what he wanted had deadly consequences.

*Stalin’s Secret Agents* shows how the western Allies acted as Stalin’s enablers by handing over refugees and captives in Operation Keelhaul. “Horrendous scenes ensued as British and American soldiers bludgeoned helpless prisoners, herding them into boxcars and forcing them onto ships that would take them to their fate in Russia.” Behind this atrocity the authors see the hand of Hiss and other agents, whose influence extended to personnel decisions.

Russia expert Charles Bohlen said the Soviets themselves took part in the campaign against Robert Kelley, a State Department scholar and expert on the Russian Revolution. Kelley’s East European Division was eliminated during a “reorganization” of State, and he was packed off to Turkey. Kelley’s ally Loy Henderson, another Soviet expert, was transferred to Iraq. Assistant Secretary of State Adolfe Berle also ran afoul of the Hiss group and was sent to Brazil, “and that ended my diplomatic career,” Berle said.

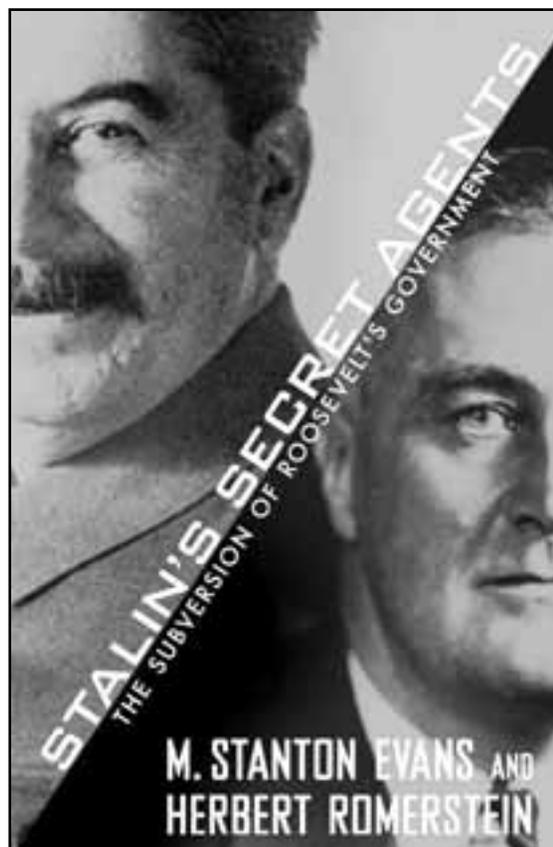
But the influence of Stalin’s supporters did not end with government.

The cast includes media figures such as I.F. Stone, author of a book charging that South Korea invaded the North, a typical inversion of reality. Edgar Snow, who wrote for *The Saturday Evening Post*, accepted Communist Party edits on *Red Star Over China*, “an unabashed commercial on behalf of the Communist Mao Zedong and his Yanan comrades,” Evans and Romerstein say. And when the conflict swung to Asia, Stalin’s network continued to conceal facts and was even able to rig a grand jury to prevent agents from exposure.

Plenty more here for everyone, including Alan Cranston of the Office of War Information — a future Democratic U.S. senator from California — cracking down on radio broadcasts he deemed adverse to Moscow. But this account is only “part of the Cold War story,” say the authors. A historical blackout still exists “in too many places,” and the information the authors were able to set forth is “fragmentary and episodic.” On the other hand, “there is much more out there still to be tracked down by researchers of the future.”

Evans, author of *Blacklisted by History*, is getting into his emeritus years. Romerstein, expert on Communism and author of *The KGB Against the Main Enemy*, passed away in May. So those new researchers need to pick up the torch from these veterans. Left-wing revisionism is surging, and as George Orwell put it, those who control the past control the future. CJ

Lloyd Billingsley is author of *Hollywood Party: How Communism Seduced the American Film Industry in the 1930s and 1940s*, soon to be reissued in paperback.



# Nathaniel Macon Took Confidential Communications Seriously

After reading letters addressed to him, Nathaniel Macon burned them. More than once, he likely tossed the papers into the fireplace in the spartan, two-room domicile on his Buck Spring plantation or in the fireplace of the boarding house where he rented rooms when Congress was in session.

Historians have claimed that the practice revealed the Warren County native's republican virtue — a character trait early Americans believed that politicians should embody. In this view, leaders were public servants and should avoid using political office for personal gain or as a means to achieve fame and glory. Macon did possess republican virtue, but he burned his correspondence for practical reasons.

This correspondence would have been valuable, because Macon's name was synonymous with North Carolina during the 1790s and early 1800s. He served in the U.S. House from 1791-1815 and in the U.S. Senate from 1815-28. He was speaker of the House



TROY KICKLER

from 1801-07, and many politicians from North Carolina and elsewhere sought his advice regarding important political issues.

Some hoped to share some of the past. For years, Judge Archibald Debow Murphey (1777-1832) planned to write a history of North Carolina. While doing research, he asked important North Carolinians for their remembrances of North Carolina events, and in letters, he provided lengthy descriptions of Tar Heel history. Murphey, a proponent of public education and internal improvements, unfortunately died before penning a manuscript of the Old North State's history.

During the research phase, Murphey asked Macon in 1825 for leads and any documents that might assist his scholarly pursuit.

Macon was willing to help Murphey. He commented on the Regulator Movement in North Carolina, and the history both of Halifax County and what had been Bute County. He also recommended that Murphey consult

*The History of North Carolina*, published in 1812 by Edenton's Hugh Williamson. Macon asked his good friend, John Randolph of Roanoke, a flamboyant congressman from Virginia, for any notes that he might have answering Murphey's research questions.

