Tax-Hikers Win Colorado Ballot Initiative

Time will tell if victory over TABOR defenders has impact elsewhere

by Max Pappas

Colorado voters on November 1 approved Referendum C, a measure to give up nearly $4 billion in tax rebates over the next five years and permanently increase the cap on spending in the state’s constitution. They rejected Referendum D, which would have allowed Colorado lawmakers to borrow $2.1 billion.

Both votes were close: 52.48 percent to approve Referendum C, and 51.49 percent to reject Referendum D. Turnout was low: 40 percent compared to 87 percent in the November 2004 election.

Taxpayer advocacy groups across the country, as well as lawmakers, public employee unions, and business firms that seek state government contracts, closely watched the election. In many instances they aided the campaigns.

The election had national interest because the tax rebates were due under Colorado’s Taxpayer’s Bill of Rights (TABOR), which limits the state’s power to raise taxes and spending. Tax and spending limitation proposals are being considered in nearly two dozen states.

COLORADO p. 9

Supreme Court Will Hear Tax Incentives Case

by Steve Stanek

The U.S. Supreme Court could hear oral arguments in January regarding the Cuno decision, a ruling that invalidated an Ohio investment tax credit and threw into question targeted business tax incentives across the country.

The Court announced on October 4 that it would hear arguments in the case, which the U.S. Court of Appeals for the Sixth Circuit decided on September 2, 2004. The ruling in Cuno v. DaimlerChrysler struck down Ohio’s SUPREME p. 7

Wireless Philadelphia Moves Ahead

by Steven Titch

Philadelphia’s selection of EarthLink Inc. to build, operate, and manage a citywide municipal wireless network could mark a subtle yet significant change in the way large cities approach funding the construction and operation of controversial broadband initiatives.

Wireless Philadelphia is the largest municipal wireless project to reach contract stage. Similar networks, using a variety of business models, have been proposed in cities such as Los Angeles, Minneapolis, New York, and San Francisco. In response to a request for initial comments, Google Inc. has offered to build a wireless system in San Francisco at no cost to the city and offer...

PHILADELPHIA p. 14

Tax Protesters Launch “Tea Party” in Maine

by Douglas Wright

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The bang sent a shudder through the audience who, after unplugging their ears, clapped at the thundering kickoff to MAINE p. 8

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Georgia Gives up Revenue “Windfall,” Suspends State Gasoline Taxes

by Benita M. Dodd

Georgia motorists recently won temporary tax relief as they struggled to cope with soaring fuel costs.

With already-tight gasoline supplies exacerbated by damage from hurricanes Katrina and Rita, sending prices to record highs of more than $3 a gallon, motorists frightened by rumors of government-ordered gas station shutdowns began lining up at the pumps. At some stations gasoline sold for as much as $6 per gallon.

Gasoline prices in the Atlanta area were already high because of the smog-season gasoline blend the U.S. Environmental Protection Agency requires to be sold during the summer in metropolitan areas most affected by air pollution.

Governor Orders Tax Halt

Gov. Sonny Perdue (R) stepped in on September 2, issuing an executive order to halt collection of the state sales and use tax and state excise tax on motor fuels during September. The state legislature promptly ratified the order in special session.

The order applied to aviation fuel, gasoline, dyed fuel oils (diesel), liquid propane gas, and other gas including gasohol, ethanol, liquefied natural gas, and compressed natural gas.

“I believe it is absolutely wrong for the state to reap a tax windfall in this time of urgency and tragedy,” Perdue said at a news conference announcing the moratorium.

The state collects 7.5 cents per gallon of gasoline in excise tax, and a 4 percent state sales tax. Perdue predicted the moratorium could save motorists more than 15 cents a gallon—$75 million in all. Local government sales taxes add up to 3 cents per dollar to fuel prices.

Savings to Consumers

Despite concerns that gas producers or retailers would “pocket” the tax cut, the savings were in fact passed on to motorists, according to E. Frank Stephenson, chairman of the Department of Economics at Berry College in Mount Berry, Georgia.

Stephenson performed a comparative analysis of regional fuel prices and found “the tax moratorium period saw a shift of 12 cents per gallon in favor of Georgia drivers relative to drivers in neighboring states.”

“With gasoline retailing at the $3 per gallon mark, the tax moratorium relieved the pressure on motorists, and the state continues to benefit from the run-up in prices.”

E. FRANK STEPHENSON

BERRY COLLEGE

Governor Requests Schools Close

Three weeks after his executive order, the governor created controversy nationwide when he announced energy-saving measures—including a request that state public schools close for two days to conserve diesel fuel. (See “Georgia Schools Cut Travel in Response to Katrina,” School Reform News, November 2005.) He was accused of pandering to industry lobbyists supporting agriculture’s needs at the expense of education.

Gary Black, president of the Georgia Agribusiness Council, said his council made no concerted effort to close schools, but he added, “It is important to recognize that the need was real, as the window for harvest is short and timing is critical. The governor made a prudent decision based on available facts. The benefits to agriculture were ancillary, yet appreciated.”

Benita M. Dodd (benitadodd@gppf.org) is vice president of the Georgia Public Policy Foundation.

“[T]he tax moratorium period saw a shift of 12 cents per gallon in favor of Georgia drivers relative to drivers in neighboring states. Georgia drivers went from paying 4 cents more per gallon to 8 cents less per gallon.”
Illinois Lawmakers OK Program to Insure “All Kids”

Every child in Illinois qualifies for tax-funded state health insurance program

by Steve Stanek

Illinois has become the nation’s first state to offer health insurance to all children, regardless of family income.

Democrat Gov. Rod Blagojevich proposed the “All Kids” health insurance program several weeks before the state’s six-day veto session in October. The Illinois State Senate approved the measure by a 32-23 vote on October 26. The House voted 79-28 to approve the measure the next day, handing Blagojevich arguably the biggest victory of his administration.

“Passing the All Kids plan is a landmark achievement in Illinois. Every child deserves the chance to be healthy,” Blagojevich said in a statement soon after the General Assembly approved the plan.

“We’ve worked hard for three years to make health care available for more working and low-income families,” Blagojevich continued. “But thousands of kids from working-class and middle-class families have fallen through the cracks because their families earn too much to qualify for government programs, but still can’t afford private insurance.”

The state expects to have the program running by July 1, 2006.

Subsidized through Medicaid

All Kids will provide subsidized health insurance coverage through the state’s Medicaid program. Premiums will depend on family income. Higher-income families will pay higher premiums.

The governor’s office says a family with two children that earns between $40,000 and $59,000 a year will pay a $40 monthly premium per child. Each physician visit would cost the family $10. A family with two children earning between $60,000 and $79,000 will pay a $70 monthly premium per child and a $15 co-pay per physician visit. There will be no co-pays for preventive care visits, such as annual immunizations and regular check-ups and screenings for vision, hearing, appropriate development, or preventive dental.

“These premiums for middle-income families are significantly more affordable than typical private insurance premiums of $100 to $200 a month, or $2,400 per child annually,” the governor’s statement said.

Business, Republicans Skeptical

In an October 26 statement to the author in response to questions about the All Kids program, officials at Blue Cross Blue Shield of Illinois said, “Blue Cross and Blue Shield of Illinois already is actively engaged in extending coverage to Illinois children. BCBSIL currently offers an individual policy with a $250 deductible for a premium of about $64 monthly per child. For those who cannot afford even that amount, BCBSIL for years has actively supported such efforts as the Gilead Outreach and Referral Center, which has taken a leadership role in linking people with existing government programs.”

Republicans in the General Assembly expressed anger and frustration at the concept of the program and the legislation itself.

“Just another press release opportunity for the governor,” said Sen. William Peterson (R-Buffalo Grove), who noted the governor’s media package for All Kids contained 7,800 words while the legislation has only 2,200 words and "almost no details."

Few Details

Peterson said bureaucrats in the state’s Department of Healthcare and Family Services will be responsible for most of the program’s design. He also complained there is virtually no information about the potential costs. Blagojevich promised to pay for the first year of the program by putting most Medicaid patients into managed care, saving $46 million to apply to All Kids. But that promise is not in the legislation, and there are no estimates of the long-term costs.

Peterson also pointed out the state passed All Kids as it was finishing plans to borrow $1 billion to pay overdue Medicaid bills.

“Medicaid already has financial problems, and this program adds to them,” Peterson said.

The governor’s office estimates 253,000 children who now have no health insurance could participate in the program. That apparently includes

“A lot of Democrats believe the way to get to a single-payer system is to expand Medicaid up from the bottom and pull Medicare down from the age group at the top. What they’re trying to drive us toward is a single-payer model where they would be able to reduce choice and politically control your health care.”

SEN. STEVE RAUSCHENBERGER

illegal immigrants, because the legislation does not require applicants to show proof of citizenship.

Further Expansion Suspected

In an interview on WIND Radio in Chicago three days before the Senate vote, Sen. Steve Rauschenberger (R-Elgin), a candidate for the Republican nomination for governor, said he believes the real reason for All Kids is to move the state toward

CONTINUED on right
ALL KIDS continued

a single-payer health care system. “A lot of Democrats believe the way to get to a single-payer system is to expand Medicaid up from the bottom and pull Medicare down from the age group at the top,” Rauschenberger said. “What they’re trying to drive us toward is a single-payer model where they would be able to reduce choice and politically control your health care.”

Michael F. Cannon, director of health policy studies at the Washington, DC-based Cato Institute, agrees with Rauschenberger’s assessment. In an October 13 op-ed in the Chicago Sun-Times, Canon wrote, “Anyone looking for proof that supporters of government health care are trying to push all Americans into government health programs need look no further than Illinois, where Gov. Blagojevich has proposed expanding government coverage to 253,000 middle-class children.”

“Looks Appealing Initially” At first, Blagojevich’s health proposal is very seductive. It would offer uninsured children comprehensive care for monthly premiums below market prices. According to the governor, a family of four earning between $40,000 and $59,000 a year will pay a $40 monthly premium per child and $10 co-pay per physician visit. Even families making $100,000 are eligible for the program.

