Consumers Will Get Refunds for 1898 Phone Tax

By Steve Stanek

More than 100 years after the Spanish-American War ended, the 3 percent telephone tax that was imposed to pay for the war is about to end.

The U.S. Treasury Department and Internal Revenue Service announced on May 25 they plan to stop collecting the tax on long-distance phone calls.

Supreme Court Dismisses Case on Tax Breaks

By Steve Stanek

In a unanimous 9-0 ruling, the U.S. Supreme Court on May 15 dismissed a lawsuit over the constitutionality of Ohio’s investment tax credit.

The case, known as Cuno v. DaimlerChrysler AG, centered on $70 million in tax incentives Ohio gave to DaimlerChrysler in 1998 to build a Jeep manufacturing plant in Toledo. The incentives were part of a total package of incentives worth $281 million, including local property tax abatements.

Minn. Twins Win Stadium Subsidy Deal

By Mark Giga

Years of concerted effort by the Minnesota Twins Major League Baseball team paid off on May 26, when Gov. Tim Pawlenty (R) signed a stadium subsidy bill before the start of the Twins game against the Seattle Mariners. It was a good night for the Twins, as they won hundreds of millions of tax dollars for a new stadium and then defeated the Mariners 3-1.

But many analysts believe it was a bad night for Minnesota taxpayers.

Election Earthquake Rattles Pennsylvania Legislature

Taxpayers Oust Tax-Hiking, Pay-Raising Incumbents

By Sandra Fabry and Steve Stanek

“Earthquake” is one of the words politicians are using to describe the ouster of numerous incumbent lawmakers in the May primary elections by voters who were angered and outraged over tax hikes, spending increases, and boosts in legislative pay.

The epicenter of this electoral earthquake was Harrisburg, Pennsylvania, where at least 47 lawmakers will leave office.

Senate Leaders Ousted

The latest evidence of the depth of anger in Pennsylvania’s still-seething electorate came on May 16, when 17 incumbents lost primary election challenges.

The losers included Republican Senate president pro tempore Robert Jubelirer, Senate majority leader David Brightbill, and a long-term incumbent, Republican state Rep. Bob Allen, all three of whom had voted for at least three of the biggest tax increases in Pennsylvania history.

Before the May primary election, 30 other incumbents had announced they would not seek reelection, most because they believed they would lose, according to Pennsylvania political observers.

Jubelirer and Brightbill became the first incumbents in major leadership Earthquake.

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Chicago, IL 60603

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A compass doesn’t just point in two directions — and an accurate map of politics shouldn’t either. The fact is, millions of people say the labels left and right — or “liberal” and “conservative” — do not properly describe their politics.

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Eight years after MacDougal’s suggestions were implemented, Illinois now stands well ahead of California, New York, and other big-city states, with a spectacular 86 percent reduction in the welfare rolls since reform implementation in 1996, second only to Wyoming among all fifty states. The welfare rolls in Cook County have been reduced an amazing 85 percent, with studies showing that most who left the rolls are working, and at pay above minimum wage.

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The World’s Smallest Political Quiz has been praised from an original idea by David Nolan. Chart and questions © Advocates for Self-Government.
Florida Wants to Double Local Car Rental Tax

By John W. Skorburg

The Florida legislature voted in May to allow local governments to increase the current car rental tax surcharge from $2 to $4 per rental. Now only Gov. Jeb Bush (R) and November referenda in localities that want to increase the tax stand in the way of car rental tax hikes.

The Florida Senate passed the proposal on May 5, by a 34-4 vote. The House had approved the bill earlier in the session by a similarly wide margin. Local governments are looking for the new money to fund roadwork and help alleviate traffic congestion.

Bush has indicated misgivings about allowing higher car rental surcharges, telling news-press.com the biggest problem with the measure is that people who would pay the higher tax “can’t vote on it.”

“[L]egislators believe [taxing car rentals] is the ideal way to fund projects without taxing voting constituents. In actuality, they are imposing additional taxes on local businesses that already pay their fair share.”

BILL CONNORS
CHIEF OPERATING OFFICER
NATIONAL BUSINESS TRAVEL ASSOCIATION

Concerned about Tourism

Even though the vote was fairly lopsided, several legislators argued strongly against the measure.

“Tourism is what pays the freight up here, it is the reason we don’t have a statewide income tax,” said state Rep. Randy Johnson (R-Celebration), one of the most vocal opponents of the proposed increase, to the Associated Press on May 3.

D.T. Minich, director of the Lee County Visitor & Convention Bureau, said the tax could affect the county’s ability to draw international tourists. “They’re already concerned with how high costs are already,” Minich said.

Grover Norquist, president of Americans for Tax Reform (ATR), met with Bush during the spring legislative session.

“Our nonprofit group has fought the surcharge hard this year, running a television commercial, reminding lawmakers of their no-new-taxes pledges, and lobbying alongside the rental-car companies,” Norquist said.

Local Businesses Affected

Bill Connors, chief operating officer of the National Business Travel Association (NBTA), remarked along with Norquist at a May press conference, “Increases in car rental excise taxes in municipalities are quickly becoming a major issue in the business travel market, mainly because legislators believe it is the ideal way to fund projects without taxing voting constituents. In actuality, they are imposing additional taxes on local businesses that already pay their fair share.”

Connors continued, “Legislators must be mindful of the impact car rental excise taxes will have on businesses in their municipalities. It may not seem like much, but when you calculate the number of local car rentals businesses use for in-state employees or bringing employees and clients from other locations to a destination, we are talking about a tremendous financial burden.”

Most of the rental car companies are members of NBTA, which issued a news release in April highlighting its members’ concerns.

Car Rental Taxes Surging

“Local government represents the cornerstone of the United States, and we fully support the critical role that localities play in protecting consumer and citizen rights,” said Andy Taylor, chairman and CEO of Enterprise Rent-A-Car, in the release. “However, with 78 car rental excise taxes in 37 states and 45 more such taxes pending or under discussion, we must speak out on behalf of our customers. These arbitrary taxes unfairly single out our customers and potentially interfere with interstate commerce by hindering free trade in the nationwide car rental industry.”

“Taxing travelers has become big sport in cities throughout the United States,” said Gary Paxton, president and CEO of Dollar Thrifty Automotive Group, Inc. “Politicians like it because constituents believe such taxes affect out-of-towners, but the reality is that a huge portion of cars are rented by local citizens and businesses, who end up paying more than their fair share of the cost of the projects funded by these taxes. The public should understand the true nature of these taxes and should be outraged.”

“These arbitrary taxes unfairly single out our customers and potentially interfere with interstate commerce by hindering free trade in the nationwide car rental industry.”

ANDY TAYLOR
CHAIRMAN AND CEO
ENTERPRISE RENT-A-CAR

Bill Lobeck, CEO of Vanguard Car Rental USA Inc., the operator of both the National Car Rental and Alamo Rent A Car brands, said state and local government officials must be reminded that corporate travel is a cornerstone of the global economy and leisure travel is critical to the financial vibrancy of their states and cities.

“Our customers have been unfairly singled out to help subsidize sports stadiums and other municipal projects,” Lobeck said. “We will continue to be good corporate citizens, but we feel that these unfair levies, arbitrarily put on our customers, are wrong and must not continue.”

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

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For more information on car rental excise taxes, see http://www.nbta.org/About/News/Releases2006/rs040306.htm.
Earthquake

Continued from page 1

positions to lose a primary election in Pennsylvania in more than 40 years.

Jubelirer described the outcome as an “earthquake” when he spoke with reporters after the results came in. The Wall Street Journal’s John Fund called the election a “bloodbath” in a column he wrote shortly thereafter.

GOP Incumbents Pay Price

Voters in Pennsylvania have been outraged since last year, when lawmakers, with the aid of state Supreme Court justices, devised a scheme for themselves and more than 1,000 judges to get around prohibitions in the state constitution against receiving midterm pay raises. In the House, at least 11 Republican and 4 Democrat incumbents lost their primary elections. All but two had voted for the pay raise. The two who did not vote for the pay raise accepted it.

Pat Toomey, a former Republican congressman and senatorial candidate in Pennsylvania, helped organize fundraising and informational efforts aimed at ousting “Republicans who apparently did not believe in Republican Party principles.” He pledged to continue raising money for the primary election winners for the general election in November.

“The dust won’t settle on this for a year,” Potts said. “The potential for even more dramatic change is definitely ripe, because people have regained the understanding they own the government. There are 253 legislators and 12.4 million of us in this state. Probably the most remarkable thing is that we’ve been able to cross ideology to keep the focus on democracy.

There are 253 legislators and 12.4 million of us in this state. Probably the most remarkable thing is that we’ve been able to cross ideology to keep the focus on democracy.”