The amiable Macon, however, had no letters to share. In a letter to the judge, he said: "Some years past, a few confidential letters were I thought improperly published; This fact, induced me to burn, the correspondence of my life, together with notes on living characters, with whom I had been associated in public business."

When the North Carolinian addressed a letter to a person, it was for that individual's eyes only. It could be shared, but Macon believed — as he later reprimanded then Secretary of State Martin Van Buren in 1830 — that protocol necessitated asking the author first.

Van Buren had taken the liberty to submit an excerpt of Macon's correspondence to the *Richmond Enquirer*. From two friends who were subscrib-

ers, Macon initially learned that his praise for President Andrew Jackson had been published without his permission. Macon's words had been used to garner support for Jackson.

Macon was disappointed with Van Buren, who would be elected the eighth president of the United States: "Your publication has not diminished my friendly feelings towards you, though it may have diminished my confidence, in your being prudent at all times & under all circumstance. Indeed it has long since been said, that no man is wise at all times."

If the president was doing his job, Macon believed, a public relations effort was not needed. As Macon later expressed to Van Buren: "An administration gaining the affection of the people by the proper management of the public affairs, need never publish the opinion of an individual in its favor, to gain friends. ..."

Macon probably would look disapprovingly at sharing his correspondence to Murphey and Van Buren. If he still were here among us, I hope that he would be quick to forgive. *CJ*

*Dr. Troy Kickler is director of the North Carolina History Project (northcarolinahistory.org).*

Macon's habit of burning his correspondence has hampered historians

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## Book reviews

# Rumsfeld's Rules Offers Guidance That Reaches Beyond Beltway

• Donald Rumsfeld, *Rumsfeld's Rules: Leadership Lessons in Business, Politics, War, and Life*, Broadside Books, 2013, 334 pages, \$27.99.

By MELISSA MITCHELL  
Contributor

RALEIGH

For years, a set of rules and sayings, known as Rumsfeld's Rules, has circulated throughout Washington, D.C. These rules reportedly have been shared with and used by presidents, government officials, business leaders, members of Congress, and diplomats for more than 30 years. But where did they originate?

Donald Rumsfeld opens his book by noting that many times in everyone's life you will see an interesting saying and think, "I should write that down." That is just what Rumsfeld has been doing for years. He says the practice started with his mother, a schoolteacher, who encouraged him to write down words that he did not understand and look up the meaning later. So for years, Rumsfeld jotted down sayings and developed rules for dealing with a variety of people, situations, and the press. He stored his collection in a shoebox.

When Rumsfeld served as President Ford's chief of staff, he happened to mention one of the rules to the president, saying that he collected common wisdom and had a file filled with quotes. Ford asked to see them, so Rumsfeld had the rules typed and gave them to the president. After reading the list, Ford asked that a copy be given to all of the senior members of

the White House staff. From there, the rules began circulation far beyond the president's inner circle.

In *Rumsfeld's Rules: Leadership in Business, Politics, War, and Life*, Rumsfeld organized the sayings in a unique book that weaves these quotations into a handbook that can aid government officials, business leaders, company executives, professionals, and employees.

Every one will benefit from Rumsfeld's chapter on 'Running a Meeting.' There's also a good laugh in his description of the types of personalities seen in all meetings.

The rules have served Rumsfeld well. He has served four presidents, starting with President Nixon. He has been a member of Congress, secretary of defense twice, a CEO, and an ambassador.

"The book can be used any way you like — reading it cover to cover or skipping around to find topics of particular interest to you," states Rumsfeld. After reading the first two chapters, I tried skipping around, but I

found that I preferred reading it cover to cover.

Rumsfeld provides an inside look into all the presidents from Nixon to Bush 43, especially Nixon. Rumsfeld presents Nixon in a favorable light, which seldom happens. But this reader took issue with Rumsfeld's contention that Nixon's creation of the U.S. Environmental Protection Agency was a great accomplishment.

Readers may be surprised by the people Rumsfeld quotes and the ones who offered the wisdom he includes in his rules. Certainly there are the usual suspects, such as Winston Churchill, Margaret Thatcher, and many Republicans, but there also are many Democrats. Rumsfeld turns to ancient thinkers, including

Pericles, Confucius, Lao Tzu, and Seneca. I did not recognize some of the names, so I did what Rumsfeld would have done — wrote them down and looked them up.

He even quotes comedian Jon Stewart's comment about the Sept. 11,

2001 attacks: "One reason I don't worry about society is 19 people knocked down two buildings and killed thousands," Stewart said. "Hundreds of people ran into those buildings to save them. I'll take those odds any day."

Most of the sayings and rules are serious and profound, but many left me laughing out loud.

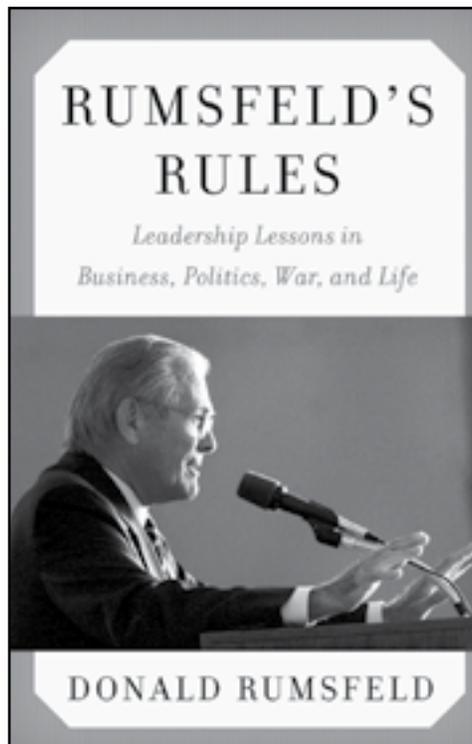
Considering what is currently happening in government, one saying is particularly revealing. "You can tell a lot about the quality of a manager by the quality of people he brings as members of his or her team. A's attract A's. By contrast B's hire C's and even some duds who could generously be termed D's — they don't want people who might 'overshadow them,'" says Rumsfeld.