To subsidize the low premiums, the governor will seek a U.S. Department of Health and Human Services waiver to move Medicaid enrollees, except for Medicaid rates only. Illinois has some of the lowest Medicaid reimbursement rates in the country, and that has limited

gov. Rod Blagojevich

The Dirigo plan chased private insurance providers out of the state, thus limiting choices and raising costs for consumers choosing private insurance. The All Kids program, in turn, will short-circuit the legislative process while the uninsured rate dropped a scant 0.4 percent. Almost all the Medicaid expansion came when already-insured people dropped their private coverage. Maine now has the largest Medicaid program in the country. This is a record Illinois seems intent on following.

Essentially, Gov. Blagojevich is taking state government into the insurance industry and undercutting the private sector. The abundant supply of cheap government insurance will create an incentive for businesses to dump coverage for employees’ children, because parents can cheaply insure kids through the state. Parents participating in the individual market will be able to forgo coverage children, put the kids in Medicaid, and then pocket the difference.

If All Kids is anything like Dirigo, Illinois will begin a vicious cycle resulting in a program much more expensive than government estimated. Private insurers will begin exiting Illinois, and private-sector insurance pools will shrink. As pools shrink, private insurance premiums will have to rise because risk will be spread among a smaller population. That will price more families out of the private health insurance marketplace and force them to enter All Kids.

The result we can expect from All Kids is the same result we received with Medicaid: an unsustainable program unable to pay its bills.

Greg Blankenship (greg@illinoispolicy institute.org) is executive director of the Illinois Policy Institute.
Okies Overwhelmingly Reject Fuel Tax Hike

Vote follows state record income tax cut

by Sandra Fabry

Though outspent by a huge margin and opposed by powerful interests throughout the state, opponents of a motor fuel tax hike in Oklahoma sent the proposal to the largest referendum defeat in state history.

Eighty-seven percent of voters on September 13 opposed State Question 723, which would have raised gasoline taxes an estimated $344 million over the next few years.

This has been a good year for Oklahoma taxpayers. This summer, lawmakers passed a $150 million tax cut, the largest in state history. (See “Oklahomans think taxes are too high and that state government wastes too much money,” by Sandra Fabry, “OKLAHOMA COUNCIL OF PUBLIC AFFAIRS,” Budget & Tax News, August 2005.)

Interest Groups Pushed Tax

Special-interest groups had long tried and failed to push a gas tax hike through the state legislature. Efforts to persuade lawmakers to pass a resolution to put a tax hike proposal on the ballot failed as well. As a result, a coalition of highway contractors and other interest groups calling themselves “Oklahoma’s Bridges and Roads” collected signatures for SQ-723, which sought to raise the tax on gasoline by 5 cents per gallon over three years, and the tax on diesel fuel by 8 cents per gallon over four years.

While most state legislators decided to stay on the sidelines, because the issue had been put directly before the voters, State Rep. Thad Balkman (R-Norman) decided he would help lead the fight against the tax increase.

“I believe that our tax burden is already too high ... and I believe that one of my responsibilities as a legislator is to stand up for what I believe in,” Balkman said. “And when my constituents were faced with this tax increase, I felt compelled to take a leading role and use the power of the office—if you will, the bully pulpito fight this tax increase.”

Lawmaker Unites Opposition

Balkman was among the founders of “Oklahoma Taxpayers United,” which campaigned against the proposed tax hike. The deck appeared to be stacked against Balkman and his group.

“The pro-tax group had been organized for a couple of years, they had a campaign team, they had the power of the press on their side, they had a 25 to 1 money advantage,” Balkman said.

Brandon Dutcher, vice president for policy of the Oklahoma Council of Public Affairs, observed, “The major roadblocks were the usual ones that taxpaying Davids face when they go up against Goliath. Those wanting to raise taxes had a lot of advantages. For example, the state’s two largest newspapers promoted the tax hike. The State Chamber [of Commerce] and many of the city chambers supported it. Some teachers and members of the education establishment came out for it and did telephone calls for it. The pro-tax campaign raised $2 million. The anti-tax guys raised around $150,000.”

Nonetheless, Oklahoma Taxpayers United was able to mobilize taxpayers against the hike. Skyrocketing gasoline prices helped the anti-tax cause, but Dutcher believes more than that motivated voters to take to the polls to oppose the measure.

Think Taxes Too High

“I think it was Oklahomans’ inherent fiscal conservatism, coupled with the high price of gasoline,” Dutcher said. “Every reputable pollster in Oklahoma, whether on the left or the right, will tell you that Oklahomans think taxes are too high and that state government wastes too much money.”

During the campaign, proponents of the fuel tax hike claimed the additional taxpayer dollars were needed to fix Oklahoma’s bridges and roads, saying people had been killed as a result of the deterioration of roads and bridges.

While opponents of the fuel tax hike generally shared the concerns about Oklahoma’s road maintenance programs, they pointed out the legislature had already addressed the need to repair roads and bridges.

Road Funding Had Doubled

“They attempted to frame this state question as a safety issue,” Balkman said. “One of the pro-tax group’s themes was, ‘It’s the legislature’s fault—they haven’t done anything.’ And we were able to take this argument away from them, because in the 2005 session we did provide significant—in fact, historic—funding for roads and bridges. The legislation we passed will actually double the Department of Transportation’s road maintenance budget.”

Balkman added, “The reason we won, I think, is that we successfully coined the debate as a tax increase and reminded voters this was not a safety issue. This was about taxes.”

Dutcher said he is somewhat confident the Oklahoma legislature has received the message.

“I think, or at least I hope, it sent the message to legislators that they need to do their job, which is to prioritize.”

Brandon Dutcher
OKLAHOMA COUNCIL OF PUBLIC AFFAIRS

Taxpayers Oppose Higher Taxes for More Transportation Spending

Oklahoma’s rejection of a proposed fuel tax increase is the eighth time in a row that taxpayers around the nation have rejected higher taxes for more transportation spending when given a chance at the ballot box.

<table>
<thead>
<tr>
<th>Year</th>
<th>State</th>
<th>Measure #</th>
<th>Question</th>
<th>Pass/Fail</th>
<th>% Yes Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>CO</td>
<td>Amendment 1</td>
<td>Increase state fuel tax by 54 cents per gallon. Increase motor vehicle registration fee by $10. New tax of $100 on the initial registration of certain motor vehicles.</td>
<td>FAIL</td>
<td>15.8%</td>
</tr>
<tr>
<td>1998</td>
<td>CO</td>
<td>Referendum B</td>
<td>Retain revenue surpluses for transportation and education purposes.</td>
<td>FAIL</td>
<td>38.4%</td>
</tr>
<tr>
<td>2000</td>
<td>OR</td>
<td>Measure 82</td>
<td>Repeal the weight-mile tax, replace with a diesel fuel tax (29 cents per gallon) plus a gasoline tax increase of five cents per gallon.</td>
<td>FAIL</td>
<td>12.5%</td>
</tr>
<tr>
<td>2002</td>
<td>MO</td>
<td>Proposition B</td>
<td>Sales tax increase of one-half cent per dollar plus 4 cent per gallon motor fuel tax increase, to be applied to transportation spending.</td>
<td>FAIL</td>
<td>27.5%</td>
</tr>
<tr>
<td>2002</td>
<td>WA</td>
<td>Measure 51</td>
<td>Five cent per gallon vehicle fuel tax increase, plus an additional four cent per gallon vehicle fuel tax increase for the following year.</td>
<td>FAIL</td>
<td>37%</td>
</tr>
<tr>
<td>2002</td>
<td>VA</td>
<td>Regional Sales Tax Increase Transportation Referendum</td>
<td>Northern Virginia Counties: half-cent sales tax increase to be dedicated to higher transportation spending.</td>
<td>FAIL</td>
<td>45%</td>
</tr>
<tr>
<td>2002</td>
<td>VA</td>
<td>Regional Sales Tax Increase Transportation Referendum</td>
<td>Virginia Beach/Hampton Roads Counties: one full cent increase in sales tax, to be applied to higher transportation spending.</td>
<td>FAIL</td>
<td>38%</td>
</tr>
<tr>
<td>2005</td>
<td>OK</td>
<td>SQ 723</td>
<td>Tax increase of 5 cents per gallon on diesel fuel to be implemented over 3 years, tax increase of 8 cents per gallon on diesel fuels implemented over four years.</td>
<td>FAIL</td>
<td>13%</td>
</tr>
</tbody>
</table>
Ruling Allows Some Incentives
The Sixth Circuit did not throw out the entire incentive package. Its ruling struck down $70 million of the state’s Investment Tax Credit but allowed local property tax abatements. The court allowed the local abatements because they do not “impose specific monetary requirements, require the creation of new jobs, or encourage a beneficiary to engage in an additional form of commerce independent of the newly acquired property,” its ruling stated.

Shortly after the ruling, Dianna Smith, general counsel for the Council on State Taxation (COST), whose 550 corporate members include DaimlerChrysler, said, “One of the troubling aspects of the Sixth Circuit opinion is that they don’t make clear, and there doesn’t appear to be, a legitimate distinction of how [targeted tax incentives] offered by a state would be different from a state that chooses to have a lower or no income tax. The problem is there is not a principled analysis about where the line should be drawn.”

COST is working for federal legislation that would guarantee states could offer targeted tax incentives like those struck down in the Cuno ruling.

Bad Policy, Not Discrimination
The Cuno ruling opened the door to additional lawsuits targeting economic development incentives in almost every state, according to Chris Atkins, staff attorney at the Tax Foundation and author of an amicus brief that asked the Supreme Court to hear the case.

Atkins said, “Our argument is that state tax incentives and credits are not good tax policy, but they don’t discriminate against commerce. The Sixth Circuit in the Cuno ruling threatened tax competition. That’s what bothers us.”

