Chicago Mayor May Veto ‘Big-Box’ Measure

By John W. Skorburg

Chicago Mayor Richard M. Daley apparently plans to exercise his first veto in 17 years as mayor to overrule a “living wage” mandate passed by the City Council in July. The ordinance was aimed at Wal-Mart, Target, and other so-called “big-box” retailers. One week after the council’s 35-14 vote, Target officials announced

Residents Leave Mich. in Droves

By Michael LaFaive

“Last one to leave, turn out the lights.”

In Michigan during the 1980s this was a frequent one-line joke. If recent trends continue, it will be no joke.

Data from household mover United Van Lines (UVL), released June 30, indicate Michigan has eclipsed North Dakota as the number one “outbound” state in America, with 65 percent of the firm’s Michigan-related traffic moving out of the state. This is the first time in a

We Worked Until July 12 to Pay for Gov’t

By Elizabeth Karasmeighan

The typical American this year worked until July 12 to earn enough gross income to pay his or her share of spending and regulatory burdens imposed by federal, state, and local governments, according to the annual Cost of Government Day (COGD) report issued by Americans for Tax Reform.

“Cost of Government Day report has become a true measure of whether the conservative movement is achieving its goal of shrinking the size of govern-

Florida Repeals Beverage Alcohol Tax

By Ben Jenkins

Florida lawmakers have repealed the state’s beverage alcohol tax, a move that could generate new jobs and millions of dollars in new economic activity.

Gov. Jeb Bush (R) signed into law the permanent repeal of the state’s “by-the-drink” tax on beverage alcohol at all on-premises locations, including restaurants, bars, taverns, and hotels. Experts say the new law, which goes into effect July 1, 2007, could spur growth in Florida’s hospitality industry.

Little Revenue, Big Costs

“The ‘by-the-drink’ tax combined two of the very worst characteristics of onerous taxes,” said state Rep. Fred Brunner (R-Apopka), who sponsored H.B. 7105 to repeal the beverage alcohol tax. “It generated small amounts of revenue but was costly for business and government to administer.”

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Chicago, IL 60603

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- Network Neutrality
  - Ray Gifford, Progress & Freedom Foundation

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### The Heartland Institute's 22nd Anniversary Benefit Dinner

The Heartland Institute's 22nd Anniversary Benefit Dinner begins with a cocktail reception at 5:30 p.m. at the Hilton Chicago Hotel, 720 South Michigan Avenue. Keynote addresses will be delivered by Richard A. Epstein, the James Parker Hall Distinguished Service Professor of Law at the University of Chicago, and Rev. Robert A. Sirico, cofounder and president of the Acton Institute.

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### Ticket Prices

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Illinois County Will Borrow $200M

By Dennis Byrne

For the first time in a decade, America’s second largest county—Cook County, Illinois—has been forced to authorize a multimillion-dollar line of credit to pay current bills. It’s a reflection of what’s happening across America as state and local governments slide deeper into debt despite growing revenues.

Even though state and local tax receipts and other revenues are enjoying handsome growth, state and local government debt ballooned 55 percent in the first half of this decade, according to the Federal Reserve Board.

Cook County commissioners in July authorized an 18-month, $200 million line of credit, at 10 percent interest, to cover an expected deficit of approximately that size. Cook County includes Chicago and its inner suburbs.

“For the first time in a decade, America’s second largest county—Cook County, Illinois—has been forced to authorize a multimillion-dollar line of credit to pay current bills.”

State Stiffs County

County officials say the borrowing is necessary because the state has underpaid the county for spending on Medicaid patients at the county-owned Stroger Hospital, and for other reimbursable expenses.

The state, in turn, faces its own budget predicament. According to Illinois Comptroller Dan Hynes (D), the state’s revenue growth is “strong,” but the state is also borrowing to pay its bills.

Hynes’ periodic financial reports help explain the apparent paradox. Hynes pointed out that as of June 30, the end of Illinois’ fiscal year 2006, “revenues driven by an expanding economy surpassed expectations and spurred a $1.2 billion, or 4.6 percent, growth in base revenues.” Of that, income and sales tax revenues increased $750 million above initial estimates.

Hynes’ accounting of state expenses for FY2005, however, show the state carried a deficit of $3.064 billion into FY 2006, a 22 percent increase over 2004’s deficit of $2.485 billion. Illinois, Hynes noted, hasn’t run a surplus since 1985.

Liabilities Carried Over

Much of that deficit came in deferrals of Medicaid payments owed to Cook and other counties. Under state law, these can be carried over from one year to the next. The amount of so-called Section 25 deferrals more than doubled from the close of FY 2004 to the close of FY 2005—to $2.949 billion from $1.348 billion. Altogether, the “accrued liabilities” rolled over into FY 2006 amounted to $7.581 billion, in a $52 billion budget.

In effect, the state is getting an interest-free ride on the backs of Cook County physicians, pharmacists, and other health care providers. Hynes has pushed for legislation to pay down these accrued liabilities but has been unsuccessful. Rather than pay down the debt, Gov. Rod Blagojevich (D) and the Democrat-controlled legislature continue to create expensive new programs, such as a universal child health care plan. (See “Illinois Lawmakers OK Program to Insure ‘All Kids,’” Budget & Tax News, December 2005.)

“[Illinois] is borrowing as a budgeting tool. In just three years, the state government has nearly tripled its general obligation bonds, to $20.3 billion from $7.6 billion.”

State’s Debt Soars

Hence the state is borrowing as a budgeting tool. In just three years, the state government has nearly tripled its general obligation bonds, to $20.3 billion from $7.6 billion. Blagojevich also has sought to sell or lease Illinois assets, such as the state lottery and state-owned buildings, to help balance the budget. The state is also raiding its state pension system for billions of dollars in order to pay current bills.

Cook County officials say they never saw the problem coming. Barely three months before the Cook County board authorized the $200 million line of credit, chief of staff James Whigham denied the county needed to borrow money to pay day-to-day bills. That was shortly after a weekly business publication, Crain’s Chicago Business, disclosed the county was shopping local banks for a loan. Whigham’s turnaround was met by anger from some board members, who said they had been misled.