In that same chapter, "Picking People," Rumsfeld's basic rule is: "Never hire someone you can't fire." This chapter is not just for the employer. It is also for the person seeking employment. Rumsfeld gives great advice on writing a résumé.

In the final chapter, Rumsfeld talks about many of the mistakes he made during his recent time as secretary of defense, but adds a section titled "Keep your Sense of Humor."

Rumsfeld points out that he did not originate the ideas behind many of these rules. He gives credit when the author is known and includes an appendix with all of the rules and maxims. Even so, the rules make the most sense when considering them within the context of the subject he's discussing.

It's definitely a book worth reading. CJ



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Book review

# Efforts to End Labor Discrimination Called Counterproductive

• June E. O'Neill and David M. O'Neill, *The Declining Importance of Race and Gender in the Labor Market*, American Enterprise Institute, 2012, 294 pages, \$70.

BY GEORGE LEEF  
Contributor

**T**he Civil Rights Act of 1964 marked the federal government's most significant attempt to eliminate labor market discrimination based on race, ethnicity, or gender. The original idea was that no worker should be rejected from consideration for a job because of his or her immutable characteristics. Over time, however, zealous officials have changed that mission, expanding it into a quest for overall "fairness" in the labor market.

Employers now have to worry about attacks from federal agencies if any employment decision might have a "disparate impact" on a protected group, or if they haven't done enough to recruit a sufficiently "diverse" work force.

You might think that labor market discrimination must have grown worse since 1964, but June and David O'Neill demonstrate in this heavily researched book that employer prejudice against minority workers and women not only has declined, but also has almost disappeared.

The authors' careful statistical analysis shows that the difference in average earnings for various groups is explained by differences in productivity and the choices of individual workers. Moreover, labor market discrimination was fading rapidly before the government got involved, and the gains made by minority groups actu-

ally slowed after sweeping federal legislation was enacted.

Thus, the large and costly federal crusade against discrimination in the labor market seems unnecessary, imposing substantial dead-weight losses on taxpayers and firms, which must devote resources to placating government officials.

The O'Neills begin with the fortunes of black workers after the Civil War. At the time there was a huge gap between the average earnings of whites and blacks, but that began narrowing early in the 20th century. Many blacks migrated from the agricultural South where racial antagonism was strongest to the industrializing North, where they encountered less prejudice and more opportunities for good employment.

World War II further broke down racial barriers. In 1940, the average earnings for black men who were full-time labor force participants had been only 45 percent of average white earnings, but by 1960 that figure had risen to 61 percent. For black women, the gains were even greater — from 40.5 percent in 1940 to 66 percent in 1960.

Another important datum is the high degree of black labor force participation that formerly prevailed. In 1940, 92 percent of black men ages 25 to 54 were working, compared with

95 percent of white men. That statistic shows that although bias may have blocked some employment opportunities for black workers, they could and did find work in businesses that did not discriminate. In recent decades, black labor force participation has decreased, but that is due to welfare and other government policies rather than increasing discrimination.

Those data strongly suggest that economists are correct when they argue that labor market discrimination is rare because competition for good workers punishes employers who make their hiring and promotion decisions on factors other than productivity.

Throughout the 20th century, free market competition had been wiping away the vestiges of slavery and Jim Crow. Without government intervention, blacks had made steady progress, but some labor market discrimination remained in 1964, and many people regarded it as a national problem. Led by President Lyndon Johnson, Congress passed the Civil Rights Act of 1964, Title VII providing that employment discrimination was illegal and establishing a new agency, the Equal Employment Opportunity Commission, to enforce it.

Significantly, however, the law did not require employers to ful-

fill quotas in their work forces, but it didn't stay that way for long.

In 1965, Johnson signed Executive Order 11246, which imposed a far more onerous hiring regime on firms that contracted with the federal government. That order created the Office of Federal Contract Compliance and empowered it to ensure that firms holding federal contracts complied with its nondiscrimination rules. The result was de facto quotas.

Also, Congress has amended the Civil Rights Act several times in ways that liberated the EEOC to pursue its own vision of what nondiscrimination requires. Not content to go after the small number of employers that discriminated against some groups, EEOC officials have expanded their mission to the point of absurdity.

The O'Neills cover many cases in which the employer was attacked for actions that would seem entirely reasonable to most people.

Equal employment enforcement is worse than just a costly program to solve a negligible problem. It also impedes progress attacking the real problem, namely providing young people, especially black males, with the skills they need. Our authors don't, however, call for abolishing the EEOC, even writing that it has "important work to do."

