

EPISODE 9: CANAL CRISIS EXAMINING ETHICS

Sandra Bertin (producer): Examining Ethics with Andy Cullison is hosted by the Janet Prindle Institute for Ethics at DePauw University.

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Christiane Wisheart (producer): There's a cliché about history that if we forget it, we're doomed to repeat our mistakes. But what happens when we can't forget our history? When it's always in the back of our minds, when we make every decision based on the fear of repeating our mistakes. On today's episode, we'll be exploring a 200 year-old Indiana state project that failed spectacularly. You'll hear the story of what happens when a state dreams big about transportation and digs a giant man-made river that bankrupts the government.

Sandra: That's right, we're talking about canals today, folks.

Modupe Labode (guest): [pull quote] I don't know about the whole canal building. It's this joke. Ha, ha, ha, Indiana decided to link with the Great Lakes. And, it all blew up in their faces.

[music ends]

Andy Cullison (host): Welcome back to a new season of *Examining Ethics*. I'm your host, Andy Cullison. We're kicking off season three with an exciting partnership series with Indiana Humanities. For the next three episodes, we are commemorating Indiana's 200th birthday.

[birthday sound effect]

Andy: On today's show, you'll hear from local canal experts, the historian of Indiana Jim Madison, and Africana studies professor Modupe Labode. We even managed to catch a few minutes with former U.S. Congressman Lee Hamilton and former Indiana governor Mitch Daniels.

Christiane: Before we get started, here's a note from our partner.

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Andy: We've partnered with Indiana Humanities to produce a series of special Indiana Bicentennial-themed episodes of *Examining Ethics*. Each episode takes us back to a key moment in Indiana history to look at how Hoosiers have wrestled with that issue over time, as well as the ethical considerations it raises for people everywhere.

The *Examining Ethics* podcast is hosted by Andy Cullison, the Director of the Janet Prindle Institute for Ethics at DePauw University and is produced by Christiane Wisheart and Sandra Bertin.

For more information on this episode and others, please visit www.examininingethics.org.

Keira Amstutz (guest, Indiana Humanities Director): These episodes are part of Indiana Humanities' Next Indiana initiative, which invites Hoosiers to think, read and talk about the issues and ideas that are shaping the present and future of our state. Learn more at IndianaHumanities.org.

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Sandra: I'm one of the producers, Sandra Bertin.

Christiane: I'm the other producer, Christiane Wischart.

Sandra: I just wanted to say that we know that most of you are not listening from Indiana--and that is OK. We promise that this will be interesting even if you have never set foot in the Midwest. Oh and if you haven't ever set foot in the Midwest you might need to know that people from Indiana are called "Hoosiers."

Andy: So we are going to venture for the first time on this podcast into some political and financial ethics. We ask questions like: Is it permissible for governments to go into debt to fund public infrastructure? If so, what are the moral limits of taking on debt? We'll also talk about the moral issues that arise with other methods of funding public goods such as taxation and public private partnerships.

Christiane: We'll also discuss the real human costs of the canal system. Who built the canal? What happened to them? Whose lives are changed forever by this canal?

Andy: OK Sandra and Christiane, I have lots of questions. We don't use canals in Indiana anymore. In the nineteenth century what led people to think this was a good idea?

Sandra: Okay, so transportation in pioneer days was terrible. Roads were really rough, and the other option, travel by river, was incredibly unreliable.

Christiane: Yeah, this was a problem because at this time, farmers wanted to move their goods to bigger and better markets around the country. And there was really no reliable, inexpensive and efficient way to do that.

Lee Hamilton (guest): The world revolves around infrastructure.

Sandra: That's former Indiana Congressman Lee Hamilton.

Lee Hamilton: We must be able to move people, information, goods around, whether it's across the street or across the country. And, if you do not have good infrastructure, the private sector cannot operate, government cannot operate. So, among the functions of government, developing effective infrastructure is very high.

Andy: According to Congressman Hamilton, investment in infrastructure is important today. I can imagine that kind of investment must have been really important in the days before the country even had any kind of transportation system.

Christiane: Yeah, really the only system in Indiana we had was to connect to places via rivers.

Sandra: In pioneer days, canals ended up being a better way of travelling by water. And a canal is basically just a man-made waterway redirected from nearby lakes and rivers.

Christiane: So the way that canals were built here in Indiana is that laborers would dig a ditch about 10-15 feet deep for the water. And then along the sides of the canal were little paths, called towpaths. And mules, donkeys, or horses would walk along those paths and drag the canal boat behind them.