TIM POTTS
CO-FOUNDER
DEMOCRACY RISING PA

Court Justice Thrown Out

Last November voters struck back by voting out of office Pennsylvania Supreme Court Justice Russell Nigro, a Democrat who had worked with lawmakers to arrange the pay-raise deal. He became the first Supreme Court justice denied retention in the history of the commonwealth.

Justice Sandra Schultz Newman, a Republican, was up for retention with Nigro and barely hung on. Her job was saved when former Gov. Tom Ridge and other Republican powerbrokers in Pennsylvania came out with a barrage of last-minute endorsements and advertisements for her.

Barely one week after the ouster of Justice Nigro and the near-ouster of Justice Newman, lawmakers repealed the non-voucherized expenses scheme.

State Rep. Daryl Metcalfe (R-Butler County), who opposed the pay-raise scheme and is managing editor of Budget & Tax News.

The first sign of the upheaval in Pennsylvania came just a few months after lawmakers approved “non-voucherized expenses” for themselves and state judges. Lawmakers and judges could submit expense vouchers worth thousands of dollars with no documentation—a maneuver that significantly boosted their pay without a formal vote to do so.

“There are 253 legislators and 12.4 million of us in this state. Probably the most remarkable thing is that we’ve been able to cross ideology to keep the focus on democracy.”

TIM POTTS
CO-FOUNDER
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The Heartland Institute
19 South LaSalle Street #903
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Tax Hikers Lose in North Carolina, Indiana, Oregon

By Sandra Fabry

Taxpayers scored a huge victory in North Carolina in the May primary election as longtime incumbent state Rep. Richard T. Morgan (R-Moore) lost his bid for the Republican nomination for his seat to political novice Joe Boylan. John Hood, president and chairman of the John Locke Foundation in North Carolina, said he believes the tax issue ultimately decided the race.

Taxes the Biggest Issue

While there were many factors in play in Morgan’s defeat, “the single most important issue was probably taxes,” Hood said. “Morgan’s GOP faction, allies with state House Democrats, helped make possible two budget deals that included higher taxes, despite the fact that several of the members involved had taken the no-tax-hike pledge.”

In 1998 Morgan signed Americans for Tax Reform’s Taxpayer Protection Pledge not to raise taxes, but he did not live up to his commitment. Boylan signed the pledge this year and challenged Morgan over his support for higher taxes.

Morgan and a group of four other Republicans had brokered a leadership deal with Democrats after the switch of state Rep. Michael Decker from the Republican Party to the Democratic Party in 2003. Decker’s move to the Democrats had left the House evenly split. Morgan assumed co-speakership and helped push through a massive tax increase package that year.

Republican primary election voters in 2004 ousted five of the Republicans who voted for this tax increase package. Three of the winners were pledge signers. The anger of taxpayers apparently carried over into 2006.

GOP Leaders Back Challenger

Morgan’s unpopularity with conservatives across the state had reached an all-time high. He had become so unpopular that North Carolina’s GOP leaders made the unprecedented move of endorsing the challenger, Boylan, in the May 3 race. Boylan defeated Morgan with 52 percent of the vote.

Assuming recount results in the 10th House district hold, Morgan was not the only GOP tax hiker in North Carolina who was sent packing this May. Stephen LaRoque (R-Lenoir), who also broke the pledge not to raise taxes in 2003, narrowly lost to Willy Ray Starling.

In two other cases the results are clearer. Voters in May rejected again two of the former GOP legislators who had been defeated in 2004 after their tax-hike votes of 2003. Michael Gorman and Keith Williams both hoped to win the GOP nomination to run again in November for their former seats. Gorman lost to Michael Speciale, and Williams lost to current incumbent and pledge signer George Cleveland (R-Onslow).

The message of North Carolina’s primary elections is obvious and already resonating in this year’s legislative session, said the Locke Foundation’s Hood: “The lobbies for bigger government and tax increases remain powerful in Raleigh, but at least now it may be easier for voters to tell the sides apart.

... Leaders of the North Carolina legislature already knew that their recent history of tax increases had provoked public disapproval. Now the primary results have reinforced that message and some lawmakers are responding with tax-relief proposals in this election year.”

“Leaders of the North Carolina legislature already knew that their recent history of tax increases had provoked public disapproval. Now the primary results have reinforced that message ...”

John Hood

President and Chairman

John Locke Foundation

Hoosier Challenger Wins

Another state where a long-time GOP incumbent lost to a signer of the Taxpayer Protection Pledge is Indiana. Senate pro tem Robert B. Garton, who had been in office since 1970, lost to political newcomer Greg Walker (R-Columbus), who signed the Taxpayer Protection Pledge.

A few years ago, Garton worked for a lifetime health insurance benefit for legislators, and in 2006 he supported a tax increase. Despite outspending Walker 10 to one, Garton lost 52 percent to 48 percent.

Oregon Tax-Hiker Loses

In Oregon, Charles Starr, a Republican state senator who had voted for a 2003 tax increase voters repealed in 2004, lost to pledge-signing challenger Larry George. While Starr signed the pledge not to raise taxes in 2005, two years after his tax-hike vote, that apparently was too little too late for voters.

These election results leave taxpayer advocates hopeful that after November their interests will be better represented than before.

“Principles matter,” said Grover Norquist, president of Americans for Tax Reform. “Taxpayers are fed up with politicians who portray themselves as their friends but then fail to take a stance, or worse, vote against their constituents and for higher taxes. And principles matter more than money and name ID, as several challengers who ousted incumbents did not have much of either.”

Sandra Fabry (sfabry@atr.org) is state government affairs manager for Americans for Tax Reform.

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“Americans will be thrilled to learn that the Treasury has finally chosen to wind down the government’s unseemly game of dialing for tax dollars,” said John Berthoud, president of the National Taxpayers Union, in a statement issued shortly after the announcement. “Now that the federal tax man will be placing fewer calls to long-distance customers, it’s time for Congress to cut off other taxes on talking.”

“Americans will be thrilled to learn that the Treasury has finally chosen to wind down the government’s unseemly game of dialing for tax dollars.”

JOHN BERTHOUD
PRESIDENT
NATIONAL TAXPAYERS UNION

Push to Eliminate More
Berthoud cited a proposal, introduced in May by Senate Finance Committee Chair Chuck Grassley (R-IA), to do away with the federal excise on local phone services.

At Verizon Wireless, “We are very excited,” said Annabelle Canning, assistant general counsel for tax policy. “This will provide a real benefit to our wireless consumers. We also hope steps at the federal level to eliminate this outdated, industry-only tax serve as a model to eliminate other outdated and excessive taxes.”

Refunds Allowed for 2006
Individuals will be allowed to claim three years’ worth of refunds on their 2006 tax returns. Taxpayers will be allowed to calculate their actual taxes paid or claim a standard amount to be set by the Treasury Department and IRS.

The government’s decision to stop collecting the excise tax on long-distance telephone services comes after a recent string of successful court challenges to the legality of the excise tax.

In October 2005, Hewlett-Packard won a $6.2 million refund, plus interest. Other companies, including Honeywell, AOL, and OfficeMax, have won smaller refunds. Wal-Mart, Home Depot, MBNA, and other major telecom consumers have lawsuits pending.

The tax was imposed at a time when only wealthy individuals and some businesses had telephone service. The tax stayed in place as telephone use spread, and it was expanded to cover other telecom services.

Five federal appellate courts have ruled in favor of major telecom consumers, but the IRS has repeatedly filed legal challenges to keep collecting the tax.

All Will Benefit
Though the rulings all have involved large telecom consumers, the reasoning behind the rulings also applies to small telecom consumers. However, federal law does not allow class-action lawsuits against the IRS, and the cost of going to court would have exceeded whatever refunds small telecom consumers might have won.

Some federal officials long have questioned the government’s collection of the federal excise tax (FET) on long-distance service. In 1987 the Treasury Department issued a report that concluded, “the [FET] causes economic distortions and inequities among households” and “there is no policy rationale for retaining the communications excise tax.”

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

“This will provide a real benefit to our wireless consumers. We also hope steps at the federal level to eliminate this outdated, industry-only tax serve as a model to eliminate other outdated and excessive taxes.”

ANNABELLE CANNING
ASSISTANT GENERAL COUNSEL
FOR TAX POLICY
VERIZON WIRELESS
Politics Rules in Debate over Hawaiian Ethnicity Bill

By Don Newman

A bill that would have created a “Native Hawaiian Government” with special powers for 400,000 persons of native Hawaiian ancestry died in the U.S. Senate on June 8, when the measure came four votes short of the 60 that were needed to keep it alive.