“We were arrogantly told everything was OK,” Commissioner Mike Quigley (D) said at a July 7 board meeting. “It wasn’t.”

Months Without Leader

The situation is complicated by an incapacitating stroke suffered by then-Cook County president John Stroger a week before the March Democratic primary, which, in true Chicago style, he won anyway. For months, a seriously ill Stroger was uncommunicado as the board treaded water to give Democratic Party leaders time to maneuver behind the scenes to name a successor. In July the board selected an interim president, and the party leaders named Stroger’s son Todd as his replacement on the November ballot.

The county’s $3 billion budget and its fiscal future remain clouded.

Also murky are the fiscal situations of state and local governments across the nation. A recent Cato Institute report found the federal government isn’t alone in amassing huge debt. While total state and local debt remained steady during the 1990s, from 2000 to 2005 it ballooned from $1.19 trillion to $1.85 trillion.

Dennis Byrne (dbyrne@earthlink.net) is a Chicago-based writer.
State and Local Government Debt Soars

By Chris Edwards

It is well known that the federal government is amassing large amounts of debt, but state and local governments are piling up debt as well. Total state and local debt was stable during the 1990s but soared from $1.19 trillion in 2000 to $1.85 trillion by 2005, an increase of 55 percent. About 39 percent of the total is state debt, and 61 percent is local debt. Most state and local debt takes the form of long-term bonds (“municipal bonds”). Issues of municipal bonds raised an average of $230 billion in new funds between 2001 and 2005, up sharply from the $152 billion average between 1996 and 2000.

Future Revenues Become Debts

There are two main types of municipal bonds: General obligation (GO) bonds and revenue bonds. GO bonds make up about 30 percent of long-term municipal debt, and revenue bonds compose 61 percent.

GO bonds are backed by general taxation and are often subject to constitutional limits. Issues of GO bonds usually need to be approved by voters. Revenue bonds are backed by specific sources of revenue and are usually subject to fewer restrictions. They are financed by receipts of future taxes, fees, lease payments, federal grants, lottery earnings, or tobacco settlement payments. The idea is to securitize expected streams of cash to allow state and local officials to spend now rather than later. The trend to securitize and spend is called “innovative finance” in state budget circles. An industry journal, The Bond Buyer, is full of stories on the latest Wall Street methods to help government officials put their jurisdictions further into debt. A growing trend is to securitize future federal aid for highways, housing, and other items in “grant anticipation” debt.

Federal aid has long spurred over-spending by the states, but such debt innovation is exacerbating the problem. Recent federal legislation has created new ways for states to go further into debt, such as the creation of three types of municipal “tax credit bonds.”

Policies Favor Govt. Debt

Interest payments on municipal bonds are generally exempt from the federal income tax. State and local debt is thus tax-favored over private debt, creating an economic distortion. As a result, debt issued to finance government schools, airports, parking lots, and other facilities is favored over debt to finance similar private facilities. Thus, tax law encourages monopoly government ownership and is prejudiced against private-sector competition and innovation.

The tax advantage for municipal bonds also creates an incentive for private groups to lobby government officials to issue debt on their behalf. In 1986, Congress tried to clamp down on this problem by imposing limits on the issuance of tax-exempt “private activity bonds.” But in a series of tax bills since then, Congress has reversed course and embraced economic micromanagement by creating additional types of tax-favored private purpose debt. Census Bureau data show “public debt for private purposes” is 23 percent of total municipal debt, but the efficient amount of such debt would be zero percent. It makes no sense, for example, that dozens of major sports stadiums have been built with tax-exempt municipal debt while private projects that are the real backbone of the economy, such as oil refineries, must be built on taxable finance.

Debt Has Pitfalls

Governments can finance capital projects by issuing bonds or by using current revenues, called pay-as-you-go financing. For state governments, most capital investment is funded on a pay-as-you-go basis. Governments in a few states, such as Idaho and Wyoming, issue very little debt and seem to do just fine. In theory, it might make sense for governments to finance capital projects with debt, as private businesses often do. But in practice, when politicians are given the power to issue debt, they have an incentive to issue far too much because it allows spending without the political constraint of having to tax current voters. The private interests that benefit from spending encourage officials to issue excess debt, and they push for passage of bond issues at the ballot box in voter referenda.

From the perspective of the average taxpayer, debt financing should be minimized. It is more costly than pay-as-you-go financing because of the interest payments incurred. It also comes with an overhead cost in the form of the large municipal bond industry, which employs tens of thousands of lawyers and finance experts in underwriting, trading, advising, bond insurance, and related Wall Street activities. Another problem with debt is that mixing big government with big finance usually causes corruption. The municipal bond industry has had many scandals. In “pay-to-play” schemes, bond underwriters use bribes or campaign contributions to win bond business from state and local officials. There are federal laws to prevent such abuses, but violations are common. A recent pay-to-play scandal in Philadelphia resulted in criminal sanctions against the city’s treasurer and allegations that the mayor’s office paid out big fees to politically connected bond firms that gave money in exchange for contracts to arrange big debt issues.

Debt Hides Government Costs

High levels of debt make government finances less transparent to citizens. People don’t recognize the high costs of projects that officials are pursuing if they don’t feel the bite of current taxes. And if concerned citizens look into their government’s debt situation, they may find it very difficult to understand. A recent “debt primer” by the State of California is 696 pages long. Perhaps the best reason to start reducing debt is that large financial burdens are looming over the states. Medicaid costs are growing rapidly and breaking state budgets. Pension plans for state and local employees have huge funding shortfalls that could total $700 billion nationwide, according to Barclays Global Investors.

Even more costly may be the generous retirement health care plans promised to state and local workers. An estimate by Mercer Human Resources puts the unfunded costs of those plans at $1 trillion. Finally, disasters such as hurricanes might impose added budget stress on the states in the future.

To budget in a conservative manner, debt loads should be reduced to create room for such contingencies. Right Time Is Now

State and local tax revenues are currently growing strongly, so now is a good time to start reducing debt loads. There is no particular optimal level of government debt, but there should be a strong bias in favor of pay-as-you-go financing for infrastructure because it is cheaper, more transparent, and more prudent given the large costs that face the states in coming years.