Andy: Okay, so what made canals better than rivers? That sounds like a lot of effort for something that's basically just a shallow river.

Sandra: Well, canals could go in any direction, instead of just north-south like most rivers. You could even go upstream.

Christiane: And Indiana really needed more than just travel routes from one city to the next. They needed a whole system of interconnected routes, and it was easier to create a system from canals than from rivers and roads.

Sandra: And canals were also cutting-edge technology in the 1800s. We talked to Indiana historian Jim Madison, here's what he had to say:

Jim Madison (guest): It's like the new brand of iPhone. The canals are cutting edge.

Andy: Wait, but weren't railroads cutting edge in the mid-1800s?

Sandra: Yes, but there were lots of reasons that the people and legislators of Indiana went with canals instead of railroads. Some canals already existed in parts of Indiana, so they were more familiar to Hoosiers than railroads. On top of that, the Indiana legislature was full of "waterways men," who were kind of like lobbyists for canals.

Christiane: This led to construction on a canal system that would connect Indiana together as well as to the Erie Canal in Ohio and New York.

Sandra: And it was huge.

Dan McCain (guest): It's 468 miles of a long ditch. That's a lot of work.

Sandra: That's Dan McCain, a canal historian that we visited in a little canal town called Delphi, Indiana.

Andy: So how did Indiana's government pay for this 468-mile long ditch?

Christiane: The Indiana legislature passed something called the Mammoth Internal Improvement Act in 1836 in order to pay for the canal system and other transportation projects.

Sandra: Since the yearly revenue for the Indiana government was only around \$70,000, they needed to borrow a ton more money to fund the canal system. They had to borrow 10 million dollars.

Christiane: As a Hoosier, I have to say that surprised me when I learned about that. Because a lot of people I know in Indiana seem pretty uncomfortable with big government spending.

Sandra: And that was true in the beginning too.

Jim Madison: Small government, inexpensive government, government off my back, we don't want to pay taxes. That runs through 200 years of Indiana history, but here's the nub, here's the problem. We also want government to do things for us. Particularly things that advance our own economic interest.

Despite the preference for low taxes and small government, in 1836 the General Assembly passed legislation that provided for a massive internal improvement system, a very expensive system, for people who were opposed to government spending and government action.

Christiane: \$10 million was a lot of money in 1836. But it wasn't enough to build a canal system without cheap labor.

Jim Madison: Here's a long tradition of using the cheapest labor possible, and that's often immigrant labor in the early 1800s, mid-1800s. A large number of the immigrants are Irish, and so many of the workers on the canal are Irish immigrants.

Christiane: Irish workers were paid just \$10/month to build canals.

Sandra: This work was grueling.

Jim Madison: It's not so dangerous, but it's hard in the sense of it's basically pick and shovel and wheelbarrow, because there's no power equipment. You're working long, long hours in the hot sun or the cold winter. The work was so bad that there was tradition for many of the contractors on the canals to provide their workers with a jigger of whiskey or other kind of alcohol.

Christiane: This alcohol was an important motivational tool, because the work was also disgusting.

Dan McCain: The payoff daily to keep you working when you're up to your neck in muck and mire and rattlesnakes and mosquitoes and everything, you got a dole of whiskey.

Sandra: Working and living conditions were awful, which meant that diseases like the flu and cholera were widespread, and deadly.

Andy: So this must be where the human cost to building this canal system comes in.

Christiane: Absolutely. There was the direct harm in terms of hiring people to do an incredibly difficult job and not paying them fairly to do it. But then, there was also a sort of indirect harm,

because the conditions these workers lived in fueled rampant diseases that sometimes killed them.

Sandra: The harms don't end there. Indigenous peoples also faced unspeakable hardship during this time period. White settlers in Indiana decided that they wanted to live in the northern part of the state--which they had little interest in doing before. A lot of this newfound interest came from the anticipated better transportation that building the canal system would provide. So it became important to the government to remove tribes from their land in the North. People say that some tribes left voluntarily after making treaties with the government, but I think it's safe to be skeptical of how voluntary that really was.

Christiane: And one tribe in particular refused to move altogether. A tribe of the Potawatomi Nation from the Twin Lakes Region was forcibly marched away from Indiana to a reservation in Kansas by the government. The march was plagued by disease, and the Potawatomi were not provided with adequate food, water, or rest. As a result, by the end of the march, 41 had died, most of whom were children. Historians call this the Potawatomi Trail of Death. It's the most notorious incidence of removal of indigenous peoples in Indiana history.