The vote on the Native Hawaiian Government Reorganization Act of 2005 was 56-41 in favor. All 41 votes against the bill were cast by Republicans. Thirteen Republicans and one independent joined 42 Democrats to support the bill.

“Sixty-seven percent of state residents who were surveyed oppose the Akaka bill. In addition, 70 percent support [giving] Hawaii’s voters … a Yes or No vote on the Akaka bill before it becomes law.”

The U.S. Commission on Civil Rights (USCCR) released a brief on May 4 recommending the U.S Senate reject the measure, commonly known as the Akaka bill, “or any other legislation that would discriminate on the basis of race or national origin and further subdivide the American people into discrete subgroups accorded varying degrees of privilege.”

That recommendation was removed from the USCCR’s final brief, however, under pressure from Hawaii’s legislative delegation and the Hawaii State Advisory Committee to the USCCR.

Sen. Daniel Akaka (D) introduced the bill in 2000, partly in response to the Supreme Court decision in Rice v. Cayetano, which ruled the Office of Hawaiian Affairs (OHA) elections for trustee could not be limited to those with Native Hawaiian ancestry. Akaka has reintroduced the bill every year since.

Land Takeovers Sought

The Akaka bill would lead to the creation of a Native Hawaiian government that would negotiate with the federal and state governments for the turnover of ceded lands, which currently include roads, schools, harbors, and airports, as well as major portions of the land that houses the U.S. military in the state.

When Hawaii was admitted as a state in 1959, all Crown, government, and public lands the Republic of Hawaii ceded to the U.S. government at the time of annexation in 1898 were turned over upon statehood as a state trust. A complete inventory has never been done, but it is estimated to be around 1.8 million acres, about 45 percent of the state.

Upon receiving ownership of this land as proposed, the Native Hawaiian government could then impose taxes or lease requirements upon the users of the lands.

A similar circumstance happened last October when the lease for the El Paso Natural Gas Co. pipeline right-of-way (under an agreement between the company and the sovereign Navajo Nation that straddles Arizona and New Mexico) expired and the Navajo Nation agreed to extend the right-of-way agreement for a year while continuing to negotiate compensation terms.

The state of Hawaii would lose all revenue from any lands handed over to the Native Hawaiian government. Between the loss of revenue and the potential for increased taxes and fees, there is no clear way to estimate the likely fiscal damage to the state’s coffers, said state Sen. Sam Slom (R-Hawaii Kai). The bill also calls for negotiation of all underwater and mineral rights. (Underwater rights that extend for three nautical miles from shore are considered part of the ceded land trust held by the state.) Non-Native Hawaiian fishermen could be assessed substantial fees for the privilege of fishing. That too, would affect state coffers.

‘Native’ Government Proposed

In his May 12 floor speech on behalf of the bill, Akaka stated, “This is about establishing parity for Hawaii’s indigenous peoples in federal policies. This is about clarifying the existing political and legal relationship between Native Hawaiians and the United States.”

Creating “parity” with indigenous Native American and Alaskan tribes has been an argument frequently used to justify the Akaka bill. Critics of the bill, however, point out that Native Hawaiians do not meet the seven criteria for federal recognition of an indigenous tribe. Native Americans and Alaskans have maintained continuous, self-governing entities exclusively governing only their people. Native Hawaiians have had no such exclusive self-governance for more than a century. The Akaka bill seeks to circumvent this problem by legislative decree.

Fiscal Effect Unpredictable

“I think many of us elected officials should be thinking about all the things we don’t know about the Akaka bill, specifically the fiscal implications,” Slom said. “The taxpayers of this state for years have been paying millions of dollars to the Office of Hawaiian Affairs (OHA) as part of an agreement for reimbursement for specified ceded lands. At this point we don’t know what expansion there could be in terms of more land and more money demanded by the proponents of the Akaka bill.

“What makes this doubly frustrating is that every time someone asks a question and wants specific information, the proponents, usually an OHA spokesperson, say, ‘We’ve changed that in the new version of the bill.’ Unfortunately, most of us never see the bill or the backroom agreements that made the alleged changes. This is why I stand firm in saying the taxpayers need a full, open debate and referendum or a plebiscite on the Akaka bill in Hawaii before we rubber-stamp it.”

State Residents Oppose Bill

The Grassroot Institute of Hawaii, a non-partisan public policy think tank, commissioned a statewide telephone survey in early May 2006 regarding the proposed bill. Sixty-seventeen percent of state residents who were surveyed oppose the Akaka bill. In addition, 70 percent support the “Let Us Vote” idea that demands Hawaii’s voters have a Yes or No vote on the Akaka bill before it becomes law.

Don Newman (don@grassrootinstitute.org) is senior policy analyst at the Grassroot Institute of Hawaii.
$392 Million Subsidy

The bill ended years of effort by the Twins to secure government funding for a new, open-air stadium. The final price tag for the 42,000-seat facility is estimated to be $522 million, with $392 million of the cost to be covered by taxpayers. The vote was 71-61 in the House and 34-32 in the Senate.

The stadium deal relies on a 0.15 percent sales tax increase in Hennepin County (3 cents of every $20 spent), in effect removing the state’s 86 other counties from having to contribute to the construction of the ballpark. The sales tax covers everything but clothing and motor vehicles. (The motor vehicle sales tax goes into the state general fund and trunk highway fund.)

As the bill’s chief legislative author, state Rep. Brad Finstad (R-Comfrey) concluded, much of the plan’s success can be attributed to the fact that “this was the first proposal that truly included zero state money.”

Citizens Denied Vote

To set in place the needed public contribution, legislative approval was required for an exemption from Minnesota Statute 297A.99, Subdivision 3 (a), which requires that any local sales tax increase be preceded by a voter referendum.

Understandably, Hennepin County residents wanted to vote. “The law was created precisely for this situation,” said Laura Lehman of Citizens for a Stadium Tax Referendum, one of several citizen-lobbying groups opposed to the deal. “If there wasn’t a referendum requirement, special interests could hijack the whole process and, with it, the taxpayers’ money.” She said this is what happened.

A Minneapolis Star Tribune Minnesota Poll published during the last week of the legislative session showed only weak support for public funding of the stadium. Most respondents said all three teams mentioned (Twins, Minnesota Vikings of the National Football League, and the Minnesota Gophers college football team) should remain in the Metrodome.

Almost from the moment the Hubert H. Humphrey Metrodome in Minneapolis was completed in 1982 and Minnesota’s major baseball and football teams moved there, the facility was out of date. One of the last multiuse domed stadiums to be built (at a cost of $55 million), it would be only a few short years before new open-air and retractable-roof stadiums would begin to be built in cities across the country.

Push Began in ’90s

In the midst of the 1990s stadium construction boom, the Twins made their first trip to the state legislature looking for financial help to build a new facility, bringing with them threats of relocation or contraction (revoking of the team’s franchise) from Major League Baseball. In 1997, a special legislative session to address the issue was called. That attempt failed, as did every other attempt for the next nine years.

Originally introduced in the winter and spring of 2005, this year’s stadium deal was primarily the work of Twins Sports, Inc. President Jerry Bell and Hennepin County Commissioner Mike Opat. Previous stadium proposals had fallen apart due to a heavy reliance on state funding, the grind of the legislative process, or a lack of support from one level of government or another.

David Strom, president of the Taxpayers League of Minnesota, described the bill’s final passage this way: “Professional sports teams have a nearly bottomless well of resources from which to draw. If those of us opposed to this kind of corporate welfare bar anything less than 1000, we lose.”

Mark Giga (markg@taxpayersleague.org) is director of outreach at the Taxpayers League of Minnesota.

INTERNET INFO


Research and commentary on public funding of sports stadiums is also available through PolicyBot™, The Heartland Institute’s free online research database. Point your Web browser to http://www.heartland.org, click on the PolicyBot™ button, and select the topic/subtopic combination Economic Development/Stadiums and Convention Centers.
Estonia Creates an Economic Miracle

A conversation with Friedman Prize winner Mart Laar

By Steve Stanek

Mart Laar was barely 32 years old in 1992, when he became prime minister of Estonia, a small nation on the Baltic Sea that had just emerged from decades of Communist oppression as a satellite state of the Soviet Union. He inherited leadership of a country with 1,000 percent inflation, 30 percent unemployment, and government-owned businesses that were a shambles. Laar’s government removed price controls, cut regulations and welfare programs, sold state-owned businesses, introduced a new currency, and instituted a simple, flat-rate income tax that is being emulated in countries across Central and Eastern Europe. The rate has been lowered several times over the years and is now at 20 percent.

The result? Inflation in Estonia has dropped below 3 percent, unemployment has plunged below 6 percent, and foreign investment has poured in. Estonia has enjoyed the greatest growth in real per capita income of any of the former Soviet states. Today the country is a member of NATO, the European Union, and the World Trade Organization.