Atkins said the Tax Foundation was urging the Court to bring needed clarity to its Commerce Clause doctrine. He argued that under the Cuno ruling, the states within the Sixth Circuit—Kentucky, Michigan, Ohio, and Tennessee—would be disadvantaged compared with other states. Additionally, he said, the Cuno decision could end all tax competition among the states.

Atkins said while the Cuno ruling specifically attacks preferential tax credits, it is so broad that a state that reduced tax rates overall or eliminated a tax could be seen as violating the ruling, because the reduction or elimination of the tax might encourage companies to relocate there.

“The Commerce Clause of the Constitution was designed to encourage competition, including tax competition, between the states,” said Atkins in a statement announcing the Supreme Court’s acceptance of the case. “Since the Cuno ruling imperils all forms of state tax competition—not just tax incentives for companies—we applaud the Court’s decision to hear the case.”

CHRIS ATKINS
TAX FOUNDATION

Investment Tax Credit for a Jeep manufacturing plant in Toledo, saying the tax incentive impeded interstate commerce.

Court Saw Coercion
The Sixth Circuit ruled the economic effect of Ohio’s Investment Tax Credit was to coerce businesses to invest in Ohio, because of the tax favoritism.

The arguments center on a $281 million incentive package Ohio granted DaimlerChrysler for a Jeep manufacturing plant that opened in Toledo in 2001 and employs 3,800 workers. Plaintiffs in the case claimed “the economic effect of the Ohio investment tax credit is to encourage further investment in-state at the expense of development in other states and ... the result is to hinder free trade among the states.”

Judge Martha Craig Daugherty, writing for the unanimous three-judge panel, agreed with the plaintiffs.

“The business that chooses to expand its local presence will enjoy a reduced tax burden, based directly on its new in-state investment,” Daugherty wrote, “while a competitor that invests out-of-state will face a comparatively higher tax burden because it will be ineligible for any credit against its Ohio tax.”

New Project on Unintended Consequences
Unintended consequences abound in politics and government. Increased expenditures by school districts lead to no improvement in student achievement. High tax rates produce less revenue than lower rates. Higher spending on health care often correlates with poorer health. The ban on DDT led to catastrophic increases in malaria deaths, and the Endangered Species Act has endangered rather than saved species.

Dr. Jay Lehr, The Heartland Institute’s science director, and his associate, James Jacobs, have been contracted by the University of Michigan Press to edit a series of books relating these and many other unintended consequences of government action. Topical areas include each of Heartland’s areas of major focus: health care, education, budget and taxes, and environmental science. Heartland is pleased to participate in this fascinating project, which could bring the folly of so many misguided public policies home to the average citizen who is affected by them.

Contributors are being sought from every walk of life who have encountered or become aware of stories that had interesting, if not momentous, unintended consequences. Politics is rife with them, but so is nearly every other field. Contributions to the book can be as short as 500 words or as long as 1,400. The University of Michigan Press intends to publish annual volumes beginning in 2006. The deadline for the first volume is April 2006. Approximately 100 contributions will be selected for the first volume.

Complete information on the project and instructions on how you can participate are available online at http://www.crystalballprize.com.

The logo for the Web site is the famous Post-it note, which most people realize was the unintended consequence of a product developed by 3M from a failed search for a new glue that would harden and not be sticky. The name of the Web site stems from the desire of the University of Michigan Press to give an annual award to the individual or individuals possessing the most erroneous crystal ball in their work.
California Voters Reject Spending Cap Initiative

by Anthony P. Archie

California voters on November 8 nounced an initiative designed to control state spending, voting 62 to 38 percent to reject Proposition 76, the “Live Within Our Means” Act supported by Gov. Arnold Schwarzenegger. The measure would have restricted state spending and addressed many of California’s lingering fiscal problems, according to the governor and the measure’s supporters.

Spending, Revenue Unrelated

The proposition aimed to restrain state expenditure increases by limiting them each year to no more than the average rate of growth in revenue over the three prior years. That limitation would have capped spending in high-revenue years and provided reserves in low-revenue years. In years when revenues outpaced expenditures, 25 percent of the excess revenues would have been allocated to a “rainy day” fund. The initiative also would have controlled spending mandates that are currently “on autopilot” and permitted the governor to make midyear expenditure cuts to balance the budget.

“I think this was a tremendous lost opportunity and will permit the state to spend—if it chooses—money we don’t have. I think a lot of the measure had voter support, and it was defeated solely on the basis that they think it would cut education.”

BILL HAUCK
CALIFORNIA BUSINESS ROUNDTABLE

‘Lost Opportunity’

Bill Hauck, president of the California Business Roundtable and one of the authors of Prop 76, told the Chronicle, “I think this was a tremendous lost opportunity and will permit the state to spend—if it chooses—money we don’t have. I think a lot of the measure had voter support, and it was defeated solely on the basis that they think it would cut education.”

Since 2001, state spending in California has outpaced state tax revenues, creating annual operating deficits and increasing cumulative debt. The budget crisis reached a boiling point in 2003, when the state had a cumulative deficit of more than $38 billion—the worst budget deficit any U.S. state had ever seen. The state teetered on the brink of fiscal insolvency, as weighed by its abysmal credit rating, lowered to just above junk bonds.

Since then, the situation has improved slightly—the credit rating moved up a step in July 2005—but annual deficits continue.

Public Employees Led Opposition

Fed up with out-of-control spending and annual deficits, Schwarzenegger pushed for the initiative to force the state to live within its means. The governor’s opponents, mainly the state’s public employee unions, were particularly active in trying to defeat Prop 76 and other proposed reforms. Estimates show the unions spent the governor’s team 5 to 1. Opponents focused on asserting the proposition would shrink essential government programs, especially K-12 education.

Ken Masugi, director of the Center for Local Government at the California-based Claremont Institute, said he believes Prop 76 and three other government reform initiatives backed by Schwarzenegger failed because they were too moderate.

“They were just enough to aggravate the public sector unions and other interest groups, but they really weren’t that conservative,” Masugi said. “They were really pretty moderate. The ‘red’ counties had lower turnouts than the more liberal counties. This shows that conservatives were not mobilized. The liberals were mad enough to get their troops out.”

Anthony P. Archie (archie@pacificresearch.org) is a public policy fellow in business and economic studies at the California-based Pacific Research Institute.

Maine

Continued from page 1

the Second Great American Tea Party.

Like the Boston Tea Party of 1773, more than a hundred people came together in late September for this event, organized by the grassroots tax reform group Citizen’s Alliance of Maine, to protest rising taxes.

‘Hurt by High Taxes’

“We are living in a state that is being hurt by high taxes, and we have to do something about it,” said John Dinan of Falmouth. “We’ve been offered no other option. It seems to me Augusta is not listening.”

Inside the Veteran’s Center, Dinan and other local taxpayers listened to speeches about rising property taxes and “out of control” government spending. The speakers advocated the Taxpayers Bill of Rights, a citizen’s initiative to curb local and state spending, and took aim at L.D. 1, a state tax reform law, passed in early 2005, that put a limit on local and state spending, raised state aid for local schools, and doubled property tax rebates.

Jack Wibby, founder of the Citizen’s Alliance, looked at aspects of L.D. 1 and asked the audience to rate on a ballot whether they felt the legislation provided “real” property tax relief.

‘Is This Tax Relief?’

Wibby said the local spending caps imposed by L.D. 1 could be overridden by “a simple majority vote of town officials who made the budget” and asked querulously, “Is this property tax relief?”

He also noted that though the Homestead Exemption—a rebate given to homeowners whose primary home is in Maine—had been doubled, it required towns to pick up half the cost of the rebate.

After a roar of applause, Adams, dubbed “General Adams” and wearing a tricorn hat, took the floor and called for people to “continue the American Revolution” by paying attention to their own government, much like the socialists in 1773.

“Like the Boston Tea Party of 1773, more than a hundred people came together in late September for this event, organized by the grassroots tax reform group Citizen’s Alliance of Maine, to protest rising taxes.”


Taxpayers Bill of Rights.

Limits Spending Growth

The Taxpayers Bill of Rights is a proposed amendment to the state constitution that does not cut local and state spending, Adams noted for the audience; it just puts a limit on state and local increases in spending, after adjusting for inflation and population growth.

Legislative support for the Taxpayers Bill of Rights has so far come entirely from the Republican Party. Republican legislators, such as Rep. Richard Chebra of Naples and Rep. Gary Plummer of Windham, attended the tea party to show their support for tax reform, and Rep. Scott Lansley of Sabattus read a letter by Maine National Republican Committeeman and 2002 gubernatorial candidate Peter Cianchette endorsing the Taxpayers Bill of Rights.

Though the tea party was open to all taxpayers, regardless of political party, there were several partisan harbs—such as Adams “the socialist in tweed is harder to spot than a red coat on a fat horse.”

The citizen’s initiative needs about 50,000 signatures to be put on the November 2006 ballot. Adams, who is organizing the petition drive, hopes to get more than the number needed, in case some signatures are deemed invalid by the state.

Douglas Wright (douglrw@adelphia. com) is staff writer at the Lakes Region Suburban Weekly in Windham, Maine. This article originally appeared September 30. Reprinted by permission.

INTERNET INFO

Information on the Maine Taxpayers Bill of Rights is available at http://www.taxpayerbillofrights.com/Table_ Sign.pdf.
Owens Defends His Role

“I did what I thought was right, and Colorado is going to be the better for it,” Republican Gov. Bill Owens told reporters at the Rocky Mountain News soon after the outcome was known. Owens led an unusual coalition of his Republican allies, Democrats, big business interests, and left-leaning advocacy organizations in support of the referendum.

Local taxpayer organizations, led by the Colorado-based Independence Institute, joined forces with national groups including FreedomWorks, Americans for Tax Reform, and the National Taxpayers Union to defeat the measures. Grassroots Republicans in Colorado and across the country denounced Owens for joining the big-government forces.