Routine capital projects, such as school construction, should be financed on a pay-as-you-go basis. Debt financing is more appropriate for large and unforeseen needs, such as rebuilding after disasters.

“Total state and local debt was stable during the 1990s but soared from $1.19 trillion in 2000 to $1.85 trillion by 2005, an increase of 55 percent.”

State and local governments should cease issuing debt for private purposes. Investments that generate streams of income, such as stadiums, airports, and parking lots should be privatized, not subsidized by issuance of government debt. The federal government should repeal the tax exemption for municipal bond interest, perhaps in exchange for reducing overall tax rates on savings. For their part, citizens need to remember that government debt simply represents deferred taxes and charges, and that they will have to bear the burden sooner or later.

Chris Edwards (cedwards@cato.org) is director of tax policy studies at the Cato Institute. A version of this article appeared in the July 2006 issue of the Cato Institute’s Tax and Budget Bulletin. Used by permission.
Few in Congress Want Spending to Be Reduced, New NTUF Study Shows

By Pete Sepp
Fewer than 1 in 10 members of Congress sponsored legislation last year that would have reduced federal spending, according to a new BillTally report issued by the nonpartisan National Taxpayers Union Foundation (NTUF).

“The federal deficit picture may be rapidly improving due to higher revenues, but Congress’s collective habit of spending, according to a new BillTally report issued by the nonpartisan National Taxpayers Union Foundation, has only begun to show signs of receding,” said NTUF Senior Policy Analyst and BillTally Director Demian Brady.

Could Have Been Worse
Last year House Members introduced 17 bills to raise spending for every bill to cut it. In the Senate the ratio was 31 to 1.

Incredibly, this represents an improvement in fiscal discipline from the last year of the previous Congress, 2003, when the House and Senate ratios were 23 to 1 and 32 to 1, respectively. The analysis found other signs of gradual moderation in Congress’s spending initiatives. A total of 49 representatives and senators sponsored bills whose cumulative effect would reduce federal outlays. Only 16 lawmakers did so in 2003.

The number of members of Congress who backed increases in federal spending of $100 billion or more decreased from more than 150 in 2003 to 90 last year.

Nothing Like 1995 Congress
Nonetheless, these figures are a far cry from 1995, the first year of the 104th Congress, which adjourned in October 1996, when the increase-to-decrease ratios for bill introduction were far more balanced—1.3 to 1 in the House and 1.7 to 1 in the Senate.

In addition, 10 years ago House Republicans and members of both parties in the Senate posted average agenda totals that would have driven down federal expenditures.

The typical House Republican in 2005 proposed boosting the federal budget by a net of $11.6 billion, while the average for a Democrat was $547.4 billion (the highest BillTally has ever recorded for either chamber).

On the Senate side, the partisan gap was smaller—$11.4 billion for the average Republican and $52.1 billion for the average Democrat.

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“Even with the current very tight budget environment, the number of members of Congress who favor cutting spending continues to be low,” Brady said. “And when Congress does cut, it is not by much. The typical House Republican in 2005 proposed boosting the federal budget by a net of $11.6 billion, while the average for a Democrat was $547.4 billion (the highest BillTally has ever recorded for either chamber).

On the Senate side, the partisan gap was smaller—$11.4 billion for the average Republican and $52.1 billion for the average Democrat.”

Top Kansas Candidates Sign Taxpayer Protection Pledge

By Karl Peterjohn
Five candidates for governor, two other candidates seeking statewide offices, and 31 candidates running for the Kansas House of Representatives have signed the 2006 Taxpayer Protection Pledge promising not to raise state taxes if elected in November.

This year KTN also asked candidates a question concerning what they would do if a state’s public schools were short of funds.

“Five candidates for governor, two other candidates seeking statewide offices, and 31 candidates running for the Kansas House of Representatives have signed the 2006 Taxpayer Protection Pledge promising not to raise state taxes if elected in November.”

Karl Peterjohn (k peterjohn@prodigy.net) is executive director of the Kansas Taxpayers Network.

INTERNET INFO


The study provides an in-depth look at the fiscal behavior of lawmakers, free from the influence of committees, party leaders, and rules surrounding floor votes.

Pete Sepp (pressguy@ntu.org) is vice president for communications with the National Taxpayers Union Foundation, the research arm of the 350,000-member National Taxpayers Union.

INTERNET INFO


Americans for Tax Reform is at http://www.atr.org.
July 12
Continued from page 1
ment,” said Grover Norquist, president of Americans for Tax Reform, upon the report’s release July 12. “And this year’s report demonstrates that there is a lot more work to do at the federal, state, and local levels to prevent government from growing out of control.”

Heaviest Burden Since 1995
According to ATR’s analysis, this year’s COGD came one day later than last year’s. This year, Americans worked an average of 192.5 days just to pay for the costs imposed by government.

In 2006, the average American will need to work an additional 11.8 days to pay off its or her share of the cost of government spending compared to 2000, when COGD was June 29. The dramatic jump is attributed to slower economic growth, a recession, increased spending, and corporate scandals.

Unlike the Tax Foundation’s Tax Freedom Day, which uses total tax collections to measure taxpayers’ burden, the Cost of Government Day factors in the cost of government regulations and government spending (the government spends more than it taxes) when calculating the burden on taxpayers. The cost of regulations includes direct costs of complying with the tax code and other regulatory burdens that businesses pass on to consumers.

State, Local Spending Rise
Two-thirds of the cost of government is due to federal spending and regulations, while state and local governments contribute about one-third. For the second year in a row, the cost of state and local government spending rose in 2006, to 44.6 days. After state and local spending declined in 2003 and in 2004, the increases of the past two years have brought spending as a percentage of national income back up to 2001 recession levels.

Taxes Cost Jobs
Even before New Jersey Gov. Jon Corzine (D) pushed through a $1.8 billion tax increase, the Garden State was leading all states in tax increases over the past six years. Since 2002, New Jersey has raised taxes by more than $17 billion, adding $1,951 to each resident’s tax burden.