On that point, I disagree. The O'Neills' work shows that capable workers will be able to find employment that pays them according to their productivity, no matter their race or sex. *CJ*

*George Leef is director of research for the John W. Pope Center for Higher Education Policy.*



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By John Hood  
President of the  
John Locke Foundation

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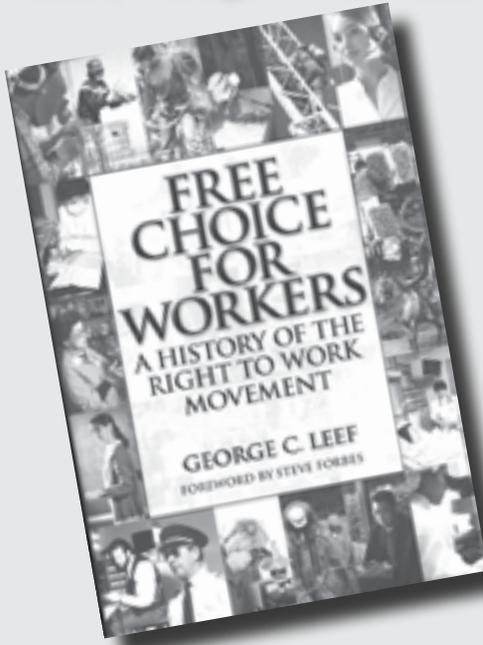
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## COMMENTARY

## Competition Makes Us Better

I got my first lesson in competition when I was a 12-year-old first baseman on a softball team. For years I'd been the only girl able to snag wild throws that regularly sent the ball careening toward the dugout. But then a very athletic girl showed up to join my team. Her powerful swing trumped my long arms and legs.

My coach didn't sugarcoat things: I wasn't entitled to first base, and I'd better work on my skills if I expected to play. First, I got mad. Then I got scared. Finally, I got busy. It was hard, but when I saw my name on the starting roster, I realized competition had made me a better player.

That life lesson as a child grounds my belief in the power of competition to make people better at what they do, and products and services better at what they deliver.

The magnificent artists Pablo Picasso and Henry Matisse illustrate this truth. As *Inc.* magazine recently put it, their rivalry "shows us how competition can be both inspiring and productive." Each wanted to be the one who revolutionized the definition of art. Picasso reportedly told a biographer, "No one has ever looked at Matisse's painting more carefully than I; and no one has looked at mine more carefully than he."

Their competitive relationship was so fascinating and inspirational that the Metropolitan Museum of Art devoted a special exhibition to their work and story. We have competition to thank for some of the most wondrous masterpieces the world has ever seen.

Competitive forces are also at work in professional sports — off the field. ESPN essentially has been the only game in town for decades for sports geeks. But in August, Fox Sports 1 debuts in roughly 81 million homes. Not coincidentally, ESPN began streamlining operations earlier this year. According to the *Hollywood Reporter*, the changes are underway in order for ESPN to become "more competitive, innovative, and productive."

Competition has the power to

broaden educational horizons for children as well, but you'll have no luck getting North Carolina's education establishment to embrace it. They view competition as a threat, railing against efforts by legislative leaders to infuse education with new, better options to meet the varied needs and interests of children and parents.

These forces won the argument for decades in our state, fighting mightily against public charter schools, for example. Last legislative session, however, new leadership in the General Assembly eliminated the arbitrary 100-school cap on charters.



**DONNA  
MARTINEZ**

This session, the education establishment has circled the wagons against opportunity scholarships. Scholarships, or vouchers, have been proposed as a way to give kids from low-income families access to private or religious schools. In the first year, a \$4,200 scholarship would be available for children who qualify for the federal free or reduced-price lunch program. In the second year, income eligibility would increase to "not in excess of 133 percent of the amount required for the student to qualify for the federal free or reduced-price lunch program."

In other words, the door of opportunity would be opened for low-income kids.

In "A Win-Win Solution: The Empirical Evidence on School Choice," released in April, Greg Forster of the Friedman Foundation for Educational Choice reviewed school choice research. "Twenty-three empirical studies (including all methods) have examined school choice's impact on academic outcomes in public schools. ... No empirical study has found that choice harms public schools."

Competition makes us better, whether the dynamic plays out on a softball team, in the art world, in the boardroom, or in a North Carolina classroom. *CJ*

*Donna Martinez co-hosts Carolina Journal Radio and blogs at "Right Angles."*



## EDITORIAL

## Get 'Em Out of Town

The recent actions of the General Assembly might make you long for divided government. Or they should annoy you enough to consider the good sense of placing a limit on the length of legislative sessions, and enshrining it in the North Carolina Constitution.

North Carolina is one of 11 states with no limits — by constitutional provision, statute, or rule — on legislative sessions, measured either in calendar days or working days. Most states place lawmakers on the clock, minimizing their ability to loiter at the expense of our lives, liberty, and property. It's time Tar Heels followed suit.

Consider the contrast between the current session of the General Assembly and the one that ended last year. In 2011 and 2012, Republicans controlled the legislature for the first time in more than a century, enjoying large majorities in both chambers; Democrat Bev Perdue held the Executive Mansion, seeking to overcome missteps from her first two years in office.

The 2011 long session was impressively efficient. The new GOP legislature enacted an ambitious agenda — much of it without Perdue's support — including a tax cut; reforms of regulations, workers' comp, and medical malpractice; and an end to the cap on public charter schools. The session adjourned June 18, even though Perdue vetoed the Republican budget and the General Assembly overrode that veto — both firsts in state history.

Meantime, the 2012 short session lasted a mere seven weeks, even though Perdue again vetoed the bud-

get and the General Assembly overrode her veto.

While 2013 was supposed to herald a new era of unity and teamwork in Raleigh — Republicans added to their legislative majorities, and Pat McCrory became the first GOP governor in 20 years — Raleigh is moving at a leisurely pace. This is not good for taxpayers or conducive to sound public policy.

The state Senate's tax reform plan was a mystery until early May, with details of that chamber's plan, and its counterpart in the House, unavailable for weeks. McCrory offered no tax plan of his own. The governor also indicated he wanted to spend more money than either legislative chamber, complicating budget talks.

The end of June arrived, and a new fiscal year began with no budget, no tax plan, and no sense of urgency from legislative leaders or the governor. In late June, the House and Senate passed a continuing resolution, extending the session through July. Some of the scuttlebutt around Raleigh suggests that lawmakers may stick around until Labor Day.