“The referendum proponents did a couple of things right,” said Jon Caldara, president of the Independence Institute. “They chose an off-year election, when there would be a low turnout, making their get-out-the-vote effort more effective. They also got every bureaucrat, every tax-receiving organization to endorse it. But at the end of the day it was Bill Owens’s broken pledge not to raise taxes that was the reason this passed. He was able to bring over enough Republicans who otherwise would have been on our side.”

Caldara also complained the state’s major news organizations “shamelessly pimped the referendums non-stop,” noting the Denver Post ran a front-page editorial in favor of the referendum, “the first time I can ever remember them doing a page 1 editorial.”

Big Business Supported Hikes

Caldara said the campaign taught him a valuable lesson: “While our free-market movement has been taking on public employee unions, we have yet to recognize the real danger, which is bureaucrats in Republican clothing. Big business was for this in a big way. There is no tax increase without the Chamber of Commerce.”

At FreedomWorks, which has more than 8,000 members in Colorado, president and CEO Matt Kibbe said, “Obviously it is very disappointing that a small majority of special $4 billion tax increase. Our side was outspent nearly four to one, and as a movement we did not spend enough money on grassroots organizing to counter the public employee unions effort. If there’s one thing learned, it’s that you lose if you don’t invest in grassroots first.”

MATT KIBBE
FREEDOMWORKS

Democratic Donors Backed Measures

Denver Post reporter John Ingman wrote about the Denver Post reporting about 75 percent of the money raised in favor of the tax hike came from groups expected to benefit financially from the passage of Referendum C. It was not revealed until the day after the election that the three major Democrat donors gave the pro-tax hike campaign $570,000. Millionaires Tim Gill and Jared Polis gave $250,000 and $40,000, respectively.

Delaying the release of the Democrat donors’ names, some referendum opponents said, was a tactic intended to hold on to Republican support for the tax measures.

Impact on Other TABOR Efforts

The Colorado Springs Gazette, which endorsed the tax hike, editorialized, “The passage of Referendum C could have at least one unfortunate consequence outside Colorado. If this vote is viewed as a repudiation rather than just a fine-tuning of TABOR, it could be a serious setback for those promoting TABOR-like budget control measures in other states.”

The editorial continued, “We would hate to see that happen because even an imperfect TABOR is better than no TABOR at all, and because those states would likely fine-tune the concept to take into account Colorado’s not flawless, but still overwhelmingly positive experience with this law.”

Bill Becker, executive director of the Maine Heritage Policy Center, said, “The Colorado vote is proof that TABOR works. TABOR allows the people paying the bills, not politicians, to have the final say in exceeding tax and spending limits.” Maine is close to enacting its own taxpayer protection measure.

Max Pappas (mpappas@freedomworks.org) is director of policy at FreedomWorks, a grassroots organization with more than 700,000 members nationwide.
Tax Watchdogs Lukewarm to Tax Panel Proposals

by Steve Stanek

D
tpite calling for a simplified tax system in a report issued November 1, President George W. Bush’s tax reform commis-
sion appears to have pleased few tax reform advocates. Numerous business organiza-
tions, such as the National Association of Home Builders and the American Council of Life Insurers, also expressed opposition to aspects of the recommendations. Many lawmakers responded lukewarmly or with open opposition.

“The newly released report of the President’s Panel on Federal Tax Reform represents a big step toward simplifying the current system and moving away from taxing income to a consumption-based system,” said Tax Foundation President Scott A. Hodge in a statement November 1. “However, these plans do fall far short of the complete overhaul of the tax system that most reform advocates had hoped for.”

Should Be Starting Point

The Heritage Foundation, another group that has long advocated chang-
es to America’s tax system, responded with some disappointment: “While the Panel’s recommendations all point in the right direction, the Panel unfortunately backed away from more swep-
ting reforms. Lawmakers should use the Panel’s report as a starting point on the way to a more simple and fair tax sys-
tem, such as the flat tax.”

“The newly released report of the President’s Panel on Federal Tax Reform rep-
resents a big step toward simplifying the current system and moving away from taxing income to a consumption-based system. However, these plans do fall far short of the complete overhaul of the tax system that most reform advocates had hoped for.”

SCOTT A. HODGE TAX FOUNDATION

At the Free Enterprise Fund, executive di-
tector E. O’Brien Murray issued a state-
manship on a number of good ideas that deserve a larger hearing and serious consideration by the Treasury Department. He expressed satisfaction with a legislative vehicle. That said, we remain concerned that the panel did not do more in the way of recommendations to eliminate the taxes on savings and investment—which are really taxes on hard work and success—and that they did not recommend a single, simple flat rate for all Americans.”

At Americans for Fair Taxation, which advocates doing away with all federal income taxes—including personal income taxes, Social Security and Medicare taxes, capital gains taxes, and corporate taxes—members are deeply disappointed, said Tom Wright, executive di-
tector of FairTax.org, the organi-
zation’s Web site. Backers of the Fair Tax advocate a single-rate federal retail sales tax to replace existing federal taxes.

Dismissed as ‘Tinkering’

“You could sum it up in one word: tinkering,” Wright said. “Or, as a step in three words: same old tinkering.”

Wright said the proposals are like pre-
vious tax reforms “that have absolutely no inherent immunity to the special inter-
tests that have taken other ill-fated plans and made them unflat.” He noted how tax simplification in 1986 soon became “tax complici-
ation” as Congress began loading the tax code with favors to interest groups. Wright said the president’s panelists “have overlooked the fundamental invasion of civil liberties and erosion of civil liberties inherent in any income tax system. The Internal Revenue Service is the world’s largest surveillance agency.”

Dan Mastromarco, a tax attorney in Annapolis, Maryland, said the tax panel “saw itself as a shadow congressional mark-up committee. If that’s the best they can do, we might as well keep what we already have.”

“This plan is a lobbyist’s dream,” Mastromarco continued. “Over 500 bills were introduced in the first month after the 1986 tax reform act was signed. I don’t know how these people could have failed to understand the history they helped write. God help us when this gets to Congress.”

Report Offers Two Options

The report proposes either a simplified income tax system or a hybrid income tax-consumption tax system that would increase incentives for savings by cut-
ting taxes on capital income. Both plans call for eliminating or reduc-
ing most major income tax deduct-
ions and lowering tax rates for indi-
viduals and businesses. Among other things, the home mortgage interest deduction would be turned into a lim-
ited tax credit, and the amount of health insur-
ance a company could provide to employees tax-free would be limited.

According to Bloomberg News on November 1, “Al Mansell, president of the Washington-based National Associ-
ation of Realtors, which represents 1 mil-
lion real estate agents and whose politi-
cal action committee gave more money to lawmakers in 2004 than any other group, said reducing or eliminat-
ing the mortgage interest deduc-
tion would cost the typical homeowner up to $30,000 in housing equity.”

But Sheila Crowley, president of the National Low Income Housing Coalition, told Bloomberg “eliminating taxes on dividends and capital gains rates would help boost economic growth. Democrats Lead Opposition

Sen. Chuck Schumer (D-NY) slammed the report, particularly because it recommends eliminating federal tax deductions for state and local taxes. New York has notoriously high local and state taxes, and Schumer told the Associated Press, “It’s hard to conceive of something that could hurt New York more than the elimination of state and local tax deductibility.”

House Minority Leader Nancy Pelosi (D-CA) issued a statement November 1 in which she called the report “A Trojan horse using so-called simplification to cut taxes for the wealthy while increas-
ing taxes for middle-class families.”

Pelosi was particularly upset at the proposals to limit the mortgage-interest and health insurance deductions and end the deduction for state and local taxes.

“The panel is a big step toward simplifying the current tax system, but it is a huge disappointment to us on the House Minority side,” Pelosi said. “Many of the recommendations in this report are bad for the middle class.”

Treasury Secretary John Snow told reporters he considers the report “a starting place.” Snow will make recom-
mandations to Bush before anything is submitted to Congress.

Steve Stanek (stanek@heartland.
org) is managing editor of Budget & Tax News.

INTERNET INFO

The report of the President’s Advisory Panel on Federal Tax Reform may be viewed at the panel’s Web site at http://www.taxreformpanel.gov/.

Tax Panel’s Report in Summary

The president’s tax panel is recommending two proposals to the Secretary of Treasury, who will make the final recommendation to President George W. Bush. The following summary is from the Tax Foundation and can be viewed in full, with analysis, at http://www.taxfoundation.org/publications/show/1155.html.

PLAN A WORKS WITHIN THE CURRENT INCOME TAX SYSTEM TO:

• simplify the current tax code from six tax brackets to four (15 percent, 25 percent, 33 percent, and 33 percent);
• replace the current low-income tax credits with a family credit and a work credit;
• fold the individual Alternative Minimum Tax into the current system by repealing the AMT, while repealing the deduction for state and local taxes;
• replace[s] the home mortgage interest deduction with a limited credit;
• limit the tax exclusion for employer-provided health insurance to $11,500 for families and $5,000, for singles;
• consolidate the various savings vehicles into three simple savings plans while eliminat-
ing the tax on dividends paid by corporations from domestic profits and providing a 75 percent exclusion for capital gains; and
• cut the top corporate income tax rates to 31.5 percent from 35 percent, move to a territorial tax system, and repeal the corporate AMT.

THE MORE AMBITIOUS PLAN B WOULD KEEP MOST OF THE PLAN A PROVISIONS AND:

• move toward a progressive “hybrid” income-consumption tax with three individual rates (15 percent, 25 percent, and 30 percent);
• tax all capital income (dividends, capital gains, and interest) at a uniform 15 percent;
• replace the corporate income tax system with a “cash-flow” tax at a rate of 30 percent;
• allow full expensing of capital investments; and
• eliminate the deduction for interest payments for businesses.
Suburban cops block city surveyors, judge bars bulldozing of properties

by Steve Stanek

Local police officers and a cemetery more than 100 years old may be the only things stopping Chicago from carrying out the largest public works project in our nation's history. Police in Bensenville and Elk Grove Village have been guarding their village borders from surveyors hired by Chicago to map out hundreds of homes and businesses the city hopes to seize from the two towns for an expansion of O'Hare International Airport. The $15 billion estimated cost of the expansion is up from $6.3 billion in 2001 and does not include billions of dollars of roadwork around the airport.