The state lost 18,700 high-paying jobs in the information, financial activities, and professional and business services sectors from 2000 to 2005, according to “The typical American this year worked until July 12 to earn enough gross income to pay his or her share of spending and regulatory burdens imposed by federal, state, and local governments ...”

“New Jersey’s New Economy Growth Challenges,” a report issued in July by Rutgers University economists James W. Hughes and Joseph J. Seneca, highlights the state’s high-paying service-sector industries are leaving in search of cheaper labor and tax-friendly environments.

In the eight years prior, those sectors added 243,700 jobs in New Jersey, according to the report.

The COGD analysis and the Rutgers study confirm New Jersey’s deteriorating competitiveness is tied to its rising taxes and spending.

Idaho’s Tax-Cut Leader
A polar opposite of New Jersey is Idaho, which reduced taxes more than any other state in fiscal years 2002-2007. Idaho taxpayers saw their taxes drop by nearly $301 million during that period, amounting to a cumulative tax cut of more than $210 per person. Five other states—Arizona, Florida, Hawaii, Louisiana, and Wyoming—also cut taxes during that period.

“The large part of the tax reduction came from cutting 1 percent off of the sales tax,” said Idaho state Rep. Phil Hart (R-Kootenai). “There was pressure to keep the 1 percent intact, but the driving force was that legislators had promised their constituents that it was a temporary tax increase and were afraid of the wrath for not living up to that agreement.”

Thanks to budget surpluses, at least 17 states, including Arizona, Oklahoma, and Rhode Island, cut taxes for the 2005-2006 fiscal year.

State, Local Outlook Grim
Although tax cuts are on the horizon in several states, the overall lesson of this year’s Cost of Government Day report is a warning about future state spending increases.

Economist Dan Clifton, author of the COGD study, explained the implications of the trends detailed in this year’s report:

“With state and local spending relative to national income up 5.2 percent since its low in 1998, states must adjust to reform the pension and health care systems to avoid soaring costs and further tax increases.

Without significant free-market solutions in place, tax increases will see their Cost of Government Day creeping later and later.”

Elizabeth Karasmeighan (ekarasmeighan@atr.org) is state government affairs manager at Americans for Tax Reform.

 Ohio Goes on Five-Year Tax Hike Spree

The Americans for Tax Reform (ATR) Cost of Government Day analysis also examines state spending relative to the states’ economies. Said ATR President Grover Norquist of the most recent report, “The beginning of the study period showed a strong time for state budgets, with revenues up and a bullish stock market. However, when state tax revenues began to slow in 2001, states did not respond by slowing spending. Many states raised taxes to keep spending growth high.”

Ohio increased spending relative to the state’s contribution to national income faster than any other state in the years 1998-2003. David Hansen, president of the Ohio-based Buckeye Institute, is not surprised by the finding.

Grover Norquist

“The fallacy of growing an economy through government spending is perhaps no better refuted than in Ohio.”

DAVID HANSEN
PRESIDENT
BUCKEYE INSTITUTE

“The fallacy of growing an economy through government spending is perhaps no better refuted than in Ohio,” Hansen said. “The state’s spending spree and resulting taxes have left Ohio’s once-powerful economy in shambles.

Jobs, businesses, and especially young adults—the state’s very future—are fleeing Ohio’s tax-and-spend policies for the growth and prosperity afforded elsewhere.”

— Elizabeth Karasmeighan

Connecticut Residents Must Work Longer

Connecticut residents are saddled with the burden of working 18 days longer than the average American taxpayer just to pay for government spending and regulations.

“Connecticut residents are saddled with the burden of working 18 days longer than the average American taxpayer just to pay for government spending and regulations,” said D. Dowd Muska, Philip Gressel Fellow for Tax and Budget Policy at the Yankee Institute for Public Policy. “According to the Federal Deposit Insurance Corporation, the Nutmeg State has had the worst job growth in the country since the early 1990s.

“Government at all levels—local, state, and federal—places immense burdens on the Connecticut citizenry.”

Muska said: “It’s clear that we long ago reached the point of diminishing returns for the very expensive ‘services’ the public sector provides.”

— Elizabeth Karasmeighan
Federal Regulation Costs More than $1 Trillion
Costs are three times higher than federal deficit, study finds

By Clyde Wayne Crews, Jr. and Glidde

In a 2004 report for the U.S. Small Business Administration, W. Mark Crain of Lafayette College estimated annual costs related to federal environmental, safety and health, and economic regulations were a staggering $1.131 trillion. The costs were from price and entry restrictions, environmental regulation, compliance costs, and “transfer” costs such as price supports.

After adjusting the estimate for 2005 by computing the average economic growth over the past five years, the final estimate comes to a whopping $1.127 trillion in hidden costs that never make it into the official federal budget.

Regulatory Costs Dwarf Deficit

To put this number in perspective, budgeted government spending for 2005 was $2.47 trillion, which means hidden regulatory costs are nearly half as much as all on-budget federal spending. Moreover, $1.127 trillion in estimated regulatory costs dwarfs the 2005 federal budget deficit of $318 billion, one of the largest deficits in our nation’s history.

Even the revenues of $894 billion in individual income taxes or the $226 billion in corporate taxes cannot compare to the enormous $1.127 trillion in regulatory costs that remain hidden from public view.

U.S. federal regulatory costs exceed the output of many major national economies. In 2003 Canada had a GDP of $857 billion and Mexico had a GDP of $626 billion.

When Congress debates the federal budget, these hidden regulatory costs can be assessed with the benefit of five years of historical data to illustrate trends. The trends would prove useful to scholars, third-party researchers, and Congress. Such a report would reveal more clearly to the public what we know about regulatory costs... and also what we don’t know about the regulatory state.

Transparency is only part of the solution. Accountability is a prerequisite for control of the situation. Congress should be held accountable for regulation the same way it is for legislation. For too long Congress has avoided its duty to make the tough calls, delegated too much lawmaking to agencies, and failed to require greater benefits than costs from the agencies.

Requiring explicit congressional approval of the agencies’ regulatory decisions would ensure direct congressional responsibility for every dollar of new regulatory costs.