“[E]ven when the people know the flat tax is a good idea, it looks like the politicians are afraid to do it. This is because they are afraid to lose the wealth; they are afraid to lose the power; they are afraid of the discussion.”

Awarded for Advancing Liberty

For his achievements and continuing commitment to personal and economic freedom for Estonia and elsewhere, Laar on May 18 traveled to Chicago to receive the Cato Institute’s 2006 Milton Friedman Prize for Advancing Liberty. He is the third recipient of the $500,000 biennial prize, named in honor of famed American economist Milton Friedman.

Laar served two terms as prime minister. His accomplishments and those of his team of government reformers are particularly remarkable because Laar is not an economist. He is a historian. He read his first Western book on economics—Friedman’s Free to Choose—shortly before becoming prime minister. Laar determined to put Friedman’s principles of free markets, low and fair taxation, and trust in people into practice.

Budget & Tax News Managing Editor Steve Stanek met with Laar shortly before the latter’s acceptance of the Friedman Prize. Here are Laar’s thoughts on freedom, taxation, and the “Estonia miracle.”

Stanek: I understand the first book on economics you read was Milton Friedman’s Free to Choose. How did someone who grew up under Communism come across a book by Milton Friedman?

Laar: First of all, when you grow up in Communism, you know books on economics are not really on economics. They are Communist political propaganda. It is very hard to believe in Karl Marx when you see what is happening around you. Ronald Reagan once said, “What is the difference between a Marxist and an anti-Marxist? A Marxist reads the books of Karl Marx. An anti-Marxist understands them.”

The first time I heard the name Milton Friedman, it was in propaganda newsletters that said there is one very bad and very dangerous economist, and his name is Milton Friedman. I was quite sure, when he is so dangerous for the Communists to be telling me this, he must be a good man.

Free to Choose was one of the first Western books translated into Estonian at the end of the 1980s. That is how I had the chance to look at these ideas, which, when they were introduced in Estonia, looked quite crazy to many Western people but which to me looked quite logical, I must say.

Stanek: We have some debate in the United States about our income tax system and other taxes. If you had a room full of congressmen and senators here, what would you tell them about the flat tax?

Laar: I think nearly all of them know it is a good thing. When you look logically at how the tax works and at the current tax system in the United States, it is very hard to find anyone who is satisfied with it. The problem is, even when the people know the flat tax is a good idea, it looks like the politicians are afraid to do it. This is because they are afraid to lose the wealth; they are afraid to lose the power; they are afraid of the discussion.

It’s quite radical reform. There are influential groups in the United States who are against this kind of reform, starting with tax lawyers. This is one group that would be out of a job if you could do your taxes on a postcard. Last year in Estonia, 83 percent of people did their taxes electronically, and it took from five to 20 minutes for each of them. So you don’t need tax lawyers or a big tax bureaucracy.

Stanek: Were you surprised at how rapidly Estonia began to improve economically after embracing these ideas?

Laar: I must say we are a little bit surprised, to be very frank, because when we started the reforms, the administration was really very bad. Even as we taught that we would get up and get development, as we started to see development, it was actually more than we expected.

Stanek: Have you been surprised at how many of the other countries in Europe have been embracing the flat tax? I understand eight other countries have a flat tax and others are moving toward it.

Laar: At first everybody was a little cautious to see whether this would work. When it was seen that it worked, they were willing to do it. Our closest neighbors Latvia and Lithuania did it, and then it was some small distance to ask would it work in free countries? And would it be sustainable in the European Union? And when it was seen what was happening in Estonia, Latvia, and Lithuania, there was the next big wave of tax reform, because it really is a working model. It brings more money to the budget. It supports growth. Its relevance has been proved. It works.

“Liberty is something that, when it’s there, you maybe are not noticing it, but you understand absolutely when you don’t have it.”

Stanek: What would you say are the greatest benefits Estonia has enjoyed from the transition to a new economy? Are they simply economic, or is it more encompassing, with people feeling better about their lives? Do they feel they have control over themselves and their families that they didn’t have before?

Laar: I think to have control over your life and family is a challenge. It will not always make you happy. Nevertheless, it is one of the greatest feelings you can have.

Liberty is something that, when it’s there, you maybe are not noticing it, but you understand absolutely when you don’t have it. We are coming from a society where we did not have it. And this is something which is very important to us.

I think the most important thing in our reforms is that we gave the power to the people. We trusted the people. We made them free. That was the goal of the tax reform and our other reforms.

Stanek: Tell me a little about your acceptance of the award. What did you think when you learned you were named to receive the Milton Friedman Prize for Advancing Liberty?

Laar: I was quite positively surprised, because I am not an economist. Getting a prize named after a great economist, a man I admire very much, I am very honored.

Of course it is not a prize for me. It is a prize for my countrymen and country, because the government’s task is only to make the conditions. The people are the ones who are doing the miracles.
Major Retailer Challenges Targeted Tax Incentives

Gander Mountain opposes tax breaks

By Greg LeRoy

I
n a rare development, a major retailer is challenging lucrative economic development incentives frequently sought by two of its competitors. It’s a revealing episode full of public policy lessons.

Gander Mountain, the Number 3 outdoor sporting goods retailer in the nation, has launched a national lobbying and public relations campaign to defeat incentives sought by number 1 competitor Cabela’s and number 2 firm Bass Pro Shops for their huge “destination” stores. Such subsidies typically include tax increment financing, property tax abatements, infrastructure aid, land value write-downs, and corporate income tax credits.

“Since becoming a publicly traded firm in 2004, Nebraska-based Cabela’s has gone on a store-building binge. Already, a dozen communities have agreed to subsidize Cabela’s stores to the tune of more than $300 million . . .”

Top Firms Seek Subsidies

The stakes are enormous. Since becoming a publicly traded firm in 2004, Nebraska-based Cabela’s has gone on a store-building binge. Already, a dozen communities have agreed to subsidize Cabela’s stores to the tune of more than $300 million, according to Good Jobs First, a national policy research organization that promotes corporate and government accountability in economic development.

The company plans to build at least 11 new facilities by arguing their stores are the planned new stores. Right now, Cabela’s and Bass Pro benefit from the fact that the outdoor sporting goods market is still highly fragmented and their stores are novelties. But as the two chains rush to build dozens of new stores, two things are likely to happen. The stores will become less novel as more people get their fill of dioramas with taxidermy; and with more stores located closer to more shoppers, fewer people will need to travel from afar. That would mean fewer tourism jobs and less sales tax revenue from out of state.

The early effects of saturation may already be apparent. For 2005, Cabela’s reported to shareholders its same-store sales (comparisons of sales in individual stores from year to year) declined 6.3 percent. In the first quarter of 2006, same-store sales were down 0.3 percent. Of course, declining sales also mean less direct sales tax revenue from the stores. Rising gasoline prices may also cut into long-distance shopping trips.

Need for Subsidies Doubt

Some economists ask why communities should subsidize retail at all. As input-output models used by development agencies demonstrate, retailing packs a poor bang for the buck compared to most other sectors. That’s because most of the “upstream” jobs manufacturing retail goods are overseas, and retail’s “downstream” ripple effects are paltry because store jobs are mostly part-time and low-wage.

Of course, bringing basic retail services such as groceries, drugs, and clothing back to under-served markets can help revitalize a neighborhood. But that’s not the case with hip boots and fly rods.

Market Becoming Saturated

For public officials weighing a “destination store” subsidy request from Cabela’s or Bass Pro, there is another key issue to watch for: Market saturation and the inevitable decline in shoppers coming from long distances.

When Cabela’s had four or five very unique stores, said Gander Mountain’s Baker, “they were worth the drive.” But with so many more stores coming on line, he said, it’s “incredulous” that Cabela’s “can keep convincing small communities that they are going to be the next Orlando theme park.”

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The incentive war rages on elsewhere, with current or recent debates also in Connecticut, Idaho, Illinois, Louisiana, Maine, Massachusetts, New Hampshire, Ohio, Pennsylvania, Texas, Washington state, and Wisconsin.

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“When you see a chain going after a Wal-Mart, you should give it to Target. You give it to Home Depot, then should you give it to Lowe’s? And if you give it to Bass Pro, shouldn’t you give it to Cabela’s and Gander Mountain? How about we just don’t give it to anybody?”
CEO Makes Case Against Corporate Welfare

**Gander Mountain CEO stands against tax handouts**

*Interview with Mark Baker by David Ewald*

With nearly 100 stores in 18 states, Gander Mountain is the nation’s third-largest outdoors retailer. Unlike its two larger competitors, Bass Pro Shops and Cabela’s, Gander Mountain has achieved impressive growth without seeking targeted tax incentives from state or local governments.