Meanwhile, lawyers have been arguing over the legality of the city's plan to move the 1,300-grave St. Johannes Cemetery, which lies at the west edge of the airport in unincorporated DuPage County and in the path of a proposed runway.

On November 3, U.S. District Judge David Coar issued a temporary restraining order preventing the city from razing homes and businesses and relocating graves. Another court hearing will consider arguments on a motion by Bensenville, Elk Grove Village, and the cemetery owners to stop the project.

Preliminary work on a new runway that was begun in October may continue until that ruling.

Mayor Defends Grave Relocations

The status of St. Johannes Cemetery is central to the fight, said Joseph Kaganis, a Chicago attorney who represents the two villages and the cemetery owners.

"The city needs to demonstrate good title before it can go forward," Kaganis said. "Sitting in the middle of a [proposed] runway is a cemetery to which the city does not have good title. And the law says before government can interfere with religious activities, it must receive a precedent before it can go forward," Karaganis said. "Sitting in the middle of a [proposed] runway is a cemetery to which the city does not have good title. And the law says before government can interfere with religious activities, it must receive a precedent before it can go forward," Karaganis said. "Sitting in the middle of a [proposed] runway is a cemetery to which the city does not have good title. And the law says before government can interfere with religious activities, it must receive a precedent before it can go forward," Karaganis said. "Sitting in the middle of a [proposed] runway is a cemetery to which the city does not have good title. And the law says before government can interfere with religious activities, it must receive a precedent before it can go forward," Karaganis said.

Mayor Richard Daley has that kind of power. It's scary to think that Mayor Daley has that kind of power. It's scary to think that Mayor Daley has that kind of power.

"General speaking, major airports generate far more [excise] tax monies than they get back. Besides [Airport Improvement Program grants], ... the main sources will be airport revenues: landing fees, airline gate and other space rentals, passenger facility charges, concession fees paid by stores, restaurants, and rental car companies, parking charges, etc."

Bob Poole

Reason Foundation

Chicago Mayor Richard Daley has defeated the city’s actions, telling Chicago Tribune transportation reporter Jon Hilkevitch in an October 2 article, “In St. Louis, they moved 14,000 graves. When we built Congress Street, they moved graves. We’ve moved cemeteries in Lincoln Park.”

Project Starts, Stops, Restarts

The Federal Aviation Administration (FAA) approved the O'Hare expansion on September 30, and construction crews working for Chicago immediately began knocking down city-owned buildings at the airport to clear the way for new runways. A few hours later, though, the U.S. Court of Appeals in Washington, DC stopped the work to consider objectors’ arguments to block the project.

The restraining order was rescinded in late October, leading to the November 1 filing by plaintiffs. "If you go by the full build-out with terminals, runways, and roadways, we could lose up to 1,000 businesses and 30,000 jobs," said Elk Grove Village Mayor Craig Johnson. "And people wonder why we’re fighting it?"

Elk Grove Village has 35,000 residents and more than 100,000 weekday jobs, more than any other Chicago suburban community.

About 2,600 Bensenville residents would lose their homes to Chicago under the plan.

Chicago Gets Big Help

Chicago has received unprecedented assistance from the Illinois General Assembly and the FAA in its bid to expand the airport.

The General Assembly two years ago passed legislation removing protections for St. Johannes Cemetery and forest preserves, but wrote the measure so that only the St. Johannes Cemetery and forest preserves near the airport would be affected, Johnson said. The General Assembly also passed legislation allowing Chicago to seize property from other municipalities.

"In the history of our state, no municipality has ever had the power to take another municipality for its economic benefit. Our General Assembly also passed legislation allowing Chicago to seize property from other municipalities.

"Generally speaking, major airports generate far more of these tax monies than they get back. Besides [Airport Improvement Program grants], ... the main sources will be airport revenues: landing fees, airline gate and other space rentals, passenger facility charges, concession fees paid by stores, restaurants, and rental car companies, parking charges, etc."

BOB POOLE

REASON FOUNDATION

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Mayor Richard Daley

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Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News.
Michigan Ends Telephone Price Controls in 30 Cities

by Diane S. Katz

A breakthrough decision by the Michigan Public Service Commission to end price controls on basic telephone service in 30 cities makes Michigan a leader among states in fostering telecommunications investment and innovation, and the state legislature is moving ahead on bills for further deregulation.

In a media statement announcing the August 4 order, Commission Chairman Peter Lark said, “Telephone customers in Michigan have benefited from more choices than ever before. It is our hope that Michigan phone companies affected by this order will use this new authority to be more responsive to the pricing needs of their customers, and make Michigan a better place to live, work, and grow business.”

On September 27, the Michigan Senate’s Technology and Energy Committee moved SB 754 to the Senate floor. The legislation calls for regulating only retail residential rates of a basic local call plan of 200 calls per month. The commission would continue to arbitrate interconnection agreements between competitors and also ensure services quality requirements.

In October, the House Energy and Technology Committee held hearings on HB 5237, which would likewise restrict rate regulation to residential, single-line service, though the House version would require only 100 calls or 12,000 minutes under that basic package.

“My bill reflects the new reality of telecommunications competition, in which cable providers, satellite providers, traditional telephone companies, and even power companies will be competing head-to-head for voice, data, and video customers,” said Rep. Mike Nofs (R-Battle Creek), sponsor of HB 5237 and chairman of the Energy and Technology Committee.

“A breakthrough decision by the Michigan Public Service Commission to end price controls on basic telephone service in 30 cities makes Michigan a leader among states in fostering telecommunications investment and innovation ...”

Expect Broad Benefits

The Public Service Commission’s order deregulates rates for residential basic local exchange service in Access Areas A and B (defined below), and business basic local exchange service in Access Area B. An earlier order, issued on January 6, 2005, granted SBC Michigan’s request to deregulate rates for business local exchange service in Access Area A for a one-year trial period ending January 6, 2006. The trial period is under legal challenge.


Significant as the new rate deregulation is, it is limited to 30 cities and does not address the myriad regulations that impede broadband deployment and other telecom advances. It is now up to the Michigan legislature to institute reforms that would enhance all telecom services statewide.

Regulations Are Anachronistic

Telecom rate regulation is a relic of the days when “Ma Bell” reigned as a government-sanctioned monopoly. Today, no fewer than 63 companies provide basic telephone service to 36 percent of the 30-city region. Competition also is fierce among wireless and Internet-based telephone services.

The Public Service Commission has taken its share of lumps in recent years for routinely indulging in regulatory excess. But Lark and commission newcomer Monica Martinez provided the votes necessary to end the commission’s regulatory control.

Telecom Act Ends Soon

The sunset of the Michigan Telecommunications Act at the end of December 2005 provides lawmakers an opportunity to remake the state as a model for technology investment. The act includes prescriptions for access requirements, price controls, and service restrictions that contradict its stated purpose of “encourag[ing] competition to determine the availability, prices, terms, and other conditions of providing telecommunications services.”

Former U.S. House Majority Leader Dick Armey, speaking on telecom issues at a May luncheon in Lansing, Michigan, said, “As you review telecommunications law in Michigan, you have the opportunity to bring your legal structure up to the promise of the electronic revolution in the twentieth century. But if you’re going to have the same telecommunications regulations that you had after World War II, you are not going to be competitive with the rest of the world.”

In “Can We Avoid Repeating the Mistakes of the Past in Telecommunications Regulatory Reform?” published in March 2005, researchers at the Massachusetts Institute of Technology concluded that incremental reform increases the likelihood of policy missteps.

“Quick and complete deregulation may not be risk-free,” said MIT professor Charles Fine in the report, “but our research in other industries indicates it is preferable to stretching deregulation out over many years through a piecemeal and incremental process if vigorous competition already exists.”

INTERNET INFO


Diane S. Katz (katz@mackinac.org) is director of science, environment, and technology policy at the Mackinac Center for Public Policy in Midland, Michigan. This is an expanded version of an article she wrote for the September 1 issue of the Detroit Free Press.
Texas Enacts Sweeping Telecommunications Reform

by Tina Peyton

A new telecommunications law in Texas has opened the door to increased telecom competition and innovation in the state, including the deployment of new technologies such as video programming over phone lines. Its effects are already being seen.

Gov. Rick Perry (R) signed Senate Bill 5 on September 7. Within 45 days of the law’s enactment, 64 new companies had received state video franchises to operate in municipalities, and some incumbent cable companies had slashed their rates to stay competitive.

“We salute the Texas state legislature, especially Representative Phil King [R] and Senator Troy Fraser [R], as well as Governor Perry, for their combined leadership and decisive action in favor of Texas consumers and the Texas economy,” said former U.S. House Majority Leader Dick Armey, co-chairman of FreedomWorks, which launched a grassroots effort to reform telecommunications law in Texas several years ago. “SB 5 is an important step forward and will promote competition and innovation, paving the way for new choices and improved technologies for consumers.”

Armey noted new players and new technologies have altered the telecommunications marketplace. He said the reforms give Texas “some of the most forward-looking telecom policies in America.”

“Before SB 5,” Armey said, “Texas had been chafing under outdated telecommunications laws that were enacted to govern a world that no longer exists. In markets of 10,000 to 30,000 customers, providers are freed from price regulation. In markets of 30,000 to 100,000 customers, providers are paying less. We came up with a state-issued franchise.”

“We set out to understand how to level the playing field regarding the taxes and fees various providers are paying. We came up with a state-issued franchise.”

JAKE POSEY
HOUSE REGULATED INDUSTRIES COMMITTEE

Access Charges to Fall
Jake Posey, general counsel for the Texas House Regulated Industries Committee, said the bill, which covers some 300 pages, takes a three-pronged approach.

The first deals with telephone service. In markets of 100,000 or more customers, providers are freed from pricing restrictions. Markets of 30,000 to 100,000 customers must meet a market test to show they can be deregulated fully. Smaller markets need deregulation approval from the state.