[music]

Sandra: We just touched on some of the human costs of a huge project like this.

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Andy: So now I'm interested to know... was this an actual improvement in transportation?

Christiane: Canals were a slight improvement but not by much. Travel by canal was incredibly slow. And, just like rivers, canals still froze over in the winter and dried up in the summer.

Sandra: So in addition to not being that great to travel on, canals needed almost constant repair and upkeep. This made it impossible to finish the construction of the canal system on schedule.

Andy: Okay, so was this canal system just a fail then?

Christiane: It wasn't a complete disaster. There were some positive outcomes. For the 40ish years it was operational, it helped commerce flourish, especially in Northern Indiana because it connected markets better than rivers could.

Sandra: You could even visit New York City from Indiana travelling exclusively by water, which was incredible. It was an entryway to the rest of the world for Indiana.

Christiane: But on the whole, canals do kind of look like a mistake.

Andy: So the Indiana government just wasted millions of dollars?

Christiane: Well, we can discuss later in the show whether it was truly a waste. But it definitely doesn't look good.

Sandra: And even worse, Indiana started building this canal system at the beginning of a really unstable period in American financial history.

Jim Madison: The state borrowed this \$10 million. That is a huge gamble, a huge financial risk. Now, we'll never what might've happened had things gone the other way, but what we do know is that in 1839, three years after they embarked on this infrastructure campaign, the national economy went to hell in a handbasket, one of the great depressions in American history.

Christiane: So Indiana basically went deep into debt for a transportation system that didn't turn out to be all that great. And because of the recession, it became impossible for Indiana to pay back what we owed. On top of that, canals couldn't make any money because railroads were beginning to pick up steam.

[railroad sound]

Sandra: Railroad companies immediately out-competed canals in almost every way. They ran almost the same routes, they were cheaper, they could run year round in almost any weather and went way faster than canals.

Christiane: All of this (the recession, the railroads) meant that Indiana couldn't pay back even half the interest on what they had borrowed to pay for the canal system.

Sandra: Indiana actually never paid back their loans at all. They effectively went bankrupt in the 1840s. The amazing thing is that the effects of this bankruptcy still affect how Indiana laws get made today.

Jim Madison: I think the long-term effects are deep and very long, down to our own time, actually. That is, most people, most Hoosiers took the lesson from the internal improvement system, the bankruptcy, the debacle, to be, "We do not want to borrow money." Of course, the 1851 Constitution of Indiana specifically prohibits the state from going into debt. That is a direct consequence of the so-called failure of the internal improvement system.

Andy: Oh wow, so because of this canal debacle, Indiana rewrote its Constitution?

Christiane: Yes, Indiana literally re-wrote its laws in 1851 to keep the state from going into debt for almost any reason. Here's what the actual provision says:

Alison Howard (guest reader): No law shall authorize any debt to be contracted on behalf of the State, except in the following cases: to meet casual deficits in the revenue; to pay the interest on the State Debt; to repel invasion, suppress insurrection, or, if hostilities be threatened, provide for the public defense. - Article 10, Section 5, Indiana State Constitution, 1851.

Sandra: And according to Jim Madison, it wasn't just the law that changed, it was the mindset of Hoosiers.

Jim Madison: I think more importantly it created a kind of Hoosier wisdom, common sense Hoosier wisdom not to take risks, not to venture too far forward, not to move out of the mainstream, not to be on the cutting edge. Maybe that's good, and at times, that has been very

good for Indiana. At other times that reluctance to take risks, that rather conservative approach to public policy has cost Indiana.

Christiane: So imagine being a Hoosier at this time. Your state is only twenty years old. You watch this brand new government borrow millions of dollars to build this huge, kind of terrible transportation system. And then, your state can't even pay back a fraction of what it owes. It's embarrassing. I think it makes sense that folks would want to prevent anything like this from ever happening again. And according to Jim, this canal crisis is part of the reason that people in Indiana even today generally tend to be more conservative and favor small government.

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Andy: So let me make sure I'm getting the story right: in the 1800s, Indiana needed better transportation. So they decided to build a system of canals. This turned out to be a huge bummer for two reasons: 1) railroads were the better, more competitive technology, and 2) a recession happened during canal construction.

Christiane: This means that the huge sum of money Indiana has borrowed is just...gone. To ensure that Indiana never goes into debt like this again, Indiana state legislators re-wrote the constitution in 1851.