Such shenanigans were common when Democrats had a hammerlock on state government. In 2001, the long session stretched into December; the 2002 short session adjourned in October, and might have kept going if it hadn't been for that pesky election.

No political party is immune to the perks and privileges of power. Setting a limit on legislative terms might not guarantee good government, but it would force lawmakers to focus on the public's business rather than the number of per diems they can collect. *CJ*

## EDITORIALS

# Capital Ideas

*Economic growth doesn't come from government*

Just about every political cause in Raleigh is being pitched as a spur to economic growth. According to some lobbyists, North Carolina's economy would really cut loose if taxpayers would just subsidize a few more modern-art exhibits, Hollywood productions, heritage-tourism sites, and preservation projects.

Let's get real. There are many fine things North Carolinians can enjoy with their own time and money. But when it comes to building the fundamentals for economic success, the main contributions state government can make are 1) establishing the rule of law and security of private contracts, 2) ensuring the existence of high-quality roads and schools at an economical price, and 3) keeping tax and regulatory burdens low, consistent with the first two items.

Economic success flows from productive capacity — from the supply side of the economy, not the demand side. If companies become more productive, they will survive, grow, hire, and buy services. They become more productive by acquiring more and better capital.

North Carolina did this fairly well until the 1990s, when a combination of internal and external factors began to make our state a less attractive place to invest in new private

capital. The state legislature pushed up marginal tax rates on personal and corporate income. Politically favored companies cut incentive deals to offset the effects, but most firms didn't or couldn't. At the same time, our competitors reduced their marginal tax rates and streamlined regulatory procedures.

A recent study of state-by-state trends in capital formation confirms this. Published in the journal *Contemporary Economic Policy*, it examined the period from 1990 to 2007. While North Carolina's capital stock was still rising a bit faster than the national average during the first half of the period, from 2000 to 2007 its rate of inflation-adjusted capital growth (11.6 percent) fell behind the average for Southern states (16.2 percent) and the nation as a whole (14.9 percent).

Recognizing that North Carolina can't recover its economic momentum as long as many companies, investors, and entrepreneurs prefer to put their capital to work elsewhere, legislative leaders and the McCrory administration have made reforming taxes and regulations high priorities in the 2013 session. This is the right decision, regardless of how much they may be excoriated by liberal lawmakers and commentators. *CJ*

# Medicaid Costs

*Despite reports, they are not under control in N.C.*

During the past year, North Carolinians have heard many things about Obamacare, Medicaid, and health care reform that turned out to be untrue. One false claim: North Carolina's Medicaid costs are under control. In reality, our program is the most expensive in the South and one of the most expensive in the country.

Liberals opposed to the McCrory administration's Medicaid reforms have engaged in misdirection. They have compared the *growth rates* in Medicaid spending across states. Then they narrowed the focus to just a single three-year period, 2007 to 2010, during which North Carolina's Medicaid costs grew at just 3.5 percent a year.

But we are in 2013. The fact that North Carolina had a single three-year period of relatively slow Medicaid growth tells us little about the longer-term trend, the most-recent trend, or

the projected trend.

During the 1990s, North Carolina Medicaid had one of the fastest growth rates in the country, averaging 14 percent a year vs. the national average of 10.9 percent. North Carolina's annual growth rate continued to outpace the national average from 2001 to 2007.

North Carolina lawmakers are now looking at hundreds of millions of dollars in Medicaid spending through June 30 beyond the amount originally budgeted, plus projections of rapid Medicaid inflation over the next two years. As a result, the state budget will likely include 10.8 percent more in Medicaid appropriations in 2013-14 and 4.9 percent more in 2014-15. That's an average annual growth rate over two years of 7.9 percent.

Those claiming that North Carolina has a low rate of Medicaid growth are misinforming the public. *CJ*

## COMMENTARY

# Special Interests Hamper Economy

Both the federal and state constitutions protect the right of North Carolinians to petition the government for redress of grievances.

Perhaps you think I'm about to opine on the Moral Monday protests at the Legislative Building in Raleigh. No, all North Carolinians have a right to assemble, speak, and petition their government for redress of grievances. But no group of North Carolinians has a special right to take its assemblies inside a government building if its action would disrupt or obstruct the government's normal operations. Those who do it anyway and refuse to disperse in order to comply with the rules of normal governmental operations should expect to be arrested.

My topic here is different: The constitutional right to petition government for redress of grievances protects, among other things, the practice of lobbying. Just as with freedom of speech, you don't lose your right just because you choose to exercise it alongside others. When a group gets together and decides to exercise members' rights collectively by hiring in-house or contract lobbyists to argue their case to legislative or executive officials, their actions are protected constitutionally.

Still, government can impose time, place, and manner restrictions on the exercise of constitutional rights. That's why Moral Monday protesters can't be denied the ability to assemble and speak, but they can be denied access at certain times to certain public property, such as the hallways in front of the House and Senate chambers. Similarly, government also can impose certain rules or restrictions on the professional practice of lobbying. For example, it can require disclosure of clients.

Still, the right to argue one's case to public officials is protected by the First Amendment. That doesn't mean that one's case will prevail, of course. It also doesn't mean that one's case should prevail. There are many instances in which special-interest lobbyists prevail to the detriment of most citizens. Special interests improperly acquire

subsidies, special tax or regulatory treatment, or protections from free and fair competition in the marketplace.

For decades, scholars have been studying the economics of special-interest lobbying. Some use case studies to portray how politically connected groups conspire with allies in government against the public interest. In a 1983 article,

Clemson University economist Bruce Yandle coined the phrase "bootleggers and Baptists" to describe such collusion. Baptists lobbied for restrictions on Sunday alcohol sales, restrictions also supported by bootleggers who stood to make more money because their legal competitors would be excluded from the market.