“We have big reductions in access charges,” Posey said. “Citizens can start benefitting from better long-distance prices within the state.”

New Technologies Unleashed
The second part focuses more on advanced data deployment, such as broadband over powerlines.

“We have companies that are retail reps, others that are generators of electricity, and others that own wires and poles,” Posey said. “The company that has wires and poles in the Houston market is CenterPoint Energy. They have an absolutely phenomenal pilot project looking at how to wire the whole Houston area. Texas law didn’t really delineate this process. We cleared the way for these companies that own wires and poles to be free to invest and deliver another broadband option to homes to provide phone and video services.”

The system would allow consumers to receive phone and video services and access the Internet simply by plugging a device into an existing electrical outlet. King noted broadband over power lines also makes the extension of broadband service to small towns and rural areas much more feasible, because companies do not have to invest in expensive new fiber optic lines or other infrastructure.

The power lines are already there.

The third part of the Texas bill addresses video franchising.

“We set out to understand how to level the playing field regarding the taxes and fees various providers are paying,” Posey said. “We came up with a state-issued franchise” that breaks the virtual monopoly cable providers enjoyed with municipal franchise agreements. The result? “The cable company in my town [Keller, near Dallas-Fort Worth] has slashed prices 50 percent to compete with Verizon,” Posey said.

Innovation Outpaced Regulation
According to King, S.B. 5 promotes competition while creating incentives to invest in the networks that will place Texas at the forefront of the emerging new telecommunications market.

King said he became a strong proponent of telecom reform because of recent technological innovations. Today’s telecom market is changing rapidly, with growing competition among phone, wireless, cable, satellite, and other providers.

“Within 45 days of the law’s enactment, 64 new companies had received state video franchises to operate in municipalities, and some incumbent cable companies had slashed their rates to stay competitive.”

“We can no longer draw a bright line between the telephone company, video, cable, and other services,” King said. “We can have voice, video, and data over the same medium, yet we had a statutory scheme that treated companies like all they did was deliver one service. We were taxing each group differently, even though they were providing the same services. And in terms of how they entered the market, they were treated differently.”

“I decided we needed a statutory platform that was technology-neutral and treated like services and products the same, regardless of the medium they were being delivered over,” King said. “The idea was to level the playing field.”

Benefits Immediately Realized
King said he is pleased by the early results, which began showing up almost immediately after the bill was signed.

“Texas already has 64 new competitors that have gotten state video franchises. That’s 64 cities that are now going to have competition,” King said. “Over the last three years, we might have seen one or two getting franchises. Verizon has made Texas their flagship market for video. SBC has chosen us as the flagship for IP [Internet Protocol] video. Texas has the first major city [Houston] that will be under BPL [broadband over power lines]. There will be a big economic impact on jobs and new services and products.”

Posey said the state projects the telecom reform will create 13,000 permanent jobs in Texas and generate an additional $2 billion in annual investments.

Local Franchising Obstacle
Posey said the biggest roadblock to such competition had been local video franchising agreements. King acknowledged it was one of the most contentious parts of the legislation.

“We understood they [cities] would be cautious about giving up a revenue stream,” King said. “What we didn’t expect was how much [the city governments] would not want to give up control over who does business in their communities. That’s not a free-market perspective, but that’s the perspective many municipalities had.”

Posey said the legislation gives municipalities slightly higher franchise fees and takes away “in-kind” contributions most cities were getting.

“One city got $4 million, and that’s now passed to consumers” because it is no longer collected, Posey said.

Deregulation Not Complete
Cable companies argued against the bill, noting that allowing statewide video franchising agreements while cable providers remained locked into franchise agreements with local municipalities put the latter at a regulatory disadvantage to their competitors.

“Deregulation of telecommunications recognizes and reflects the reality of competitive markets, but the Texas bill unfairly favors one type of provider, telephone companies,” said Brian Dietz, vice president of communications for the National Cable & Telecommunications Association. “All providers should compete on a level playing field,” Dietz said, adding, “any updates, reforms, and deregulation of telecommunications should treat all technologies and services equally.”

Brian Dietz, vice president of the Heartland Institute, a think tank that addresses telecommunications issues, thinks the cable companies have a legitimate concern. “The Texas deregulation bill was a great first step, but that’s all it was—a first step. Texas needs to continue lifting regulations and other barriers that prevent consumers from benefitting from free competition,” Parnell said.

Muni Wi-Fi Surprises Lawmakers
King said the biggest surprise to lawmakers was how many cities were providing free municipal wi-fi service.

“We never expected municipal wi-fi,” King said. “That caught us off-guard more than anything else. Some municipalities were providing it or were well down the road, and some were wanting to do it for profit.

“Our concern was that in most communities, there were already Internet providers, wireless and wireline. Those municipalities would be competing against existing investments in their community. It’s unnecessary. The marketplace is brutal and is the best regulator.”

Tina Peyton (tpeyton@freedomworks.org) is Texas state director for FreedomWorks.
Verizon, Verizon Wireless, and a host of services from Cingular, Comcast, and Link will compete with existing broadband service providers for low-income residents. EarthLink’s $20 a month, with a $10-a-month cash payment, is targeted businesses, and visitors. Targeted price point is $15 and $20 million. No funds will be directly allocated by the city, nor will the city own any part of the network.

Firm Will Have Competition

Instead, in what resembles more of a franchise agreement than an actual partnership, the city will become a major EarthLink customer and will migrate city telecom services to the Atlanta-based Internet service provider. That will provide necessary upfront cash flow for the network buildout.

Firm Will Have Competition

EarthLink will provide retail wireless Internet services to the city’s residents, businesses, and visitors. Targeted pricing is $20 a month, with a $10-a-month plan for low-income residents. EarthLink will compete with existing broadband services from Cingular, Comcast, Verizon, Verizon Wireless, and a host of other local wireless Internet service providers.

Until now, EarthLink has predominantly sold dial-up and digital subscriber line (DSL) Internet. With the demise of FCC-mandated discounts on wholesale DSL, EarthLink hopes to use Philadelphia as a springboard into facilities-based broadband services.

Although the contract has yet to be finalized in Philadelphia, EarthLink aims to have most of the wireless access network in place by the end of this year. The deal is expected to call for a seven- to 10-year commitment from EarthLink to the project, according to Dianah Neff, chief information officer for the city of Philadelphia and architect of the Philadelphia municipal wireless initiative.

Taxpayer Risk Was Concern

Although the funding issue had been left open from the start, Wireless Philadelphia saw some resistance from city council members and Pennsylvania state legislators who were concerned about the overall cost and the risk to taxpayers. Many pointed to similar municipal broadband systems around the country that had failed, and to independent studies from firms such as JupiterResearch, which advised against directly investing in wireless infrastructure and service provision.

Amid discussion of the Philadelphia project, Pennsylvania legislators passed a law prohibiting other municipalities from owning and operating competitive broadband networks. The Wireless Philadelphia revenue plan also is a departure from the original proposal. Under the original plan, Wireless Philadelphia was to own and manage the underlying backbone infrastructure and was to sell access to large users and local Internet service providers using what was known as a “cooperative wholesale” model.

“EarthLink will be responsible for financing the construction of the entire 135-square-mile network, expected to cost between $15 and $20 million. No funds will be directly allocated by the city, nor will the city own any part of the network.”

Will Allow ‘Open Access’

Many municipal wireless advocates have said government ownership of the underlying network infrastructure is the only way to create competition with incumbent service providers. Incumbent service providers insist there are ways we can all help provide a ladder of opportunity for those in poverty. We each can Make a Difference in the ongoing effort to end America’s poverty problem.
New Yorkers Reject “Runaway Spending” Amendment

by John W. Skorburg

With a No vote of more than 60 percent on November 8, voters in New York state rejected “Proposal One,” a proposed constitutional amendment opponents had dubbed the “Runaway Spending Amendment.”

The amendment was offered as an extension of Assembly Bill 2, related to “the submission of the New York state budget to the legislature by the governor.” Tax watchdog groups, Gov. George Pataki (R), Attorney General Eliot Spitzer (D), and numerous business leaders had strongly opposed the measure, saying it would hand too much spending authority to legislators. The amendment was supported by most state lawmakers, the state’s League of Women Voters, and government employee unions.

“We think it’s clear New Yorkers want real reform, and it’s clear they correctly diagnosed this as bogus reform,” said Matthew Maguire of the Business Council of New York State, which opposed the measure. “This was an unexpected triumph for fiscal conservatives who overcame long odds [to defeat the proposal].”

“This is a stinging rebuke of the legislative leaders and a huge victory for taxpayers,” said E.J. McMahon of the Manhattan Institute, a New York-based think tank that also opposed the measure.

Pataki, who fought hard against the proposal, told reporters it was “the most important initiative I’ve seen in my entire time in politics. We are not going to give the legislature control over the purse strings.”

Vow to Try Again

Blair Horner of the New York Public Interest Research Group, a key supporter of the plan, told the Rochester Democrat & Chronicle, “It turned out to be a referendum on the legislature. It wasn’t like there was a compelling argument for keeping the status quo.” Another supporter, Barbara Bartolucci of the League of Women Voters, told the newspaper the group would continue to push for reforms like those in Proposal One.

State Rep. Ivan Lafayette (D-Jackson Heights), House speaker pro tem, supported Proposal One. Several weeks before the vote he said, “People think poorly of government. When you have a proposal that on one side is portrayed as an attempt to grab power by senators and representatives as opposed to the governor and his agencies [having power], it’s hard to tell which way the vote will go.”

Prompted by Court Ruling

Lafayette said part of the reason many legislators supported Proposal One was because of a ruling by a New York court two years ago that prevents lawmakers from changing budget language.

“Until two years ago the governor could not legislate through the budget,” Lafayette said. “We had the right to review money and language.” Since losing the right to change budget language, Lafayette said, “Pataki has put items in the budget we thought were unfair.”

“We think it’s clear New Yorkers want real reform, and it’s clear they correctly diagnosed this as bogus reform. This was an unexpected triumph for fiscal conservatives who overcame long odds [to defeat the proposal].”