Clyde Wayne Crews (wcrewse@cei.org) is vice president for policy and director of technology studies at the Competitive Enterprise Institute, and is author of “Ten Thousand Commandments: An Annual Snapshot of the Regulatory State,” published in June. Brian Glidden (bglidden@cei.org) is a research associate at the Competitive Enterprise Institute.

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Snapshot of Burdensome Regulation

The Competitive Enterprise Institute’s “Ten Thousand Commandments: An Annual Snapshot of the Regulatory State,” issued in June, found:

- Regulatory costs hit an estimated $1.127 trillion in 2005.
- Regulatory costs are more than triple the 2005 budget deficit of $318 billion.
- Regulatory costs exceed all corporate pre-tax profits, which were $874 billion in 2003.
- Regulatory costs exceed estimated 2005 individual income taxes of $894 billion, and are far greater than corporate income taxes of $226 billion.
- Federal regulatory costs of $1.127 trillion combined with outlays of $2.472 trillion bring the federal government’s share of the economy to 29 percent, compared to 27 percent a year ago.
- Agencies spent $38.3 billion merely to administer and police the regulatory state in 2005. Counting the $1.127 trillion in off-budget costs, that brings the total regulatory burden to $1.165 trillion.
- Agencies reported on 4,062 regulations that were at various stages of implementation throughout the 50-plus federal departments, agencies, and commissions.
- Of the 4,062 regulations now in the regulatory pipeline, 137 are “economically significant” rules that will have at least $100 million in economic impact. Those rules will impose at least $15.7 billion yearly in future off-budget costs.
- The five most active rule-producing agencies—the departments of Treasury, Interior, Commerce, and Homeland Security and the Environmental Protection Agency, with 1,808 rules among them—account for 44 percent of all rules in the Unified Agenda of Federal Regulatory and Deregulatory Actions—more than 1,000 pages of small multi-column print.
- Transparency, Accountability Lacking

Congress could issue a compact and concise report that would not only show the current regulatory costs but also five years of historical data to illustrate trends. The trends would prove useful to scholars, third-party researchers, and Congress. Such a report would reveal more clearly to the public what we know about regulatory costs... and also what we don’t know about the regulatory state.

Transparency is only part of the solution. Accountability is a prerequisite for control of the situation. Congress should be held accountable for regulation the same way it is for legislation. For too long Congress has avoided its duty to make the tough calls, delegated too much lawmaking to agencies, and failed to require greater benefits than costs from the agencies.

Requiring explicit congressional approval of the agencies’ regulatory decisions would ensure direct congressional responsibility for every dollar of new regulatory costs.

Clyde Wayne Crews (wcrewse@cei.org) is vice president for policy and director of technology studies at the Competitive Enterprise Institute, and is author of “Ten Thousand Commandments: An Annual Snapshot of the Regulatory State,” published in June. Brian Glidden (bglidden@cei.org) is a research associate at the Competitive Enterprise Institute.

INTERNET INFO

California Union Gives Up Pension ‘Spiking’

By Anthony P. Archie

A contract recently negotiated between the California Department of Personnel Administration (DPA) and Service Employees International Union (SEIU) Local 1000 provides state workers with a salary cap averaging 2.5 percent over the next several decades. This cap applies only to new hires, it will take effect in the first year.

The arrangement creates an incentive for employees to accept promotions and then abruptly retire. This leverages the higher salary of the new position into the pension payout and leaves taxpayers to pick up the tab, a big one.

Spiking Adds $100M Annually

Pension spiking is common in California and costs taxpayers an estimated $100 million a year. Add the cost of training replacements for those retirees, and the taxpayers’ burden is much higher. A 2004 report in the Sacramento Bee highlighted the problem by exposing several state employees who took on new positions for the sole reason of inflating their pension benefits. One ex-California Highway Patrol officer stayed in his final position for only six months and still qualified for the higher benefit calculation, which produced a 17 percent jump in his already-generous annual pension.

The costly peak-salary rule that enabled a fatter payout for the officer is unique to the Golden State. The other 49 states avoid such spikes by taking several years’ salary into account in the final pension calculation. Most states apply a three-year average of annual salary. Others, including Indiana and Minnesota, require a five-year average.

California has gone without a salary average formula since 1990, when a backroom deal put the peak-salary rule in place. That rule was enacted as part of an accord between the state worker unions and the administration of Gov. George Deukmejian (R).

The administration, eager to enact new pension accounting rules with little legislative resistance, dangled the peak-salary measure as a peace offering. The union accepted, and the truce was made. The accounting bill, amended to include the peak-salary rule, was buried through the legislature without debate. The bill passed with virtually no opposition.

Only Tom McClintock (R-Thousand Oaks), a state Assembly member at the time, voted against it. McClintock, a Republican, is currently a state senator and candidate for lieutenant governor in this November’s general election.

‘Must Stop Expensive Promises’

Noted state Assemblyman Keith Richman (R-Chatsworth), “California politicians must stop making expensive promises to their employees that taxpayers can’t afford to keep.” Adoption of a now-universal pension-spiking protection is a baby step on the long road to sustainable, fiscally responsible public employee retirement benefits. “Without significant leadership and meaningful reforms,” Richman said, “the cost of retiree benefits will continue to erode California’s commitments to education, public safety, transportation, health care, and other vital public services.”

Richard Rider, chairman of San Diego Tax Fighters, also believes the pension-spiking reform is a small but positive step for California. He cautions, “Since it applies only to new hires, it will take decades to take full effect, while our problems are overwhelming us today. Hopefully county and local governments in our state will adopt this reform as well.

“But even this minor concession will be fiercely fought by the unions,” Rider continued, “who will expect some blackmail payoff in exchange for them allowing the reform to go through.”

SEIU’s members approved the new act by a 94 percent vote and say they are thoroughly satisfied by the outcome. “It’s a solid contract for us, and for the people we serve,” said SEIU Local 100 President Jim Hard. “We achieved our goals.”