More recently, scholars of "regulatory capture" and other forms of "rent-seeking behavior" have used econometrics to demonstrate how special-interest lobbying can harm the general public. One of the latest studies was published last year in the *Eastern Economic Review*. The author, University of Illinois economist Oguzhan Dincer, constructed an innovative model of the effects of lobbying in the United States. He used a system developed by other scholars that sorts states into five categories according to the number and political influence of special-interest groups in each state. Dincer then used growth in median income during the 1980s and 1990s as a measure of state economic performance.

It turned out that states with stronger special-interest groups grew more slowly than those with weaker special-interest groups. Specifically, after adjusting for other factors, states with stronger special interests had about 12 percent less economic growth per decade than states with weaker special interests.

The remedy for the problem is not to attempt to restrict the constitutional rights of special-interest groups. The remedy is to create other institutions, such as *Carolina Journal*, to exercise free speech in rebuttal. *CJ*

*John Hood is president of the John Locke Foundation.*



**JOHN HOOD**

## EDITORIAL BRIEFS

## SBA's Corporate Welfare

In the aftermath of the Great Recession, banks remain hesitant to lend money. There's an exception, though, notes Douglas French in the *Freeman*: Small Business Administration loans.

"Lawmakers portray SBA lending as a boost for small businesses," says French.

"The program is actually a form of corporate welfare for some of America's largest banks. While banks reap profits, taxpayers cover the losses."



In 2011 and 2012, the SBA loaned record amounts of more than \$30 billion a year. This came after the federal government increased its guarantees on the loans to 90 percent of the amount; previously, it guaranteed 85 percent of loans up to \$150,000 and 75 percent of loans higher than that.

The agency has not made repayment a priority. According to research by the *Dayton Daily News*, loan defaults have cost taxpayers \$1.3 billion since 2000. Among the more common loan recipients are local operators of national franchises. SBA loans funded 2,600 Quiznos locations between 1990 and 2012. Along the way, Quiznos franchisees having racked up a 23.6 percent default rate, costing taxpayers \$43.5 million.

"Like all government programs, there are always a few very visible beneficiaries," says French. "What isn't so apparent is that when loans are made for political considerations as opposed to financial ones, capital is wasted and we are all made poorer."

### High-speed rail

The Obama administration has placed an increased emphasis on building high-speed rail lines, like those in Europe and Asia. A new policy study by Baruch Feigenbaum for the Reason Foundation examines the prospects of building such lines in the United States.

Feigenbaum notes that only two high-speed rail lines — Paris-Lyon in France and Tokyo-Osaka in Japan — are profitable. A third, running between Hakata-Osaka, breaks even. All other high-speed rail lines lose money. This general unprofitability comes in part from the high costs of construction, typically more than \$10 million per mile.

Making matters worse, new U.S. high-speed rail lines likely would have to satisfy the same labor laws that make Amtrak a money pit.

"Ultimately, high-speed rail falls into the 'luxury' category for the United States," Feigenbaum says.

"It does provide another transport mode and can move people from one core city to another core city quickly and conveniently. But it is also very expensive and is utilized mostly by the wealthy," he says. "For less money, the United States can create a world-class aviation and highway system with first-rate airplane and bus service. With the U.S. government facing a multi-trillion dollar debt, this is not the time to experiment with more expensive modes of transportation." CJ



## Technology and the Future

My late mother-in-law loved gadgets. She had to buy the latest kitchen appliance, hi-fi (remember those?), and television. Indeed, her family was one of the first to have a color TV. My wife — who was a small girl then — watched an entire baseball game just to see the green grass. She hasn't sat through nine innings of baseball since.

Of course, today, we are spoiled by gadgets, especially computers, tablets, and cell phones. Most of my college students can't imagine living without them, and they wonder how their professor (me) survived the pretech era.

But the impact of gadgets — or technology — goes well beyond entertaining us with music and games, and keeping connected to friends and family. Economists believe that technology really drives the economy and ultimately determines our standard of living.

And so new technology will help shape our future. The "gadgets" — to use my late mother-in-law's term — that are invented and used will have a lot to do with how — and how well — we live.

So what can we expect out of the next inventor's garage or lab? The smart people at the McKinsey Global Institute — one of the leading consulting and business management firms in the world — recently released a detailed report giving their forecasts for the next wave of "gadgets."

McKinsey sees tech advances in five broad areas: information management and utilization, robotics, genomics, manufacturing and materials, and energy.

In information management and utilization, smartphones will get smarter, data storage will become bigger and cheaper, and monitoring of machines, processes, and people will be easier and more widespread. These improvements will help farmers monitor the weather, doctors track our vital signs, engineers keep track of road and bridge safety, and businesses better predict both what and how much to produce.

Robotics might be the biggest visible change in the near future. Robots have been around for

awhile, but the next generation will be more agile, flexible, adaptable, and probably able to learn from and interact with humans. These characteristics will expand their use in the workplace and everyday life significantly. We will see increased use of these modern robots in factories, hospitals, stores, homes, and highways — with robot-driven vehicles!

Genomics might be the most controversial of the new technologies because it deals with applying scientific methods and technologies to modifying living organisms — both plant and animal — including humans. Applications like DNA sequencing, synthetic biology, and genetic decoding are part of genomics.

Genomics has enormous potential for anticipating and fighting disease, repairing the body from injuries and accidents, and improving agricultural productivity. Of course, questions have been raised about the appropriateness and possible consequences of intervening with nature.