In this interview, Gander’s chief executive, Mark Baker, tells us why he believes government officials should oppose retail tax incentives.

**Ewald:** Gander Mountain has launched a national campaign in opposition to government subsidies in the outdoors retail industry. What is wrong with subsidies?

**Baker:** Competitors of Gander Mountain have successfully convinced state and local governments in several states to provide large tax incentives in order to build stores in their communities. They portray their stores as “destination retail” in order to secure the incentives, claiming that by having their store in a community it will draw millions of tourists, and their wallets, to the area. However, these retailers are in the marketplace to sell product and turn profit, and like all retailers they analyze the markets to determine where their customers live and shop.

Playing one community off another, these retailers push for tens of millions of dollars from taxpayers to help finance their stores. Even more troubling, in some cases they are persuading states to give them favorable “nexus rulings” that are costing taxpayers even more in lost sales tax collections.

“Our estimates put the combined total at well over $400 million. When you add the value of the nexus rulings, the total goes even higher.”

**Ewald:** What are you doing to oppose these subsidies?

**Baker:** We’ve put together and distributed a booklet and educational materials for state and local officials all across the country outlining our concerns. We are meeting with state and local officials directly, and communicating with the media and opinion leaders all around the country. We are building coalitions with taxpayer groups and other nonprofit organizations that share our concerns. We have worked extensively to identify and assist grassroots opposition in targeted communities.

“We are building a network of like-minded individuals and think tanks that can defeat these proposals on the ground. We are doing everything in our power to encourage a discussion about retail subsidies and educate the state and local officials that will have the final say.”

**Ewald:** Why doesn’t Gander Mountain join in and take the subsidies?

**Baker:** We believe in the American system of free enterprise and consider these demands to be anti-competitive and fundamentally inappropriate. We cannot in good conscience go down that road and maintain our integrity as a good corporate citizen.”

Cabela’s estimates that tax increment financing and other forms of government assistance cover about one-third of the cost of building new stores—or an average of $10 million to $20 million per location. However, the public financing packages can be larger. For instance, Cabela’s received a tax increment financing package totaling $40 million to build a mammoth 180,000-square-foot store in Kansas City, Kansas.

Neither Cabela’s nor Bass Pro would disclose the total amount of public money they have received over the years, but our estimates put the combined total at well over $400 million. When you add the value of the nexus rulings, the total goes even higher.

**Ewald:** What do you see as the negative impact of these subsidies on the communities involved?

**Baker:** Resources that could be used for education or true economic development are being wasted on private retail developments. Communities have been paying big money to bring in low-paying retail jobs. Buda, Texas, for instance, gave Cabela’s subsidies worth $61 million, or about $271,000 for every full-time job, according to our estimates. Reno, Nevada spent $54 million, or $208,000 for every job.

It also should be noted that incentives to lure retail into a community often do harm to businesses already located in the area. Local stores and other national firms like Gander Mountain, who don’t seek subsidies, are placed at a competitive disadvantage by this practice. Studies have also demonstrated that the promises of increased revenue, jobs, and economic growth are seldom fulfilled.

“[W]e are unwilling to accept the ‘everyone is doing it’ argument and become part of the problem.”

**Ewald:** Cabela’s and Bass Pro argue their stores are “destination retail” and are appropriate for governments to subsidize. How do you respond?

**Baker:** The idea of destination retail may have held some merit when you had a very small number of outdoors megastores in the country. But the industry’s exponential growth, with Cabela’s planning stores in all 50 states, makes these claims obsolete.

If they built 50 Disneylands, do you think they’d be as successful as three? I think Cabela’s and Bass Pro for subsidy deals in total across the nation for both firms, not including the special tax deal Cabela’s has been securing on Internet and catalog sales.

“Ewald:** That argument is a red herring. In just a few instances, Gander Mountain or the project developer has received tax assistance of limited amounts for a limited duration, typically amounting to less than $85,000 per store for a five- to seven-year period. Compare this to the $500 million accepted by Cabela’s and Bass Pro for subsidy deals in total across the nation for both firms, not including the special tax deal Cabela’s has been securing on Internet and catalog sales.

**Ewald:** How does the explosion in outdoor retail construction over the past few years affect this debate?

**Baker:** Government policymakers need to understand what’s happening in the outdoors retail industry. In the past 10 years, the retail sporting goods industry increased square footage from 1 million to 14 million across the nation. There will be 500 Bass Pros and Cabela’s by the end of the year.

As these stores become less unique and more ubiquitous, arguments for government subsidies become ever more unsubstantiated. Gander has been opening about 20 new stores a year for the past two years and plans to open seven to nine more in the next year—all without government subsidies.

David Ewald (davide@ewald.com) is president of Ewald Consulting in St. Paul, Minnesota.
Targeted Tax Incentives Unnecessary, Ineffective

by Michael D. LaFaiye

For more than a decade, the Michigan Economic Growth Authority (MEGA) has been doling out significant tax incentives to businesses that promise to create new jobs or retain existing ones. Yet the Great Lakes State has routinely turned up at the bottom of state economic rankings. Many of the corporations state development officers have declared to be winners of tax incentives have turned out to be losers in the marketplace.

Kmart Corporation, for example, twice was offered millions of dollars in tax savings from MEGA, but that did not prevent the company from going bankrupt less than 16 months after Michigan’s job czars had declared it a winner for the second time. The company has since moved its corporate headquarters out of Michigan.

The fourth problem is rent-seeking. The pursuit of special favors from government imposes real job-killing costs on economies. Harold Blumm, writing in the Cato Journal, has shown empirically that rent-seeking has “a relatively large negative effect on the rate of state economic growth.” In other words, economic growth is better without programs that encourage rent-seeking.

Government Relations a Cash Cow

One example of rent-seeking in the economic development arena was noted by the John Locke Foundation in North Carolina. The organization obtained a 2004 PowerPoint presentation by Ernst & Young consultants titled, “Turn Your State Government Relations Department from a Money Pit into a Cash Cow.” The presentation detailed how private-sector businesses could effectively obtain and retain tax incentives from government.

If a government really wants to improve economic growth and development, there are two proven ways of doing so. First, sweep away the many unnecessary hurdles to entrepreneurship and employment that currently exist, such as high taxes and unnecessary regulation. Second, concentrate on improving the few things government should do, such as policing streets.

With these things in place, markets will create jobs without any vast and expensive state apparatus designed to “assist” them.

Michael D. LaFaiye

Tell Me What You Think!

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INTERNET INFO


Supreme
Continued from page 1

Standing Denied
The court ruled the plaintiffs did not have federal standing to bring a lawsuit over the constitutionality of the investment tax credit. In writing for the unanimous Court, Chief Justice Roberts said:

“[B]ecause state budgets frequently contain an array of tax and spending provisions, any number of which may be challenged on a variety of bases, affording state taxpayers standing to press such challenges simply because their tax burden gives them an interest in the state treasury would interpose the federal courts as virtually continuing monitors of the wisdom and soundness of state fiscal administration, contrary to the more modest role Article III envisions for federal courts.”

Plaintiffs in the case included one dozen taxpayers and three small businesses. They had the backing of Ralph Nader; the consumer advocate and 2004 independent presidential candidate who has long criticized corporate welfare.

Plaintiffs Will Fight on
“Nothing the Supreme Court says [in the Cuno decision] casts any doubt on the constitutional theory we are advancing,” said Peter Enrich, a professor at Northeastern University School of Law in Boston, who represented the plaintiffs. “The Supreme Court ruling is entirely about the constitutionality of Ohio’s investment tax credit. The Tax Foundation and COST were among more than one dozen organizations that filed amicus briefs in the case in defense of the credit. DaimlerChrysler is a COST member.”

Avoided Constitutionality Ruling
Kevin Thompson, legislative counsel for the Council on State Taxation (COST), was disappointed by the ruling because it did not address the constitutionality of Ohio’s investment tax credit. The Tax Foundation and COST were among more than one dozen organizations that filed amicus briefs in the case in defense of the credit.

“The dismissal by the Court for lack of standing is unfortunate, although not surprising, given that the Court specifically asked to be briefed by both parties on the standing issue, in addition to the constitutionality of Ohio’s investment tax credit,” Thompson said. “It is unfortunate because by not getting to the merits of the case—that is, the constitutionality of the credit—state governments and businesses lost an opportunity for greater clarity in this area.”

A particularly interesting aspect of the ruling, Atkins said, was the Court saying the incentive tax credits themselves had not necessarily decreased government revenues.

“Roberts basically said if the credit is designed to increase economic activity and it does, that could raise revenues,” Atkins said. “It’s nice to see the Court say if we lower taxes and increase economic activity, there could be more revenue to spend.”