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

Providence Wants to Close Pension System

City moves toward defined contributions

By Cathleen F. Crowley

Providence, Rhode Island Mayor David N. Cicilline announced a plan to close the city’s pension system to new workers and move them into a defined contribution plan, such as the 401(k) accounts offered at many private companies.

If approved, Providence would be the first Rhode Island municipality to close its pension system in favor of a defined contribution system. Current retirees and employees would still receive their pension benefits.

Cicilline called it a bold and fair move that is desperately needed. “By adopting these measures and continuing to deal with the debt that has accrued in the past, we can end the pension crisis in the city of Providence,” Cicilline said (July 27) at a news conference, flanked by City Councilman John J. Igloi and several members of the mayor’s Pension Review Commission.

Large Unfunded Liability

The city’s retirement system has a $616 million unfunded liability, which represents the money needed to pay benefits to current and future retirees over the next several decades. Though union leaders sat on the Pension Review Commission, none attended [the] announcement. The head of the municipal workers union said he agrees with most of the recommendations, while the president of the firefighters union accused the administration of attempting to legislate benefits that should be negotiated.

Teachers are not affected by the proposal because they belong to the state pension system.

Changes in Retirement Age

The proposed pension reform would:

- Enroll new employees into a defined contribution plan beginning July 2007.
- Change retirement requirements for 800 employees who have worked for the city for less than five years. The minimum retirement age for municipal employees would increase from 55 to 65. Police and firefighters would still be able to retire and receive 50 percent of their pension after 20 years of service, but for those who retire before reaching the 20-year mark, the minimum age would jump from 55 to 60.

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from 55 to 60.
• Increase penalties for workers who retire early.
• Cap pensions of disabled retirees who earn other income. Any income above that cap would be subtracted from their pension payment. Only a few Rhode Island communities cap disability pensions, and even fewer enforce it.
• Require retirees with disability pensions to annually submit documentation from a doctor certifying they are still disabled.
• Create strict deadlines that would require the Providence Retirement Board to rule on disability pensions in a timely fashion.

Substantial Savings
According to the city’s pension analysts, the reform measures would save the city $120 million over 28 years.

Igliozzi called the plan a blueprint for financial stability.

“It will still provide the kind of benefit the hardworking and dedicated employees deserve, but in a way that is fair to its employees as well as the taxpayers,” Igliozzi said.

The city still needs to take several steps to address the unfunded pension liability. City officials intend to pursue a pension obligation bond, which requires approval from the General Assembly and liability. City officials intend to pursue a pension obligation bond, which requires approval from the General Assembly and even fewer enforce it.

Igliozzi said that the pension system was too easily abused.

“I think it’s the wave of the future,” Igliozzi said. “I think public employers need to get out of the pension business.”

Iannazzi and Panciatici, president of the police union, both served on the commission and support the defined contribution plan.

“I think that’s the wave of the future,” Iannazzi said. “I think public employers need to get out of the pension business.”

Iannazzi and Panciatici said that the pension system was too easily abused. Previous administrations, for example, borrowed money from it, made poor investments, and underfunded it.

“The commission did a yeoman’s task of dissecting the benefits we have and securing the fund into the future years,” Iannazzi said. “We looked at how we can make things better and assure that there is a system 30 years from now, and I think we’ve done that.”

Union Objections
Nonetheless, they believe the pension changes must be negotiated in collective bargaining.

Paul A. Doughty, president of the firefighters union, said he does not support a defined contribution plan. He said arbitrators have ruled in favor of the firefighters union in several recent pension benefit decisions, and now the mayor is trying an end-run.

“When he couldn’t win in that forum, he’s trying to win in this forum, in the court of public opinion,” said Doughty. “The proper forum for this is arbitration and negotiation.”

All three union leaders objected to changing the retirement rules for current employees. They said increasing minimum age requirements and placing heavier penalties for retiring early is like changing the rules in the middle of the game.

As for negotiations, John C. Simmons, the city’s director of administration and chief negotiator, said, “We believe there are some parts that might be subject to negotiations and others are not.”

“We predict he’ll get rave reviews.
General Taxes Out, ‘Sin’ Taxes Are In

By Sandra Fabry

With state coffers flush with cash, general tax increases have been off the table in most states. However, proponents of higher taxes are being aided by special interest groups that want new or higher excise taxes on “morally ambiguous” products such as alcoholic beverages, cigarettes, and other tobacco products.

The list of states seeking tax increases on cigarettes and other tobacco products, and on beer, wine, distilled spirits, or combinations thereof, has grown long. In light of mounting evidence that higher alcohol taxes are not effective in reducing underage drinking or driving while intoxicated (see “Higher Alcohol taxes on cigarettes and other tobacco products,” October 2005), alcohol tax increases seem to be a tougher sell than higher cigarette taxes, particularly in times of fiscal plenty. Thus, while most alcohol tax increases quickly ran dry earlier this year, cigarette tax increases ranked high on the agenda in many states and passed in several.

Higher Health Spending Promised

Several of the cigarette tax hike proposals were tied to measures expanding health care spending. That swayed enough legislators to secure passage in Vermont (an increase of 80 cents per pack) and Hawaii (20 cents per pack for each of the next six years).

National taxpayer advocate Grover Norquist thinks these proposals are especially dangerous.

“Trying to expand a state’s Medicaid program through raising the cigarette tax is a doubly harmful idea,” Norquist said, “because it would not only have negative economic implications from the tax hike component, it also would feed an already monstrous and broken Medicaid system.”

Revenues will not always go to the programs they are supposed to fund. Hawaii’s tax hike, for example, was passed against the background of a $600 million budget surplus and promises from sponsor Sen. Roz Baker (D-Maui) that the increased revenue would help fund a cancer research center. But only one cent per pack of the revenue generated by the tax hike will be directed to the center, with the majority of the new revenue flowing into the state’s general fund.

Texas and New Jersey also passed cigarette tax increases. Texas did so as part of an overall revenue-neutral tax shift, while New Jersey’s cigarette tax increase was part of an overall tax increase on Garden State taxpayers.

Some States Defeat Hikes

In other states tobacco tax increases were defeated.

South Carolina legislators defeated several cigarette tax increase measures, one of which also sought to expand the state’s Medicaid program. Pro-taxpayer legislators rejected all of them.