Andy: So after all this... what happened to the canal system?

Christiane: So by 1874, all of the canal system has ceased operation. This means boats don't use them anymore, and no one is bothering to do any upkeep. Because of this, canals basically become these stagnant cesspools.

Sandra: Dan McCain has this great story from his childhood about playing in the abandoned canal in Delphi, IN with his brothers in the 1940s and 50s.

Dan McCain: One of the things we would attempt to do was go fishing. Now, if you can visualize this water being a total mat of algae and duck weed over the surface. It wasn't very pretty and it did smell and the mosquitoes were just horrendous to the point where the mosquitoes could just about carry away a little boy. There was that many of them. Well, we'd take the catfish up there and Mom would look at it, and she was she's [inaudible], "Now, you've got to bury those. You've got to bury them." We were really disappointed because we were going to eat them, but nobody in their right mind would eat them anyway, because they were slimy and they were smelly and everything. Anyway, so that's part of growing up.

Sandra: So the moral of this story is--the canal was gross and disgusting and most likely toxic. And nobody wanted anything to do with it. Except Dan McCain's family.

Christiane: And in fact, Dan McCain's mother actually campaigned to get the canal in Delphi, Indiana restored and beautified. She had to fight hard, because people really hated this idea.

Andy: Wait, I've been to the restored canal in downtown Indianapolis and it's awesome. There are museums, historical societies, pretty walking trails, all kinds of amazing things along the canal. Why would they resist transforming these stinking cesspools into these beautiful things?

Sandra: This is where all of the debt and bankruptcy of the mid-1800s comes into play. That lingering fear of going into debt really comes out when people want to put even more money into these canals. A hundred years later, even 150 years later some people in Indiana get mad, truly angry when the canal is brought up for this reason.

Dan McCain: One man I remember very well was a former governor of ours, is Robert Orr. I remember one time engaging him in conversation as I made some comment about, “Well, I’m with the Canal Association. We’re doing this, this and this.” He says, “I want you to know, young man, that was a foolish thing our state did. Why did they do that?” He was very, very belligerent about it. “How this was terrible for our state and how much it cost us,” and all the things.

Sandra: I think this story paints a really good picture of what people who wanted to restore the canals were up against. They’re basically arguing with people who see these canals as money pits. But eventually, restoration is done on pieces of the canals.

Andy: So it took 150 years for Indiana to do something good with all these canals?

Sandra: No... not exactly. First of all only some parts of this huge system get restored. But most importantly, there’s a significant downside to the restoration of the Indianapolis section. In the early 1900s, there was a thriving African American neighborhood next to the downtown canal.

Jim Madison: It was the center, not just of homes, of residences, but of businesses, of shops, of entertainment, of nightclubs, of music. Indiana Avenue right next to the canal is where African-American music was going hot and heavy by the teens, the 1920s. It continued into the 1950s and 60s. Then as the neighborhood deteriorated, as the university moved in there, as efforts to clean up and beautify and make the canal more attractive came along, it meant that African-American people in that neighborhood and the institutions including the church. The oldest African-American church in Indiana, Bethel AME, just was sold right along the canal and will become a hotel along the canal. It’ll probably be a beautiful hotel, but that historic AME church is gone.

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Andy: This special Indiana Bicentennial episode of *Examining Ethics* has been produced in partnership with Indiana Humanities.

Keira Amstutz: Indiana Humanities connects people, opens minds and enriches lives by creating and facilitating programs that encourage Hoosiers to think, read and talk. Learn more at IndianaHumanities.org.

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Sandra: So we’ve discussed the state of the canal across 150 years with its ups and downs- but mostly downs- and we left off on this issue of gentrification. The restoration of the canal in Indianapolis contributed to gentrifying the area, which was a long standing African American community. We talked to Modupe Labode,

Modupe Labode: My name is Modupe Labode. I am an associate professor at IUPUI.

Sandra: And she told us about the damage the neglected canal had on the African American community long before this gentrification issue. So here she is discussing the canal before beautification.

Modupe Labode: And because now it's a really nice urban space, but it just seems to me it served as this really emotional and mental barrier. There were slaughterhouses there. There was a lot of industrial work as well as houses. There's refugees being put into the canal and the White River. Also, the canal, it wasn't easy to cross in some areas. From what I understand from people who've researched it was, once you went beyond the canal into the black community, there weren't as many social services. Some places didn't have running water right up until the '50s. There wasn't any trash collection. Environmental segregation was reinforcing the racial segregation.