MATTHEW MAGUIRE
BUSINESS COUNCIL OF NEW YORK STATE

Proposal One would have allowed the legislature to adopt its own budget if it failed to approve the governor’s budget by the start of the fiscal year. Legislators approved the ballot measure on May 5.

Unintended Consequences

The amendment would have guaranteed late budgets every year, making big budget gaps more frequent and leading to even-higher taxes and debt, according to a statement issued in mid-October by the Public Policy Institute of New York State.

According to the state legislature’s Web site, Proposal One would have:
• required that copies of the release of agency budget requests furnished to the executive be made available to the legislature and the public;
• authorized a contingency budget to take effect in certain circumstances;
• reduced from 30 to 21 days the amount of time during which the governor could amend the executive budget without consent of the legislature; and
• created a fiscal stabilization reserve fund.

Many Called It Dangerous

“The proposal came to be known as the Runaway Spending Amendment,” noted Robert B. Ward, director of research for the Public Policy Institute of New York State and author of the organization’s October report on Proposal One.

“The amendment would, among other things, have given legislators the power to spend more,” Ward said. “We’re not the only ones who thought this proposal was dangerous. Both Governor Pataki and Attorney General Eliot Spitzer condemned the amendment. So did most of the state’s editorial pages and fiscal-policy experts.”

Ward pointed out that New York lawmakers “added $1.3 billion to Governor Pataki’s spending proposal this year [2005] and $1.4 billion the year before. In the past 10 years, the legislature has added a total of more than $12 billion to the governor’s executive budget proposals. In good times and bad, the legislature always wants to spend more. The real budget problem in New York is too much spending.”

Spending Limits Suggested

To address the spending problem, the Public Policy Institute’s report recommends the state enact a constitutional limit on spending and tax increases. In 1990, then-Governor Mario Cuomo and the legislature enacted a spending cap, but they allowed it to expire in 1992. A spending limit linked to population growth and inflation would have allowed Pataki and the legislature to increase spending by roughly $2 billion this year.

“That would provide substantial increases in aid to education, Medicaid, transportation, and other programs,” said Ward. “It would not provide increases as big as Albany’s powerful pro-spending lobbies want—the actual increase was $4.9 billion. But it would make the state budget more responsibly balanced and ease pressure for new taxes.”

John W. Skorburg (skorburg@heartland.org) is a visiting lecturer in economics at the University of Illinois, Chicago and associate editor of Budget & Tax News.

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D.C. Government Playing with “Corked Bat”

City to condemn private property to make way for baseball stadium

by Steve Stanek

Washington, DC officials have begun condemnation proceedings to seize privately owned property to make way for a new $535 million ballpark for the Washington Nationals Major League Baseball team. The Nationals now play at RFK Memorial Stadium.

Steve Green, director of development in the office of the deputy mayor for planning and economic development, told the Washington Times for an October 6 article, “We think there are some [property owners] that we’ll have good-faith negotiations with.”

Nearly half of the 23 landowners whose property is targeted for the new stadium site had not responded to city officials. Most others had rejected the city’s offers. City officials told landowners at the 21-acre site along the Anacostia River they did not strike a deal with the city by October 21, their property would be condemned.

Land Values Climbing

“Most landowners have been offered about three times the amount at which properties were assessed, but many have resisted selling because the rise in land values around the ballpark site [has] outpaced the city’s offers,” reported the Washington Times in an October 21 article.

Patricia Ghiglino, who owns a yellow-brick art studio on the proposed stadium site, has vowed to take the matter to court. Retired Army officer Kenneth Wyban also plans to go to court. His pre-Civil War home, which he has worked for years to restore and had hoped to turn into a bed-and-breakfast, is targeted for acquisition.

“I was born in Peru, and I never, ever imagined something like this could happen here,” Ghiglino said. “I think what is really upsetting is that they are stretching the concept of eminent domain for economic development. They are opening the door to corruption.”

Ghiglino doesn’t know where she’ll CONTINUE on right

Taxes Fuel Historic American Migration

Millions flee high-tax states in little-discussed population shift

by Richard Vedder

One of the great stories of modern times has been barely mentioned in the popular print media, has been the subject of no movies, and is rarely discussed on talk radio. Right before our eyes, one of the great migrations in human history is going on, one that has led millions of Americans to move during the past decade.

Specifically, people are fleeing high-tax, big-government states for low-tax havens where they can keep more of their income.

Compare the nine states that do not have a general state income tax with the 41 states that do. According to the U.S. Census Bureau, from April 1, 2000 through June 30, 2004, a total of 1,318,963 native-born Americans moved into the no-income-tax states from those states taxing a portion of people’s income. This is net of persons moving in the other direction.

Trend Began in 1990s

This movement of 310,000 persons a year is a continuation of a trend of the 1990s, when about 3 million persons made similar moves. From 1990 to the present, about 4.6 million persons have fled the income tax states—a vastly larger number than moved from East Germany to West Germany in the 15 years before the Communists built the Berlin Wall.

And people have been voting with their feet to avoid all taxes, not just those on income.

For example, my research shows 2,845,709 Americans moved into the 10 states with the overall lowest state and local tax burden in the 1990s, from other states. Meanwhile, there was a net out-migration of 2,151,300 from the 10 states with the highest tax burdens.

California Lost 2 Million

A good case study is California. For well over a century, the cry of “Go West, Young Man, Go West” led literally millions of Americans to move to the Golden State. In the 1990s, however, the migration reversed. More than 2.1 million native-born Americans left California net of those moving in.

More left California than even high-tax New York, the perennial leader in tax-induced brain drain.

In 1990, California passed the largest state tax increase in American history, increasing both the income and sales tax substantially. While such rival Sun Belt states as Florida and Texas still attract vast numbers of native-born Americans with their lower taxes (including no income tax), California lost some of its most productive citizens.

Studies Confirm Tax Effect

The skeptical reader might say people left high-tax states for reasons other than taxes, and moved into low-tax states for non-tax reasons. While it is true many non-tax factors influence migration, more sophisticated econometric analysis confirms that, controlling for other factors, the negative tax-migration relationship exists.

The relation holds if international migration (immigration) is taken into account as well. Recently, some scholarly studies have confirmed the aversion of migrants to taxes for specific age groups. For example, a recent study from the prestigious National Bureau of Economic Research concluded, “this evidence is consistent with the notion that wealthy elderly people change their state of residence to avoid high state taxes.”

Migration is probably the best measurable indicator of human well-being. People move to find conditions conducive to a better life. The tendency to move to areas with relatively low taxes suggests that on balance migrants believe life is better where individuals are free to spend a larger share of the money they earn in a manner of their choosing.

Richard Vedder (vedder@ohio.edu) is a distinguished professor of economics at Ohio University and policy advisor to The Heartland Institute.

At a November 2 event sponsored by The Heartland Institute, economist Richard Vedder discussed how taxpayers “vote with their feet” to find low-tax states.

(from left) Ohio University professor Richard Vedder, Elizabeth Carlson, and Allan Carlson chat at the November 2 Heartland reception for Vedder.

“According to the U.S. Census Bureau, from April 1, 2000 through June 30, 2004, a total of 1,318,963 native-born Americans moved into the no-income-tax states from those states taxing a portion of people’s income. This is net of persons moving in the other direction.”
Stadium continued
move, only that it likely won’t be DC because real estate prices are too high and she doesn’t want to “get burned a second time.”

Interpretation Is ‘Twisted’
“The Fifth Amendment of the U.S. Constitution stipulates land can be taken for ‘public use,’ not public good or private benefit,” said Peyton Knight, director of environmental and regulatory affairs for the National Center for Public Policy Research in Washington, DC. “As Justice Sandra Day O’Connor noted in her dissent to the Kelo decision [issued June 23, 2005], no one’s home is safe. This twisted interpretation of the law has potentially put every home and small business in America in the crosshairs of politically connected developers and their unscrupulous government allies. Eminent domain reform is needed soon.”

Knight added, “Typically, ‘good-faith negotiations’ do not portray the buyer holding a gun to the seller’s head. These negotiations have been tinged with bad faith since April, when the city told property owners they had to be out of their homes by New Year’s Eve. Mr. Green can pretend he’s deal-

California Voters Won’t Allow Union Members to Control Dues Spending

by Steve Stanek

California voters on November 8 terminated all four of Gov. Arnold Schwarzenegger’s key initiatives to reform state government, including Proposition 75, a measure that would have required labor unions to obtain employees’ permission before spending dues for political purposes.

The other measures would have limited growth in state spending, increased the time needed for public school teachers to receive tenure protection, and taken legislative redistricting out of the hands of lawmakers and placed it in the hands of a panel of judges.

Union Members Stymied
Supporters of Prop 75 called it “paycheck protection” and said the issue was one of fairness, arguing employees should not have money forcibly taken from them to promote causes they oppose. Fiscal conservatives have long criticized labor unions, particularly those representing government employees, for using members’ dues to influence lawmakers to boost state and local spending.

In testimony before California lawmakers who had called a September 27 hearing on Prop 75, Sgt. Lon Jacobs of the San Bernardino County Sheriff’s Department said, “The only thing Prop 75 will do is give me, the union member, the right to decide where my money goes. Do I want my money to go to things I am vehemently opposed to?”

As things stand, union leaders can easily take dues from members and spend the money on whatever political cause they like, even if individual union members oppose the political cause the union supports. Jacobs said it is extremely difficult for individual union members to stop the practice.

Union leaders portrayed Prop 75 as an attempt to silence unions.

“The paycheck protection ... campaigns also help make public employees who are union members aware of the extent to which their dues are being used for politics without their knowledge or consent.”

DAVID DENHOLM
PUBLIC SERVICE RESEARCH FOUNDATION

Vote Was Close
Prop 75 fared the best of the four initiatives, winning 47 percent of the vote.