Economic Coercion Disallowed
The ruling partially vacated a decision issued in 2004 by the 6th Circuit Court of Appeals in Cincinnati. That court struck down the investment tax credit offered by Ohio but upheld local property tax abatements.

“The plaintiffs in that case argued a targeted investment tax credit ‘discriminates against interstate economic activity by coercing businesses’ already in Ohio to expand locally rather than out-of-state. ‘The result is to hinder free trade among the states,’ the plaintiffs claimed.

The 6th Circuit agreed with the plaintiffs on the state investment tax credit but disagreed regarding local tax abatements because they did not require a beneficiary “to engage in an additional form of commerce independent of the newly acquired property.”

Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News.
Chicago Targets Big Retailers for Mandated Wage Hikes

By John W. Skorburg

The Chicago City Council is considering requiring “big box” retailers to pay wages far above the federal minimum wage, as well as a guaranteed level of fringe benefits in addition to wages.

Chicago’s Finance Committee discussed the idea at a May 18 hearing and decided to study the matter further, especially as it would relate to Wal-Mart Stores Inc., the nation’s largest retailer.

So-called “big box” retailers or “super-stores” depend on low profit margins and high volumes rather than high price markups for profitability.

Several Proposals on Table

Chicago currently has several mandated wage proposals on the table. The toughest would apply to workers at both new and existing stores with at least 75,000 square feet of space owned by national companies with more than $1 billion in annual gross revenues.

Those companies would be required to pay an hourly wage of $10, in addition to $3 an hour in benefits to every employee who works more than five hours a week. It is estimated the proposal would cover about 35 stores currently within the Chicago city limits.

“We have to step in and force stores to treat their workers fairly and pay them just wages,” the Rev. Michael Pfleger, pastor of St. Sabina Catholic Church, told committee members during the hearing.

“I would love to see everyone in my community get an increase, but the truth of the matter is, that’s unrealistic,” countered Rev. Joseph Kyle of the 37th Ward Ministerial Association to the Chicago Defender newspaper in a May 19 article.

“The companies would be required to pay an hourly wage of $10, in addition to $3 an hour in benefits to every employee who works more than five hours a week.”

Job Losses Feared

Alderman Isaac Carothers (29th) argued at the hearing that the ordinance is not aimed at all large retailers but is intended to keep just one, Wal-Mart, out of Chicago. He supports the concept of the ordinance but opposes singling out Wal-Mart.

“This is not the big-box ordinance. This is the Wal-Mart ordinance,” Carothers said.

Alderman Emma Mitte (37th), who is fighting for a new Wal-Mart store in her near-west side ward, told reporters before the hearing that the measure would “drive business and employment opportunities away. Let’s put politics aside and put our constituents first.”

“We don’t believe Chicago should be an island unto itself. I’m for people earning more money and getting benefits,” said David Vite, president of the Illinois Retail Merchants Association, to the committee. “But every time government mandates something like that, it has unintended consequences which will mean no jobs.”

NC Judge Dismisses Dell Incentives Suit; Appeal Promised

By Steve Stanek

A North Carolina judge on May 10 dismissed a lawsuit challenging a nearly $280 million tax incentives package the state granted to Dell, Inc. to build a computer manufacturing plant worth $100 million. Superior Court Judge Robert Hobgood dismissed all of the plaintiffs’ claims.

“All across the country and here in North Carolina citizens are questioning these rapidly escalating hand-outs to the largest and wealthiest international corporations...”

ROBERT ORR
EXECUTIVE DIRECTOR
NORTH CAROLINA INSTITUTE FOR CONSTITUTIONAL LAW

Hobgood ruled the seven North Carolina plaintiffs did not have the right to challenge the various tax credits and direct grants that were given to Dell by North Carolina, the city of Winston-Salem, and Forsyth County, because they could not show the Dell incentives package had caused a direct injury to them.

The court also dismissed various claims alleging violations of the North Carolina Constitution and the U.S. Constitution, on the grounds that the complaint failed to state a claim upon which relief could be granted.

The plaintiffs are represented by former State Supreme Court Justice Robert Orr, who promised an appeal of the ruling.

Taxpayer Challenge Stymied

“This decision finding that plaintiffs did not have adequate legal standing to bring the suit because of a lack of alleged direct injury is particularly troubling,” said Orr, executive director of the North Carolina Institute for Constitutional Law. He said the ruling “shut the door” on the right of citizens and taxpayers to challenge government spending.

The Dell package passed the General Assembly in a one-day special session in November 2004. It is the largest single incentives package ever granted by the state, according to Orr. He noted local governments gave Dell additional grants worth more than $30 million.

In a statement issued on the day of the dismissal, Orr said, “This issue is not going away, either as a question of constitutional law or as a matter of public policy. All across the country and here in North Carolina citizens are questioning these rapidly escalating hand-outs to the largest and wealthiest international corporations at the expense of smaller businesses and individuals who have to pick up the tax burden for those who don’t pay their fair share.”

Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News.
Oklahoma Senator Slams Congress for its
Wild Spending and Rules Violations

Senate subcommittee gets earful of criticism from chairman

Managing Editor’s note: Witnesses at a May 25 hearing of the Senate Subcommittee on Federal Financial Management, Government Information, and International Security blasted the federal government’s spending practices and budget processes, including the routine breaking of budget-making rules.

“We face large structural deficits, most of which have nothing to do with Afghanistan, Iraq reconstruction, or incremental Homeland Security costs. This must change,” said U.S. Comptroller General David Walker in his testimony.

“The federal government’s fiscal exposure totaled more than $46 trillion at the end of 2005, up from about $20 trillion in 2000,” Walker said. “We have got to scale back the spending in Medicare, Social Security, and Medicaid. We have to make sure Americans don’t feel they’ve been gamed. We should not be running deficits in the hundreds of billions of dollars.”

Walker was one of several prominent witnesses who said Congress must stop violating its budget-making rules and start acting more fiscally responsibly. Other witnesses included former Congressional Budget Office director Douglas Holtz-Eakin and former Office of Management and Budget director James C. Miller III.

Subcommittee Chairman Sen. Tom Coburn (R-OK) set the tone for the hearing with these words of warning to fellow lawmakers:

SEN. TOM COBURN
Last year, the federal government spent $2.5 trillion. We’re on track to spend at least $2.7 trillion this fiscal year. Last year our national debt increased a whopping $554 billion, and it has already increased another $400 billion so far this year. This extra $1 trillion that the federal government now owes, on top of the more than $7 trillion already owed, occurred because Uncle Sam continues to spend beyond his means year after year after year.

Right now, GAO [Government Accountability Office]—Congress’ watchdog agency—estimates that our total debt is nearly 70 percent of the size of our entire economy. By the time our grandkids face the unenviable task of paying off this mountain of debt, GAO estimates that the debt will be almost four times larger than our entire economy. Why? Because if we keep spending twice what we earn, our grandchildren will take every dollar of value created by the economy in one year to pay off the debt, they would still be left with debt three times larger than the economy.

‘An Unsustainable Course’
Clearly, we are on an unsustainable course. Now the question is what to do about it, and that means identifying the source of our fiscal mess. There’s been a lot of finger-pointing. Some claim the economy isn’t booming enough to bring in sufficient tax revenues. But our unemployment rate of 4.7 percent is lower than the average rates from each of the past four decades.

“Most people—even politicians—aren’t crooks by nature. But it never hurts to have transparency.”

Over the past 32 months of consecutive job creation instead of loss, nearly 5.3 million new jobs have been created. Inflation remains low. Some blame big corporations for jacking up prices and making it harder to get as much out of the dollar. But the only thing keeping the quality higher and price of goods and services lower in America is less government meddling in private markets, not more like we see in Europe.

Some blame the tax cuts, but most Americans think that their government ought to be able to chug along just fine after confiscating 25 to 40 percent of their hard-earned income. Some blame the president for not vetoing enough spending bills. That’s like driving drunk, and then blaming the bartender when you wreck your car. The Executive Branch is supposed to carry out the spending directions from Congress.

‘Problem is Us’
The problem is us. Congress holds the power of the purse. The American people expect elected officials to run the government the same way you run a household business—exercising the discipline to live within your means, saving some extra for emergencies and for long-term needs like retirement income and health care. If you fail to do that, and you spend beyond your means, the private market will step in and limit the amount you can go into debt by lowering your credit score and raising your rates.

Congress operates under no such limits. It’s not because limits have never been set. Various budget reforms have passed for decades. But Congress has found ways around each and every one. And when the Senate’s budget rules get in the way, the Senate just “waives” them by a vote of 60 Senators.