Sandra: Next, Modupe explained to me how this area became home to an African American community in the first place.

Modupe Labode: There's always been a black community in Indianapolis. They were largely pushed into this marshy, low, it's land that is very wet. There's lot of rivers underground, creeks underground and so on. It's not great land, which is another reason the houses haven't been fantastic either. They hadn't had great foundations and so on.

My understanding is that the city council allowed overcrowding in certain areas, or allowed substandard housing to be built, waving some of the building codes, in order to house African Americans in substandard areas, which then contributes to a couple years later, these houses being described as blighted.

It's just very interesting listening to much older people say, "Indiana Avenue was great, but this canal, we had to walk across it to go to Crispus Attucks. It was stinky and dangerous." There's so much about the odor. I think in a lot of depressed communities, smell, whether it's through industry, environmental pollution, having stinky industries is extraordinary depressing. Most people don't talk about odor history. I think that for many of the African Americans who remembered the canal when it was used as a barrier, they had been displaced.

Sandra: Wow. So African Americans are pushed into wet, unstable land in Indianapolis next to the smelly horrible canal that is a physical and mental barrier between white and black, rich and poor. Things we consider to be staples of modern American cities- access to trash collection and running water, etc are just not provided on the African American side of the canal. There was so much neglect. It reminded me of the neglect of the canal itself. But once the government starts taking care of the canal they don't show the same respect for the African American community.

Modupe Labode: It was like a lot of other urban displacements. They didn't get enough funds to go somewhere else. Certainly the community was completely disrupted. I would say that that is still occurring now. There used to be a couple of black churches on the canal. Bethel AME is just sold. The developers say they're going to try to preserve the façade. This is a pre-civil war construction. I wouldn't be surprised if the façade crumbles. It's extraordinarily difficult work to do that kind of historical preservation. That's separate from the idea of whether that's an adequate solution or a way to address some real issues. That will probably be the last historic African

American church in the center township. The process of displacement, I would say, is still going on.

Sandra: Yeah, and these issues of displacement are not the only ways that transportation projects can cause harm. Remember earlier we discussed the Potawatomi Trail of Death and the terrible labor conditions, death and disease that the Irish immigrants dealt with while building the canal system. It made us wonder. How do you measure harms like these against say, possible financial benefits? How do you measure harm?

Andy: Okay, so this is complicated question that moral philosophers have been trying to figure out for thousands of years. Simple harm calculations like just look at the number of people, pick the action that harms the least number of people" I think is probably a mistake.

Applied to the infrastructure stuff, you can start to think about these kinds of things if let's say there's a community that has always historically borne the negative cause of certain kinds of infrastructure projects. Here's an example. The building of power plants tends to happen in communities that have fairly large ethnic and racial minority populations, and those have significant negative health consequences. Over time, you might think, "Wait a minute, we're harming the same group over and over and over and over and over and over again.

Sandra: So, even if it's the smaller group harming ANY group repeatedly is unethical. So how do you make sure that these harms, and even the benefits are distributed evenly? Taxation seems like an example of a really uneven distribution of harms and benefits.

We've had a lot of conversations about this. Here's some snippets from a chat between Christiane, Andy, and Leah Nahmias.

Leah Nahmias (guest): I'm Leah Nahmias. I'm the Director of Programs and Community Engagement at Indiana Humanities.

Christiane: To begin with, one of the most interesting things that this story raises is that, in building the canal system, everybody in Indiana was taxed but not everyone benefited from the canal. There are only certain cities that benefit from the canal, because obviously the canal is not everywhere. In certain pockets, you got a better price for your pork because you were closer to a canal. I think there's a question of a disproportionate distribution of benefits with any infrastructure project.

Andy: I remember a long time ago, watching a discussion about taxation on one of the Sunday morning political shows. George Will, conservative columnist, had a really interesting point. Because they were going in this direction about, it's not fair for a bunch of people to get taxed for the benefit of a few. George Will's like, "That can't be your objection to taxation because all taxation is distributed cost, concentrated benefit."

That's just what a tax system is, you distribute the cost of something and then you have everybody pool in and then you make decisions about what to do with those pool resources. It's inevitable that some people are going to benefit more than others, from that. Unless you object to all taxation, period, your moral objection to it can't just be it's unfair for a bunch of people to pay for the benefit of a few or to pay for something that benefits a few people more than others.