The Wyoming legislature also considered a significant tobacco tax increase this year, but the effort was defeated. The state has a $1.8 billion surplus.

Iowa Speaker Blocks Hike

Iowa Gov. Tom Vilsack (D) renewed his call to raise the cigarette tax by 80 cents per pack and added a proposal to raise the tax on beer. Realizing House Speaker Christopher Rants (R-Sioux City) would not allow a vote, Vilsack tried to change tactics halfway through the legislative session by saying he was open to using cigarette tax increase revenue to offset the “cost” of a tax cut passed by the House of Representatives. House Republicans responded by saying no offset was needed to pay for the tax cut. Rants’ leadership spared taxpayers from a tax increase this year.

Rants said he believes the numbers prove him right.

“Even though tough choices remain, the bottom line is that Iowa’s economy is growing at a rapid rate and the legislature was right to demand additional tax relief while at the same time refusing to go along with the governor’s tax increases and requests for massive supplemental appropriations,” Rants wrote on his blog at http://www.rants.us.

In Indiana, Gov. Mitch Daniels (R) earlier this year surprised many people by calling for a 25 cents per pack cigarette tax increase, but he quickly withdrew his proposal when it became clear there was much opposition to his plan.

In late July Daniels once again took many by surprise when he renewed the call for higher cigarette taxes.

Tourists Are Tax-Hike Targets

Tourists have become victims of new tax-hiking schemes. Several states, for example, have been looking at rental car tax increases.

An effort to allow localities to raise rental car taxes was vetoed in June by Florida Gov. Jeb Bush (R), who stated in his veto message, “While the inclusion of voter approval as a prerequisite to implementing the new tax, these taxes will be paid disparately by tourists visiting Florida, consequently creating taxation without representation.”

Taxpayers in North Carolina were not so fortunate, as the legislature passed a bill that allows Mecklenburg County to raise the rental car tax by 5 percent.

— Sandra Fabry

Referenda Push Hikes

Special interest groups and health activists have been eyeing the November ballots to push tobacco tax increases. Measures to hike tobacco taxes are on ballots in Arizona, California, Missouri, and South Dakota. The largest hike of all would be in California, where the proposal is to raise the cigarette tax by $2.60 a pack.

Paul Gessing, former director of government affairs at the National Taxpayers Union and now president of the Rio Grande Foundation, a state-based think tank in New Mexico, explained one reason for the current popularity of excise tax increases.

“Such narrowly targeted taxes have become increasingly popular in recent years because legislators can raise significant revenue without raising taxes on a majority of their constituents, most of whom do not smoke or rarely drink,” Gessing said. “There is no question that states plan to continue raising taxes on alcohol and tobacco products, but as tax levels reach a tipping point and revenue growth is reduced, states will look for new ways to levy excise taxes on smaller groups.”

Spending Restraint Needed

Jason Mercier, budget analyst at the Evergreen Freedom Foundation in Washington, said, “Legislators need to get out of the social engineering business and instead enact a uniform tax policy that treats all citizens equally. Cherry picking ‘sin’ taxes and other revenue-raising schemes deemed to be politically safe ignores the most important equation in budget sustainability: Spending restraint and prioritization.

“There will never be enough revenue to satisfy the spending demands of special interests,” Mercier said. “Targeting one class of citizens to pay for the programs of another is not only shortsighted budget policy, it’s morally wrong.”

Sandra Fabry (sfabry@atr.org) is state government affairs manager for Americans for Tax Reform.
Private Judgments + Public Policy = Sin Taxes

‘Everything you don’t want in a tax,’ author says of sin taxes

There’s no question many government officials like “sin” taxes as a revenue source. Other lawmakers, and many of their constituents, like sin taxes because they impose a financial penalty on activities they dislike.


Budget & Tax News Managing Editor Steve Stanek recently spoke with Mooney on the policy questions surrounding sin taxes.

An interview with Christopher Z. Mooney
By Steve Stanek

Stanek: Taxes on alcohol, cigarettes, gambling, and even gasoline seem to keep going up. What do you think when you see these tax hikes?

Mooney: People say these things are bad for public health, or they are bad for you as an individual, therefore we’re going to tax you. They have a rationale that says not only are we going to do this because you’re doing bad things, we’re doing this to help you. It will reduce your sinful behavior.

You don’t have to drink if you don’t want to. You choose to smoke. You choose to gamble. So you can engage in the sinful behavior and pay the tax or not engage in the sinful behavior and not pay the tax. The voluntary nature of these decisions makes it extremely attractive to raise these taxes, whereas raising the sales tax or income tax is like poison, even though these taxes are far more efficient and far more fair.

Stanek: Does the potential effectiveness of sin taxes in reducing harmful behaviors conflict with the goal of raising tax revenue?

Mooney: It is getting to the point that it’s having an impact. People are quitting smoking, smoking less, or moving to less-expensive substitutes. Big brands are losing market share, and they can cut back on what they pay the states under the Master Settlement Agreement.

[Editor’s note: In 1998 major tobacco companies and 46 states signed a Master Settlement Agreement, requiring the largest tobacco companies to make annual payments to the states to cover the “societal costs” of smoking. The companies have been paying about $6 billion annually, but earlier this year an arbitrator ruled that because their share of the tobacco market has fallen as a result of people turning to substitutes from companies that are not part of the agreement, the major tobacco companies may reduce annual payments to the states by about $1.2 billion. States are appealing the ruling.]

Stanek: Earlier this year we had an article on the arrests of several people in Michigan who police say were smuggling cigarettes and other items and sending millions of dollars to Hezbollah and other Middle East terrorist groups.

Mooney: We know that high tobacco taxes increase smuggling. Tobacco taxes have a huge variation from state to state. There is also variation in taxes on alcohol and motor fuel, but tobacco easily lends itself to smuggling. First, there are the huge disparities in taxes, and a high per cubic inch dollar value. And cigarettes don’t go bad quickly. It’s easy for the average person to go to North Carolina, where the cigarette tax is relatively low, fill up the trunk with cigarettes, and go to New York or Michigan (where cigarette taxes are much higher) to resell them.