“Prop 75 was leading most of the way through the night,” said Sally Pipes, president of the Pacific Research Institute, which supported the initiative. “It was only when Los Angeles County came in that it fell behind. The Los Angeles Unified School District is huge and very influential there.”

Pipes said the measure also lost in San Francisco and other big urban areas, which are Democrat and union strongholds. Outside the major urban areas, the proposition did well.

“When you think about the fact our opponents outspent our side nearly 20 to 1, they should have won 70 to 30 percent,” Pipes said. “Considering the little money the pro-75 people had, they did very well. The result is positive in that it shows that with more work and money, this could be a positive move, to bring such an initiative to the fore in the next few years.”

Teacher Union Gloats
The California Teachers Association (CTA), with more than 335,000 members, proclaimed on its Web site the morning after the election, “Victory! CTA Defeats Props. 74, 75, 76.”

The CTA trumpeted its power in an announcement the day before the election: “Thousands of teachers determined to inform voters about the dangers of the governor’s special election initiatives surpassed their goal this weekend of reaching 1 million voters, announced the 335,000-member California Teachers Association today.”

The announcement added, “Thousands of teachers have been volunteering after school and on the weekends in locations across California telephoning voters since September. Hundreds more will continue calling voters through Election Night.”

Valuable Attention
David Denholm, president of the Public Service Research Foundation, which studies union activity around the country, said, “I’m not a big fan of ‘paycheck protection.’ I think the case for it is overblown. At the same time, I value the attention it draws to this issue.”

Denholm added, “The paycheck protection campaign is of value because it makes the public aware that the enormous amounts of money the public sector unions spend on politics don’t necessarily reflect the beliefs of government workers. These campaigns also help make public employees who are union members aware of the extent to which their dues are being used for politics without their knowledge or consent.”

Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News.
New Book Explains How to Shrink Government, Strengthen Economy

In his newly released book, Chris Edwards, director of tax policy at the Cato Institute, details ways to cut 100 federal agencies, increase freedom, and improve economic performance. The following is an excerpt from the introduction to Downsizing the Federal Government, which went on sale November 25.

by Chris Edwards

The federal government is running large budget deficits, spending too much, and heading toward a financial crisis. Federal spending increased by one-third in President George W. Bush's first four years, with large increases in agriculture, defense, education, health care, and other areas. These increases have come just as the costs of federal entitlement programs are set to balloon when the Baby Boomer generation retires.

Federal spending too much, and heading toward a financial crisis. Federal spending increased by one-third in President George W. Bush's first four years, with large increases in agriculture, defense, education, health care, and other areas. These increases have come just as the costs of federal entitlement programs are set to balloon when the Baby Boomer generation retires.

Where will the money come from? If government spending is not cut, average working families will face huge tax increases that dwarf anything seen in decades. Tax increases would damage the economy and be strongly resisted by the public. As a consequence, policymakers need to begin identifying programs in the federal budget that can be cut, transferred to the states, or privatized.

Downsizing the Federal Government (http://www.downsizinggovernment.com) provides policymakers and the public with a detailed guide to potential federal budget reforms. It proposes eliminating more than 100 agencies and programs to reduce federal spending from 20 to 15 percent of the nation’s economy.

The country would be better off if the $2.5 trillion federal government were downsized. Cutting the budget would avert the looming federal financial crisis and give Americans a stronger economy and a freer society.

Federal programs that are good candidates for privatization include Amtrak, the air traffic control system, and the National Zoo in Washington. Programs that are chronically mismanaged and should be terminated include the Bureau of Indian Affairs and the National Aeronautics and Space Administration.

“Federal programs that are good candidates for privatization include Amtrak, the air traffic control system, and the National Zoo in Washington. Programs that are chronically mismanaged and should be terminated include the Bureau of Indian Affairs and the National Aeronautics and Space Administration.”

Plan to Cut Spending
A Brookings Institution book on the looming federal deficit argued, “although tax increases are unpopular with those who favor smaller government, no one has suggested how to achieve balance without harming the economy.” The authors plan to balance the federal budget without tax increases. Downsizing the Federal Government identifies $389 billion in annual savings from programs that policymakers and the public with a detailed guide to potential federal budget reforms. It proposes eliminating more than 100 agencies and programs to reduce federal spending from 20 to 15 percent of the nation’s economy.

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Public Versus Private
Mismanagement is only one problem with the federal government. A bigger problem is that it does many things that make average citizens worse off. People who don’t follow public policy might assume there must be “a good reason” for existing programs, in the sense of a rational public purpose. It turns out that for many programs there is not.

For example, economists widely agree that farm subsidies are counterproductive and should be repealed. The existence of farm subsidies cannot be explained by economic logic, but only by the political logic of self-interested farm-state politicians.

During much of the 20th century the “public interest theory of government” held sway. The idea was that policymakers acted with the best interests of the general public in mind. Politicians and bureaucrats like to call themselves “public servants,” so one might assume they would act accordingly.

However, the experience with a big federal government since the 1930s shows the public interest theory has little real-world application. Ill-conceived laws with little public support get enacted all the time. Many federal agencies perform poorly year after year, yet receive steadily growing budgets. Government officials often put career advancement, turf protection, and other personal factors ahead of the public interest.

Watergate Effect
The view that government officials put the public interest first took a nosedive after Watergate. In academia at about the same time, the public interest theory of government was being unseated by “public choice” theory, which holds that self-interested officials and lobby groups are the key drivers of government policy. That theory explains the perverse results we often observe in government.

Of course, the Founding Fathers were well aware that private interests would try to use government to the detriment of the general welfare. Accordingly, they created a constitutional framework that sought to limit federal power. Unfortunately, that framework was largely discarded in the 20th century—limits on federal power did not seem to be needed because the government was assumed to act in the public interest.

Rising Skepticism
Today, Americans are more skeptical about government. There is also a renewed appreciation of the fact that even well-intentioned programs and regulations are poor substitutes for competitive private markets. The large expansion of the federal government from the 1930s into the 1970s saw the birth of many failed, even disastrous, programs. Under “urban renewal” policies, for example, the government bulldozed inner city neighborhoods across the country and warehoused millions of people in crime-infested high-rises.

American cities are still recovering from the damage caused by the urban policies of 50 years ago. The task ahead is to mop up the mess left by all the failed federal interventions of the last century, and to resurrect the framework of limited government the Founders established.

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Illinois Senator’s Web Site Highlights Dubious Use of Fees

by Dennis Byrne

I linois taxpayers who may wonder what happens to the millions of dollars of state-imposed fees that finance hundreds of special funds—from “used tire management” to the “whistleblower reward and protection” fund—are getting answers from a state senator’s Web site.

Republican Dan Rutherford of Pontiac is chairman of the Committee for Legislative Action, which set up the site more than a year ago after accusing Gov. Rod Blagojevich (D) of imposing huge increases in more than 300 fees, and then “sweeping” the money from the dedicated accounts to shore up the state's sagging general fund.

The site, http://www.committeeforlegislativeaction.org, details how more than $166 million in dedicated money has been transferred into the general fund. Rutherford concedes the transfers are legal, but said he doesn’t think they are proper or ethical.

“We started the Web site because the public can’t keep up with it [fee increases],” he said. Now that the public has been given access to the details of what is happening, some 25,000 people have signed a petition, founded on the Web site, opposing such practices.

Impact Has Been Personal

Rutherford’s family knows from personal experience the impact of such funds sweeps.

“My grandmother is in a nursing home, and part of what she pays goes to cover the nursing home’s licensing fee,” Rutherford said. That money is supposed to support nursing home activities, but because the money is swept into the general fund, grandma, in effect, is subsidizing state functions that should be supported by general revenues, he said.

Rutherford described the practice as something like an unending circle, in which the fees are raised one year because the fund is supposedly short of money. Then the next year, when there’s a “surplus,” the fund is raided for general fund purposes.

Naturally, the following year the raided fund is again short of money, so the fees have to be raised again.

Law Guarantees Legality

Facing that kind of criticism and doubts about the legality of transferring money from dedicated funds into the general fund, the Democrat-controlled General Assembly last year passed a law affirming the legality of the transfers. That, in turn, led to an Illinois Chamber of Commerce lawsuit challenging the constitutionality of a state business fee, arguing the payers were paying more than they should have as a result of the fee transfers.

“When Chicago was paying about 15 cents per person [for a state-managed sewer and wastewater discharge fee], the southern Illinois town of Maestowntown was paying more than $20 per person, and Smithfield in western Illinois was paying more than $70 per person.”

A lower court ruled against the state chamber, and the case now is on appeal.

Meanwhile, opponents of the fee transfers succeeded in amending the legislation to save at least $5 million in 17 funds from being swept into the general fund. The rescued funds included programs for mammograms, park district youth, and state police DUI enforcement.

A spokeswoman for Blagojevich did not return a call seeking comment on the Web site.

Sewer Fee Also Tracked

In addition to publicizing the state’s sweeps of dedicated fees into the general fund, the Web site has a separate section devoted entirely to a sewer and wastewater discharge fee levied by the state on municipalities. The state Environmental Protection Agency, which keeps track of the funds, at first refused to reveal exactly how much each municipality paid. Then, to comply with a Freedom of Information Act request, the agency dumped a load of documentation on Rutherford that an intern had to straighten out, the senator said.

The next year, Rutherford went directly to the municipalities, which were more willing to share information on how much their taxpayers were subsidizing the general fund through the wastewater disposal fee.

The results, Rutherford said, were eye-opening: Because the fee was assessed on the size of treatment plants, instead of population, some small communities were paying huge per-capita charges. While Chicago was paying about 15 cents per person, the southern Illinois town of Maestowntown was paying more than $20 per person, and Smithfield in western Illinois was paying more than $70 per person.

Eventually, the legislature approved a fee reduction to more reasonable levels for the smallest, most heavily burdened communities.

Sen. Dan Rutherford

For more information about Downsizing the Federal Government, see http://www.downsizinggovernment.com.
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Emerging Issues 2005

Edited by Joseph L. Bast and Dennis Byrne
The Heartland Institute, 2005

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