That’s 60 of us saying, “We don’t have to live by the rules that American families and businesses live by.” Nobody can take away our credit, because we set our own limit. And when we reach that limit, we just vote to raise it. The latest episode a few weeks ago raised the debt limit to $9 trillion.

‘We Need Radical Reforms’
It’s clear that the answer is not tweaking the rules at the margins. We need radical budget process reforms. But more than that, we need to create an environment—a set of conditions—that helps us live with our rules. It’s easy to break rules when there’s no accountability. One of the key conditions to creating accountability is transparency. Most people—even those who fritter away their allowance and then whine about how there isn’t enough money to buy the important stuff.”

‘Still Not Ready’
Most Members are still not ready to swallow the idea of having to make politically difficult budget decisions on the floor of the U.S. Senate. The purpose of this hearing is to get experts past and present, who know the process well to be able to identify what is a true budget reform versus a sham sound bite intended only to make the 109th Congress look like budget hawks. This can begin an ongoing dialogue about what changes are really needed to restrain Congressional spending.

The most effective way to discuss possible reforms to the current Congression budget process, is to ask the question: “Is the process efficient, accountable, and transparent in the way it appropriates funds?”

Because we’d better figure this out. There’s a rumble growing outside the Beltway. People are fed up with a Congress acting like teenagers who fritter away their allowance and then whine about how there isn’t enough money to buy the important stuff.”
Massachusetts’ Population Leak Influences Gubernatorial Campaign

By Andrew Cline

Take the net departures of all the people who have fled Massachusetts in the past five years, and you would have a city the size of Norfolk, Virginia, nearly 240,000 people in all. Why are they leaving, and how to keep more from following, is an important topic in this year’s Massachusetts gubernatorial campaign.

The South and West of the United States are filling with people fleeing from high-tax, high-cost-of-living states in the Northeast. Much of the rest of the country offers better, cheaper living than the Northeast, and a good example is Massachusetts.

“The South and West of the United States are filling with people fleeing from high-tax, high-cost-of-living states in the Northeast.”

Expensive for Business

Massachusetts has done a good job of shedding its “Taxachusetts” image, but it remains an expensive place to live and do business. Forbes magazine reported in May that Boston was the most expensive place in America to do business. Business costs there are 40 percent higher than the national average, according to economists at Economy.com.

A study released in late May by Barry Bluestone of the Center for Urban and Regional Policy at Northeastern University in Boston, found housing costs in Massachusetts are a major drag on economic growth. The state desperately needs more housing if it is to stem the tide of out-migration and improve its growth prospects, the study concluded.

The New England Economic Partnership concluded earlier in May that Massachusetts’ economic growth through 2010 would be in the bottom tier of New England states.

Candidates Respond

Massachusetts gubernatorial candidates debated in May how to keep residents from leaving for other states. Democratic candidate Deval Patrick proposed creating new high-speed commuter rail between Boston and the satellite communities of Worcester and New Bedford. Fellow Democrat Chris Gabrielli wants to invest $1 billion of taxpayer money in stem cell and other high-tech research. There were various Democratic proposals for raising the minimum wage.

Republican Lt. Gov. Kerry Healey offered very different proposals. She suggested eliminating the “temporary” 3 percent income tax hike passed in 2002, bringing the state income tax down to 5 percent from the current 5.3 percent, and suggested creating incentives to build more housing, offering tax-free savings accounts to first-time home buyers, and cutting the unemployment insurance tax.

Focused on Competition

“Healey is focused on making Massachusetts a more competitive place to live and do business,” said campaign spokesman Nate Little. Healey wants to do that, Little said, by “reducing our highest-in-the-nation business costs, cutting unemployment tax rates, and increasing the housing stock.

“One of the things we’re concentrating on is providing incentives to local governments to increase housing stocks,” Little said. “Her plan is not to force local communities to increase housing, but to provide incentives. It can’t be a one-way street from the state government or the towns. Economic growth in Massachusetts really depends on our ability to provide housing that is affordable for the workforce.”

Healey wants to increase state aid to local governments and streamline the building permitting process. “Permitting can take as long as five years,” Little said. Some towns have cut their permit wait to 180 days, and Healey wants to help local governments duplicate that effort statewide.

In early May the Boston Globe surveyed expatriate Bay Staters to find out why they left. The top two answers were to find a better job and a lower cost of living. Healey’s campaign says her proposals are intended to address both of those issues.

New Hampshire Exemplary

To see what Massachusetts is up against, all one has to do is drive half an hour north of Boston. The Tax Foundation ranked Massachusetts as having the 27th-best business tax climate in the nation this year. Neighboring New Hampshire is ranked sixth-best.

New Hampshire has no sales or income tax, and its per-capita tax burden is nearly $4,000 lower than Massachusetts’. Not surprisingly, New Hampshire’s southernmost communities have boomed with Massachusetts expatriates, and they tend to vote against tax increases.

“Massachusetts gubernatorial candidates debated in May how to keep residents from leaving for other states.”

Anti-Tax Sentiment Strong

Southern New Hampshire is undergoing something of an anti-tax revolt right now. In the past year communities across the southern tier have consistently and overwhelmingly voted for anti-tax candidates and against local spending initiatives.

The conventional wisdom among New Hampshire old-timers is that former Massachusetts residents have turned the state more liberal. At least on spending issues, however, residents of the Massachusetts border communities tend to vote conservatively—often more conservatively than native Granite Staters up north.

Andrew Cline (cline@theunionleader.com) is editorial page editor of the New Hampshire Union Leader.
CONTINUED from left

the hour of 5:00 p.m., on or before the 50th day after the date of convening of the Legislature in first regular session or on or before the 25th day after the date of convening of the Legislature in second regular session.” In the case of the Adams petition, the constitutionally established filing deadline was January 30, 2006.

The Maine Supreme Court ruled on May 4 the petition filing deadline established in the Maine Constitution took precedence over the immensely lower statutory deadline, overturning the lower court ruling.

“Nothing in the [Maine] Constitution requires that petitions be filed within a year of the date of the first signature or invalidates an entire batch of petitions merely because some signatures are too old,” Chief Justice Leigh I. Saufley wrote in the majority decision. “Rather, the [Maine] Constitution leaves initiative proponents free to file petitions when they choose, understanding that any signatures that are more than one year old at filing will not be counted toward their goal.

“When viewed in light of the constitutional scheme,” Saufley continued, “the statutorily imposed one-year deadline for filing petitions is a substantial restriction, directly inconsistent with the circulator’s more flexible options provided by the [Maine] Constitution.”

Could Be Defining Issue

The Taxpayer Bill of Rights currently is the only referendum question appearing on the November ballot in Maine. Political observers believe the measure will be a defining issue in this year’s gubernatorial and legislative races.

There are currently 14 registered gubernatorial candidates. Incumbent Gov. John Baldacci (D) will face challenges from a Republican, a Green, and at least one Independent. In the legislative races, every seat in the Maine House of Representatives and the Maine Senate is up for re-election. Democrats hold a one-seat plurality in the House and a three-seat majority in the Senate.

“[This will be a public debate about whether Maine people want to continue the tax-and-spend status quo policies of the last 40 years, or move Maine towards economic opportunity and prosperity.”

BILL BECKER
PRESIDENT
MAINE HERITAGE POLICY CENTER

John Baldacci
Governor – Maine

National Taxpayers Union Rates Congress

109th Congress
1st Session, 2005

Every year National Taxpayers Union (NTU) rates U.S. Representatives and Senators on their actual votes—every vote that significantly affects taxes, spending, debt, and regulatory burdens on consumers and taxpayers. Unlike most organizations that publish ratings, we refuse to play the “rating game” of focusing on only a handful of Congressional votes on selected issues. The NTU voting study is the fairest and most accurate guide available on Congressional fiscal policies. It is a completely unbiased accounting of votes.

The Taxpayer Score measures the strength of support for reducing spending and regulations and opposing taxation in general. In general, a higher score is better because it means a Member of Congress voted to lessen or limit the burden on taxpayers.

The Taxpayer Score can range between zero and 100. We do not expect anyone to score a 100, nor has any legislator ever scored a perfect 100 in the multi-year history of the comprehensive NTU scoring system. A high score does not mean that the Member of Congress was opposed to all spending or all programs. High-scoring Members have indicated that they would vote for many programs if the amount of spending were lower. A Member who wants to increase spending on some programs can achieve a high score if he or she votes for offsetting cuts in other programs.

A score would indicate that the Member of Congress approved every spending proposal and opposed every pro-taxpayer reform.

NTU believes a score qualifying for a grade of “A” indicates the Member is one of the strongest supporters of responsible tax and spending policies. We are pleased to give these Members of Congress our “Taxpayers’ Friend Award.”