Advances in manufacturing and materials include 3-D production — where a customized product can be built virtually anywhere using a layering technique — and nanomaterials — a class of materials of very small scale. Some think 3-D production will revolutionize manufacturing by making products more adaptive and specific for tasks, and thereby more useful. Molecular-sized nanomaterials have widespread applications in medical devices and electronics.

McKinsey sees two future advances in energy. One is in the storage of energy. For example, improved battery capacity will allow electric vehicles to have longer ranges, and this will increase their usefulness and appeal dramatically.

McKinsey also sees big advances in techniques for safely accessing nonrenewable energy (such as oil and natural gas) and developing cost-competitive renewable energy sources like solar and wind power.

While these expected technological advances are beyond most of our comprehension (including "yours truly"), they do have the potential to impact our everyday lives in many ways. The big question is, how.

CJ

Michael Walden is a Reynolds Distinguished Professor at North Carolina State University.



**MICHAEL WALDEN**

# Legislature Rolling Back Bad Laws

**N**ews flash from the Left: The new legislative leadership is rolling back years of laws made under the old leadership.

This is a surprise? Were these folks not paying attention during the election when conservatives promised smaller government with lower taxes, more accountability and transparency, fewer regulations, and less bureaucracy? Think free market, competition, and personal responsibility. Elections have consequences, and new leadership brings new ideas.

There's a different management team in charge of state government for the first time in 140 years. Our friends on the Left assert that things have been hunky-dory across North Carolina — that the size of government is just right, we're spending just the right amount of money, that the tax system is fair enough, that an 80-percent graduation rate is good enough, and that layers and layers of bureaucracy are an efficient way to manage state government. Well, sorry friends. Things are broken in North Carolina, and the fix-it gang has been called in.

The past growth of state govern-

ment has outpaced the growth of population and inflation and is unsustainable. Years of new programs, higher taxes, regulations, and more and more government have made us less competitive, slowed growth, and stymied economic recovery. A new path includes a budget that provides for core functions of government with no new taxes, no new debt, no new programs, and replenishing the state's savings accounts. Allowing hard-working families to keep more of their money incentivizes investment and entrepreneurship. A robust economy and job creation will happen with less government, not more.

Oppressive debt is being addressed by scaling back unemployment benefits from being the most generous in the Southeast to comparable with our neighbors so we can pay back a \$2.4 billion debt to the federal government and get our own fiscal house in order.

When something works, you keep it. When studies say it doesn't work, dump it and find what does work. Studies show pre-K programs work for economically disadvantaged children. Rather than fund it for all children, let's put our money where we know it works. Same with reading assistants — they work in kindergarten and first grade; let's put the money there and use the rest in other areas we know will get results. Just because we've "always" had teacher assistants

in other grades doesn't mean that's the best use of resources.

Our tax system is outdated, unnecessarily complicated, and a drag on our economy. Reforms would flatten the personal income tax and lower the rate below that of our neighbors, eliminate or reduce the corporate income tax, and expand the sales tax. The General Assembly's nonpartisan fiscal research staff tells us that just about every taxpayer in North Carolina would pay less, and a dozen or so economic studies tell us these reforms would stimulate our economy, creating jobs and long-term benefits.

Medicaid is 15 percent of our state budget and is the fastest-growing segment. Recent audits reveal hundreds of millions of dollars have been wasted or misspent. Cost containment has not been a priority, and oversight has been lacking. Care is expensive with low patient outcomes. Badly in need of reform, changes to Medicaid would empower recipients to make health care decisions that fit their needs, lead to healthier lives, and save taxpayers money.

Nonprofits with publicly funded slush funds run by political operatives have to go. The N.C. Biotechnology Center was set up in 1984, The Rural Economic Development Center in 1986, the N.C. Natural Heritage Trust Fund in 1987, the Clean Water Management Trust Fund in 1996, the Golden LEAF foundation in 1999,

and the Biofuels Center in 2007. They have funneled hundreds of millions of dollars to state agencies, local governments, and individuals with little transparency or accountability. If these groups are funding legitimate uses of taxpayer money that deliver value to the public, let's make their actions open and transparent.

The Racial Justice Act was enacted in 2009 to use statistical data to impose a de facto moratorium on the death penalty. The death penalty in North Carolina is constitutional. If North Carolinians want to repeal the death penalty, it deserves an honest debate. Now we can have it.

For 50 years, North Carolina municipalities were allowed to annex property against the owners' will, forcing them to pay higher taxes for services they may not have wanted or needed. And those citizens had no say so in the matter. Under the new leadership, those unfair forced annexation laws were rolled back, ensuring that property rights in North Carolina are safe and respected.

Our friends on the Left are correct. The new leadership in Raleigh is rolling back many of the old laws — years of big government and big taxing decisions. And I, for one, say keep on rolling. *CJ*

*Becki Gray is vice president of outreach at the John Locke Foundation.*



**BECKI GRAY**

# Freedom Threat Concerns Preceded Scandals

**I**n early April, the American Conservative Union commissioned a National Survey on Privacy and Free Speech. In my view, this survey was not only very instructive but also ahead of the curve, finding solid majorities concerned about growing threats to our freedom and privacy.

Keep in mind this survey was taken prior to reports of the scandals involving the IRS singling out conservative groups seeking nonprofit status and the targeting by the U.S. Department of Justice of Associated Press reporters and of Fox News reporter James Rosen.

More recently, we have learned of the data mining of the public's emails, phone records, and social media sites by the National Security Agency.

Hello, George Orwell. ...

Many on both the Right and Left are justified to be outraged by

the actions of the IRS and the Justice Department — but according to news reports, some seem to believe what is transpiring at the National Security Agency is just fine — so long as it is acting in the name of national security.