If you're going to raise an objection, you have to say something like this, you have to say, "It's unfair that this small group of people benefit from our taxation rather than this other small group of people." That's the moral argument you have to raise, is that there's a different smaller group of people who it would be better to spend this money on.

Christiane: I wonder too if it might help to broaden our definition of benefit, because let's pretend that I don't have kids and I'm never going to have kids but I'm still paying taxes to pay for other children's education. I could argue that that's super unfair because I don't have kids and I'm never going to have kids. Actually paying for public education, you could argue, makes our society better. If I'm an entrepreneur, it means I have more educated, a better educated pool of workers to choose from. I think you could make the same argument about infrastructure in some ways. Like maybe I will never use that particular road but it will facilitate trucks coming in with cheaper goods that I can buy.

Leah Nahmias: Yeah. You see those arguments today with questions about how do we make, at least in Indiana, this a business-friendly climate. This is an argument that you could argue is a more conservative argument to me but that we need infrastructure spending, to make sure that businesses want to locate here or stay here. That it's easy to do business with them, businesses in Indiana. I think the thing that I love about infrastructure spending debates is that you can get into really complicated and interesting arguments on all different sides.

Sandra: That's really true. It's not like there is some line dividing right and left on this issue. Nearly everyone is on board for a good infrastructure project. Here's Mitch Daniels, talking about the infrastructure program he oversaw while he was governor.

Mitch Daniels: I always thought in pursuit of better living standards for people of our state. The best possible infrastructure was essential. It created a lot of jobs building it, but that was not the real goal. The real goal was to build a backbone that was attractive to investment over the long term by private firms who would put more people to work on a permanent basis.

Sandra: So the question is how do you pay for infrastructure if it is essential? Here's former Congressman Lee Hamilton.

Lee Hamilton: Well, you don't like to raise taxes on people if you're a politician, a legislator, or president or governor. You always have a burden of persuasion if you do that. Now I believe that there are a number of infrastructure projects that do require, in certain instances, raising taxes. There is a large segment of opinion today of course that is dead set against raising taxes for anything. You can only go down that road so far so long, because at some point if you keep adding investment in infrastructure in, as I think I think we're going to be required to do, you have to raise the taxes.

Sandra: So these people that Lee Hamilton refers to, people who don't want to pay taxes. They seem to have a fear, a fear that the government is going to waste their hard earned money. In fact, I think a lot of people share this fear across the political spectrum.

Leah Nahmias: I think that's some of the skepticism about government spending in the present and down through the present, is well, how can you trust these people to make the right decision and to be good stewards of those public funds?

Christiane: Hoosiers are generally perceived as being kind of conservative generally, maybe anti big government spending and it has its roots in that moment, right? In the 1830's, '40s, and '50s, and so people who call themselves "Fiscal conservatives" today, it's got its roots right there in 1851.

Leah Nahmias: This political shift is pretty profound and this canal's crisis and this lesson that's learned about government is kind of the formative lesson that's learned that shaped Indiana politics for the next a hundred and however many years, and certainly this question of public spending versus public/private partnership or private spending still colors Indiana's politics for the rest of its history and one of the reasons that it explains why Indiana is more conservative than its surrounding states, so Ohio, Michigan, Illinois, Indiana's more conservative politically in lots of ways. It has less immigration, it's very different than the other Great Lake states that surround it.

Sandra: But whether you are a fiscal conservative or not, debt seems like a scary word. It seems irresponsible for someone to have a mountain of credit card debt, but state debt is not necessarily like credit card debt. There can be good kinds of debt like what we would consider investments, investments to buy to a house, to start a business, to fund an education. All of those things don't seem so crazy. And that's how state debt can be too. Here's former governor Mitch Daniels.

Mitch Daniels: Debt is appropriate for long term investment. Government abuses this all the time. The danger of course, in more recent times, is not that you'll put it in a failed canal, which occasion as I recall this provision way back when. The danger these days is that governments all over the place have borrowed for pensions, borrowed to give outlandish increases to public employees. Borrowed for today under the guise of investment in the future.

I think you need protections about that. But no, I mean we do it. Our public universities do it. Borrowing for genuine investment in physical facilities or equipment or infrastructure, that, if well chosen, will bring a return over the long time.

Sandra: Mitch Daniels' comments on debt left us wondering, if some debt is acceptable, then *what are* the moral guidelines for going into debt?