A score qualifying for a grade of “B” represents a “good” voting record on controlling spending and taxes. A “B” grade indicates that the Member voted for taxpayers most of the time, but slightly less than those who attained the grade of “A.”

A score qualifying for a grade of “C” represents a minimally acceptable voting record on controlling taxes and spending. To qualify for a grade of “C,” a Member must have a Taxpayer Score of at least 50 percent. While such a score may be “satisfactory,” there is clearly room for improvement.

We also included pluses and minuses for the grades of “B” and “C” in order to better recognize the differences in the voting records of Members with those grades.

A score qualifying for a grade of “D” indicates the Member has a “poor” voting record on controlling taxes and spending.

A score significantly below average qualifies for a grade of “F.” This failing grade places the Member into the “Big Spender” category.

We analyzed every roll call vote taken during 2005 1st Session of the 109th Congress and selected all votes that could significantly affect the amounts of federal taxes, spending, debt, or regulatory impact. A total of 201 House and 169 Senate roll call votes were selected. We included votes cast on appropriations bills, authorization bills, budget target resolutions, tax bills, amendments, and certain procedural votes that could affect the burden on taxpayers. Votes that simply shifted equal amounts of spending from one area to another were excluded, as were unanimous votes on increasing spending. Also excluded were votes where there was a significant difference of opinion on how to vote to reduce spending.

We believe the number of votes used in the analysis, the objective and nonpartisan weighting of the votes, computerized calculations, and many error checks all combine to ensure the highest possible standards of accuracy.

Although we believe this voting analysis is the most accurate guide available on Congressional fiscal performance, no study of roll call votes can fully evaluate a Member’s overall record. A Member’s committee work, leadership, and effectiveness with other Members also affect his or her influence on the amount of federal spending, taxes, debt, and regulatory impact. Because of the complexity of the calculations and the number of votes involved, we do not have space to reprint the votes of each Representative and Senator here.

A list of the votes used in each study, including the weight assigned to each, is available on request.

John Baldacci
Governor – Maine

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Reichert, D ........................ C- ...............................48%
Gordon, B ....................... D ...............................29%
Ryan, P ........................... B+ ..............................69%
Baldwin, T ...................... F ................................19%
Mollohan, A ................... F ................................18%
McMorris, C .................... B ................................61%
Dicks, N .......................... F ................................16%
Davis, T ........................... C- ...............................49%
Boucher, R ...................... F ................................18%
State Average .................. .49%

UNITED STATES SENATE
ALABAMA
Sessions, J ...................... A ..........................82%
Shelby, R, ................. B ..............................69%
State Average .................. .75%

ARIZONA
Mukravin, L .................. B+ ..............................70%
Stevens, T ...................... B ..............................68%
State Average .................. .69%

ARUBA
Kil, J ......................... A ..........................87%
Mc Cain, J ................... A ..............................78%
State Average .................. .83%

ARKANSAS
Lincoln, B ..................... F ................................17%
Pryor, M ........................ B+ ..............................15%
State Average .................. .16%

CALIFORNIA
Boxer, B ....................... F ................................11%
Feinstein, D .................. D ..............................13%
State Average .................. .12%

COLORADO
Allard, W ..................... A ..........................80%
Salazar, K ..................... F ..............................14%
State Average .................. .47%

CONNECTICUT
Dodd, C ....................... F ................................11%
Lieberman, J ................ F ......................................9%
State Average .................. .10%

DELWARA
Biden, M ...................... F ................................10%
Carper, T ..................... D ..............................22%
State Average .................. .16%

FLORIDA
Martinez, M .................. B+ ..............................70%
Nelson, B ...................... B ..............................16%
State Average .................. .43%

GEORGIA
Chambless, S ................ B+ ..............................73%
Isakson, J ...................... A ..............................77%
State Average .................. .75%

HAWAII
Akaka, D ....................... F ..............................7%
Inouye, D ....................... F ..............................7%
State Average .................. .0%

IDADO
Craig, L ...................... B ..........................69%
Crapo, M ........................ B ..............................69%
State Average .................. .69%

ILLINOIS
Durbin, R ...................... F ..............................4%
Obama, B ...................... B ..............................56%
State Average .................. .5%

INDIANA
Bayh, E ......................... F ..............................12%
Lugar, R ........................ D ..............................61%
State Average .................. .37%

IOWA
Grassley, C .................... B+ ..............................71%
Harkin, T ..................... F ..............................7%
State Average .................. .39%

KANSAS
Brownback, S ................ B+ ..............................75%
Roberts, P ..................... B ..............................65%
State Average .................. .72%

KENTUCKY
Bunning, J ..................... B+ ..............................75%
McConnell, M ................ B+ ..............................75%
State Average .................. .75%

LOUISIANA
Landrieu, M ................ D ..............................23%
Vitter, D ...................... B+ ..............................70%
State Average .................. .46%

MAINE
Collins, S ...................... D ..............................40%
Snowe, G ...................... F ..............................15%
State Average .................. .37%

MARYLAND
Mikulski, B .................... F ..............................5%
Sarbanes, P .................... F ..............................5%
State Average .................. .5%

MASSACHUSETTS
Kennedy, E .................... F ................................7%
Kerry, J ........................ F ..............................7%
State Average .................. .7%

MICHIGAN
Levin, C ...................... F ................................7%
Stabenow, D .................. F ..............................6%
State Average .................. .7%

MINNESOTA
Coleman, N ................. C ..............................51%
Dayton, M ...................... F ..............................8%
State Average .................. .29%

MISSISSIPPI
Cochran, T ..................... B+ ..............................70%
Mississippi .................. .70%

MISSOURI
Bond, C ........................ B+ ..............................69%
Foley, B ........................ B ..............................65%
State Average .................. .66%

MONTANA
Baucus, M ..................... D ..............................23%
Burns, C ........................ B ..............................67%
State Average .................. .45%

NEBRASKA
Hagel, C ...................... A ..............................76%
Nelson, B ...................... B ..............................41%
State Average .................. .58%

NEVADA
Ensign, J ..................... A ..............................82%
Reid, H ....................... F ..............................5%
State Average .................. .43%

NEW HAMPSHIRE
Gregg, J ....................... A ..............................79%
Sununu, J ..................... A ..............................91%
State Average .................. .84%

NEW JERSEY
Corzine, J* ................... F ................................10%
Lautenberg, F ................ F ..............................7%
State Average .................. .8%

NEW MEXICO
Bingaman, J ................ F ................................17%
Domenici, P .................. P ..............................68%
State Average .................. .43%

NEW YORK
Clinton, H ..................... F ..............................9%
Schumer, C .................... F ..............................13%
State Average .................. .11%

ORANGE
Smith, G ...................... C ..............................54%
Wyden, R ..................... F ..............................14%
State Average .................. .34%

PENNSYLVANIA
Santorum, R ................ D ..............................68%
Specter, A ..................... C ..............................56%
State Average .................. .59%

RHODE ISLAND
Chafee, L ..................... D ..............................33%
Reid, J ....................... F ..............................9%
State Average .................. .21%

SOUTH CAROLINA
DeMint, J ..................... A ..............................85%
Graham, L ..................... B+ ..............................74%
State Average .................. .80%

SOUTH DAKOTA
Johnson, T ..................... F ..............................9%
Thune, J ....................... B ..............................63%
State Average .................. .36%

TENNESSEE
Alexander, L .................. B+ ..............................71%
Frist, W ....................... B+ ..............................74%
State Average .................. .72%

TEXAS
State Average .................. .37%

VERMONT
State Average .................. .58%

WASHINGTON
State Average .................. .39%

VIRGINIA
Allen, G ...................... B+ ..............................74%
Warner, J ...................... B ..............................67%
State Average .................. .71%

WASHINGTON
Cantwell, M .................. F ..............................17%
Murray, P ..................... F ..............................7%
State Average .................. .12%

WEST VIRGINIA
Byrd, R ........................ F ..............................10%
Rockefeller, F ................ F ..............................7%
State Average .................. .8%

WISCONSIN
Feingold, R .................. D ..............................20%
Kohl, J ........................ A ..............................94%
State Average .................. .17%

WYOMING
Enzi, R ....................... B+ ..............................72%
Thomas, C ..................... B+ ..............................74%
State Average .................. .73%

SENATE KEY
Score Grade Comments
76% or more A Taxpayers’ Friend
70%-75% B+ 65%-69% B Good
60%-64% B 55%-59% C Fair
50%-54% C 50%-54% C SATISFACTORY
44%-49% C 44%-49% D Poor
39% or less F 0%-39% F BIG SPENDER

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Edited by Diane Carol Bast and Michael Van Winkle
The Heartland Institute

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