And according to the ACU survey, by large margins the American public is very concerned about their rights to privacy and free speech.

The ACU's April survey of likely 2014 voters found that 99 percent support free speech and the right to privacy — which the IRS appears to have violated blatantly in its dealings with conservatives, tea party groups, religious groups, and targeted reporters.

The survey also found that 89 percent "approved protecting the rights of privacy of American citizens to speak out on issues without fear of reprisal or retribution from anyone, including those in government, the media, their employers, or opposing issue advocacy groups."

An overwhelming 86 percent agreed that "private American citizens have a right to privacy when they support any issue advocacy groups." The same percentage said "American citizens have a right to privacy

when they support independent issue groups."

Even before the scandals unfolded, most Americans already saw threats to their rights to free speech and privacy by the government.

Two-thirds already believed that actions by Washington endangered our individual freedoms. By a margin of 68-27 percent, respondents said, "our current individual freedoms are being threatened by more federal government regulations from Washington."

Specifically regarding President Obama, most likely voters believed he wants to limit free speech. Again, this survey was taken before the scandals were reported and the revelations of data mining by the NSA came to light. By a 50-44 percent margin, voters said, "Barack Obama's administration has shown a pattern of attempting to limit free speech and take away your personal rights."

In April, the majority of voters thought the Obama administration was attempting to discourage political opposition. Fifty-two percent agreed that "by pushing for the disclosure

of donors to nonprofit groups that advocate on issues of public concern and causes, such as the environment, education, and the economy, the Obama administration is merely seeking to discourage support of positions that are not politically correct or that people may be uncomfortable having disclosed to the public at large." Only 32 percent disagreed.

The vast majority of Americans support protections for free speech and privacy. They surely must be appalled by the actions of the IRS and the Justice Department.

And I would suspect that the American people share similar concerns about the NSA's data mining sweeps of their emails, phone records, and the social media sites that they visit.

Clearly, the Obama administration has demonstrated a pattern of infringing on our privacy and free speech.

To ensure our constitutional rights, it's imperative to hold Obama and his administration accountable. *CJ*

*Marc Rotterman is a senior fellow at the John Locke Foundation.*



**MARC ROTTERMAN**

# Rural Center Launches '10-Point Emergency Action Plan' (a CJ Parody)

BY EUSTACE HANEY  
Nonprofit Correspondent

RALEIGH

In the wake of a legislative proposal that would close the N.C. Rural Economic Development Center and a scathing two-part series in the Raleigh *News & Observer* questioning the center's value to the state's taxpayers and businesses, center president Billy Ray Hall quietly has begun implementing an "emergency action plan" in hopes of keeping the center open and retaining his \$250,000-per-year job.

A source inside the center who wishes to remain anonymous notified *Carolina Journal* of the plan's existence and Hall's deployment of it.

Version 25.1 of Hall's "10-point Emergency Action Plan" currently is in force. The source said its provisions are implemented in sequence, escalating with the intensity of perceived opposition to the center.

The source said Hall realized the Rural Center might be on shaky ground when it was created in 1987, so he developed a strategy to protect the center and what the source called his "phony-baloney job" from watchdogs who say the entire center is a waste of taxpayers' money. The source added that Hall updates the plan every year to match perceived legislative threats.

The Rural Center started as a state-funded, nonprofit think tank ostensibly to study rural issues in North Carolina. Over time, however, it evolved into a grant-making operation. It claims that since 2004 it has awarded more than \$375 million in grants and created 32,000 jobs. The center's grants usually assist specific businesses by improving a building or adding water and sewer lines.

The *N&O* series also found that Rural Center funding supported a Bojangles restaurant, a Krispy



An exclusive photo taken inside the secret room at the N.C. Rural Economic Development Center where center president Billy Ray Hall keeps his secret dossiers. (CJ spooft photo)

Kreme shop, a Wendy's restaurant, Walmart stores, and a golf course. It also helped fund a 14-screen cinema complex near Charlotte.

Hall maintains files on every member of the General Assembly. "Inside them are dossiers of biographical information — and details on every project the center has put in that legislator's district," the *N&O* reported.

Hall refused to answer questions about the plan, but confirmed it was authentic. "I am going to find the snake who gave it to you," he said. "This transparency thing has gone just too far."

Here are the actions called for in the current version of the plan:

- Appoint an eight-member committee to conduct a "timely, aggressive, and responsive" review of its grants, addressing the concerns of board members and the public. Name a Republican from a rural area as chairman.

- Expand the Rural Center's jurisdiction from the current 85 counties to all 100 counties.

- Add *N&O* publisher Orage Quarles to the board and make him chairman.

- Purchase full-page ads in the *N&O* and *The Charlotte Observer* touting the good work of the center.

- Expand the 50-member Rural Center board by adding every member of the General Assembly and the state judiciary, every North Carolina mayor, and all board members of the University of North Carolina system and the community college system. Major decisions will continue to be made by Hall and rubber-stamped by the board.

- Relocate the offices and staff from Raleigh to the Randy Parton Theatre in Roanoke Rapids, which the Rural Center helped fund.

- Sell "Stage 1 Dossier" information (routine personal and legislative data) to lobbyists. This action should generate roughly \$25 million, or enough operating funds to keep the center open until the next election.

- Disclose "Stage 2" dossier information to select media. "Stage 2" dossiers contain embarrassing information about individual legislators, including secret financial documents, unsavory personal habits, evidence of substance abuse, and extramarital relationships.

- Transfer the center's fund balance to its Cayman Island bank account.

- Relocate senior staff to a secure secret bunker beneath the Global TransPark. CJ

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