Andy: In some ways, I think the moral considerations that you think about when thinking about whether or not a state should take on debt aren't all that different from the kinds of things you bring to bear when you think about any moral issues, so for example with debt, you want to think about who might get harmed by this taking on of debt for the thing that we're doing, so the kinds of things we've been talking about with infrastructure, what's the debt being used for and what kinds of harms could it cause.

One question is what could possibly ground future generations to even be obligated to pay it back. Indiana's got a debt, let's say we're the only citizens left in Indiana, like we didn't take on that debt, why are we in any way obliged to make good on that debt? Everybody who agreed to that is long gone when we take on debt collectively, we are basically putting a burden on future generations, and so there's an interesting question to be thinking about like to what extent should we do that?

Sandra: That concern, that question is something we heard over and over again. Both Lee Hamilton and Mitch Daniels worried about the same thing.

Lee Hamilton: Who bears the burden of the cost? And one big part of that if you go into debt of course your children and g children bear a substantial part of it. but if you get effective infrastructure development the growth of your economy will outstrip the cost and will benefit for the people.

Mitch Daniels: You know in my tours in office I never felt that fiscal integrity and stability was the goal. The end goal was always the betterment of life, better jobs and incomes and education. But the starting point or a prerequisite had to be taking good care of the state's finances so that you could do those things and leave behind a situation where others had the wherewithal and the flexibility to do them even better.

Sandra: Lee Hamilton and Mitch Daniels remind us that sometimes when thinking about things like future debt it's important to zoom out and look at the big picture.

Christiane: I think with things like taxes and with debt, it's so tempting to just think about that one thing that we spent money on. It's like we spent money on canals, it was an enormous mistake, and they all failed and railroads came and we went into debt and all these bad things, right? When we were talking to, this canal historian in Delphi, Indiana, Mark Smith, he said this really amazing thing which is that the canal itself failed, right? The literal piece of infrastructure failed in some way but the idea of canals and the idea of a bigger infrastructure system was kind of put in people's minds.

Lee Hamilton: We often think of infrastructure in terms of things- roads and bridges. And obviously that's important. I think of infrastructure more broadly I think of infrastructure in terms of investing in the skills of your people. Human, human resources and in this area I think you are very, very short sighted unless you put substantial capital investment into improving the skills of your people.

[music]

Sandra: So Indiana's failed canal system and the bankruptcy that followed caused Indiana to be scared of debt. So how, then, does the Indiana government actually fund huge projects? One of the ways is through partnerships with private companies. We call these public-private partnerships, as Leah told us, they're a staple of the way Indiana gets things done.

Leah Nahmias: I'm kind of obsessed with this idea of public/private partnership. I remember going to this meeting that was about the Plan 2020 which was like the city's visioning process and I walked out of it, went back to talk to my boss, I was like, "I don't understand. I read it, it sounds good, everyone who's working on this plan is very, very excited, but who's actually supposed to do it? I don't understand like who's supposed to do it," and she said, "That's just how Indianapolis works. Like businesses will take a piece of it, city government will take a piece of it, and I'll kind of just take on pieces of this plan and they'll move it forward," and it was just, there's a civic mindedness that is kind of admirable there but it was a very mysterious kind of entry into this way that Indiana, and Indianapolis at least, think about public/private partnership. That is just such a profound way of doing things here.

Sandra: When Mitch Daniels was governor, one of his public-private ventures was the leasing of the Indiana Toll Road.

Mitch Daniels: We hit on a different idea, which was the lease of the existing toll road, a money losing toll road. We got a better toll road out of it and almost four billion dollars. I established it as a cardinal rule of that transaction that the money could not be spent on today. Now first thing we did was paid off the fifty-year-old bonds, which were still on the state's books and eliminated that debt. Having done that, all of the rest went into roads and bridges. Some we shared with local governments for that same purpose. That was our approach, the way in which so many new projects and so much repair occurred.

Sandra: The Toll Road is just one example of a public-private partnership. Whether or not you agree that this specific example worked or didn't, as Leah said earlier, this is just how things have to get done sometimes in Indiana. So, we have to think about public-private partnerships in general.

Andy: By having this debt prohibition, you protect future generations from possibly taking on the financial cost of your mistakes, but some public/private partnerships involve transitioning state owned assets over to private companies and they're now the owner of it. Well that affects future generations. It's easy to think about debt as the only thing that burdens future generations but transition of public assets to private companies is something that could theoretically burden future generations as well.

Modupe Labode: I don't think that industries have the obligation, the private industries have the obligation in the same way that governments do to listen to people and to take their views into account and the impact of these projects into account. That's, to me, a really worrying aspect of the really super robust public, private ventures. Things that they look like public space, when you're walking along the canal, or other areas, it feels like you're in the public, but in reality you're in a much more ambiguous space. What that means for citizens... I think it has huge implications for citizenship.

Sandra: So public-private partnerships are definitely not without flaws.

Lee Hamilton: I'm not opposed to it. I think it's become a necessity. But what's the deal between government and the private partnership? That makes all the difference. In the long-run it is possible that those deals are more expensive, because now you are put in the profit motive. They're not investing just for the thrill of it. They are investing, because they want a return on their investment. That's perfectly okay. That's the way the private sector works. Is the taxpayer willing to go in partnership -- government going in partnership with a private sector when it means all the usual expenses for the infrastructure plus providing an adequate return on their, the private sector's, investment? But it may be necessary if you can't finance it other ways.

Sandra: But like Lee Hamilton says-- if you need to pay for a project and people don't want to be taxed and you can't go into debt... you can see why these partnerships seem necessary.

[music]

Christiane: Who knew that building a canal in the 1830s would continue to affect the way Hoosiers think about government spending even today? It's just crazy to think that the failure of the canal system would prompt Hoosiers to rewrite their State Constitution so that they could never go into debt again.

Sandra: So guys, do you think it worked? Do you think the debt restrictions of 1851 actually prevented unethical treatment of taxpayers in the long run?

Christiane: I don't know. It seems like a fear of going into debt might cause you to do some kind of shortsighted things. Let's say you have a family farm, and you're committed to never going into debt, but you have all these projects you want to complete. So, how are you going to pay for that, right? You could do something like a public-private partnership, right? You could sell the family farm to a private company, and lease it back from them for a period of time. And, that might mean that you never had to go into debt.

But the thing is, the family farm is more than just like 50 acres and your cute little farm house. It's about more than that. It's about the idea of the family farm too. It's about the idea of this thing being in your family for so long, and I think that kind of works with infrastructure too, because it's more than just a road or a system of roads. It's the idea of infrastructure that we need to think about and work with.

Andy: I think it's really hard to say if the debt prohibition was a good thing. Christiane's family farm analogy is a good one, but a debt prohibition also does avoid some potentially serious costs. In the early stages of a state, I think there's a real, legitimate fear that people just have no idea what they're doing, and a restriction on them might have been a very, very good idea.

But there are probably some serious missed opportunities there. I suspect we probably didn't invest in railroads as heavily as we might of, like the other states were. So, I guess at the end of the day, taking on debt imposes a risk on future generations, but a decision to not take on debt imposes financial risk on future generations as well. And actually, I was struck by something Lee Hamilton said in our interview about this.

Lee Hamilton: Indiana traditionally has not been a very revolutionary state but a kind of evolutionary state. In other words, we are usually not on the cutting edge of new developments in this state. Sometimes we are most times we're not. If you have new technologies coming along somebody is going to take the ball and run with it. They may run the wrong direction and they make bad investments and all the rest of it and it could turn out to be a mistake. On the other hand it could be exactly the right way to go.

[music begins]

Andy: Thanks for listening. If you'd like more information about the topics we've discussed today, visit our show notes for this episode at examiningethics.org. When you visit, be sure to sign up for our newsletter. You'll be entered into our monthly book giveaway.

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Jessica Keister (intern): [credits] My name is Jessica Keister and I am reading the credits for this episode here outside of the Prindle Institute.

Examining Ethics with Andy Cullison is hosted by the Janet Prindle Institute for Ethics at DePauw University, with special support on this show from Indiana Humanities. Sandra Bertin and Christiane Wischart produced the show. Special thanks to Keira Amstutz and Leah Nahmias from Indiana Humanities. Thank you to our narrators, Chris Hager, Joe Heithaus, Drew Smith and Ali Howard. Our interns are me, Jessica Keister, and Leah Williams. Our logo was created by Evie Brosius. Thank you to the Pulliam Center for Contemporary Media for providing our recording room. Our music is by Cory Gray, Black Twig Pickers, Kosta T, Gillicuddy, Weinland, Michael Howard and We Shore Is Dedicated and can be found online at freemusicarchive.ORG.

Examining Ethics is made possible by the generous support of the Indiana Humanities, DePauw Alumni, friends of the Prindle Institute, and you the listeners. Thank you for your support.

[music ends]

Lee Hamilton: [Easter Egg] I am against building canals if you wanted to know... [laughter]