Stanek: You mentioned other taxes are fairer than sin taxes. Why don’t politicians oppose sin taxes because of their unfairness?

Mooney: The obvious thing about sin taxes is they are easy to put on. They’re not huge generators of income; they don’t rise with inflation; they’re regressive. They’re everything you don’t want in a tax. But in the case of sin taxes, expert opinion and rational assessment of objectives and criteria come smashing into political considerations. In this case, political considerations are going to win out. Vote for an income tax increase, and that will haunt a politician for 20 years.

Gambling taxes are not as regressive as some of the other sin taxes, though there is a lot of argument on that point. We think gambling taxes fall mainly on the middle class.

Stanek: Why do you think there is so much gambling now?

Mooney: Attitudes toward gambling is a whole issue itself. We used to think it was a sin. When I was a kid in Wisconsin, we couldn’t send in for contests on the backs of cereal boxes. Now before you hit Kenosha [a Wisconsin city on Lake Michigan just north of the Illinois state line] there are casino billboards, and in Kenosha there is a greyhound racing track.

Legalized gambling was one of the biggest changes in state policy in the last 25 years of the twentieth century. State lotteries went nuts. One of the problems, and we’re seeing it in Illinois, is there apparently is a limit to the amount of revenue we can expect from gambling—and thank God for that. If people were going to be gambling unlimited amounts, that would be a scary prospect for humankind. Lottery sales are flattening. Casinos are no longer the goose that laid the golden egg. They are cannibalizing themselves in terms of market share.

States are not just allowing this to occur; they are now in the business of promoting gambling, and that raises public policy questions. Do we want state government promoting gambling? That’s a question in my mind.

There are those who argue there are social problems with gambling, and even after setting aside whether that is true, the tax issues and revenue issues with legalized gambling are complex and difficult for state governments to deal with in terms of what kind of rate should we set? How should we set up licenses? Should we auction off gambling licenses? And how should we regulate the industry? Gambling was such a big change, such a fast change, it was thought it would be like other sin taxes: Free money. It has not turned out to be that easy.

Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News.
The ‘Sin’ in California is Overspending, Tax Critics Say
By Sam Batkins

Californians this November will have the opportunity to vote on two new “sin” tax proposals devised by various interests who say the state needs more money. Taxpayer groups say the problem is too much spending.

“The idea that California needs more taxpayer money is ludicrous,” said John Berthoud, president of the National Taxpayers Union. “State revenues have skyrocketed in recent years. From Fiscal Year 2003 to 2004, revenue increased by 17 percent (more than $34 billion), and from 2002 to 2005, revenue increased by more than 16 percent. Sacramento needs to address its spending priorities and unfunded liabilities before the state even thinks of tapping taxpayers’ wallets.”

Proposition 86 would triple California’s tobacco tax, giving the state the highest state-level cigarette tax in the nation. The other sin tax proposal is Proposition 87, a state-level cigarette tax in the nation. The highest state-level cigarette tax, at $2.46 per pack. Rhode Island currently has the highest state-level cigarette tax, at $2.16. California smokers.

Proposition 86 would put the state on its Web site, “Prop 87 will reduce gasoline and diesel usage by 25 percent over time. It does this by providing cash rebates to consumers who buy cleaner, alternative fuel vehicles and incentives for renewable energy technology development. It expands the use of solar and wind power and other renewable fuels and renewable technologies.”

However, oil industry spokesmen say the tax will shift oil production to other areas of the country. And as with declining cigarette sales, declining demand for gasoline and diesel fuels would result in less tax revenue.

The solution to California’s budget challenges is spending restraint, not more tax dollars, according to Berthoud.

“If California had enacted reasonable spending limits tied to inflation and population growth in the last decade, taxpayers could have saved close to $50 billion, or $1,400 per capita,” Berthoud said. “Once these revenue-raising proposals are defeated, voters just might implement an effective, broad-based budget restraint proposal next November.”

Sam Batkins (sbatkins@ntu.org) is a policy analyst and deputy press secretary for the National Taxpayers Union.

Cindy Nee, State Representative, Indiana

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Twinkies, Smokes, and Fries: The Fallacies of Sin Taxes

By Rev. Robert A. Sirico

The search for government revenue in fiscally tight times tempts legislators to raise revenue by imposing unusually high excise taxes on cigarettes, liquor, gambling, and so on. Recently, we’ve seen new and creative measures aimed at fatty snacks, fast food, and soft drinks—proposals familiarly known as “Twinkie” taxes.

This type of charge, often called a “sin tax,” appeals to voters who view them as a way of discouraging consumption of certain objectionable products. Yet the temptation to impose sin taxes is one that should be resisted for both economic and moral reasons.

“Before we empower the government with what are, effectively, pastoral responsibilities, we ought to consider fundamental issues regarding the interplay between private morality and public policy.”

The consequences of a sin tax are often the very opposite of those intended by its designers. Rather than increasing revenue, the sin tax can reduce it. Rather than discouraging what are regarded as morally questionable behaviors, the sin tax can make them more appealing. Rather than making what are perceived to be internal costs of the behavior in question, the sin tax can increase them and expand them to society as a whole.

People Pushing Back

Sometimes society pushes back. Last year, Detroit Mayor Kwame Kilpatrick proposed a 2 percent tax on sales at fast-food restaurants to help close a $300 million budget deficit. The tax would have been added to an existing 6 percent city tax on restaurants. Detroit residents howled, and the mayor’s new sin tax proposal wilted like a soggy, cold French fry.

Tobacco taxes are perhaps the most familiar example of a sin tax today. Taxes on cigarettes and other tobacco products have spurred a seemingly unlimited appetite for new revenue by government officials. A November ballot measure in California calls for a 300 percent increase in the state’s tobacco tax.

While it is true these taxes are promoted as a means of reducing or stamping out smoking, state officials are eager to reap a bono in new revenue from smokers who simply won’t be deterred by the government.

California’s tax increase would create the highest levy on cigarettes in the nation. Proposition 86, as it is known, would increase the tax on cigarettes to $3.47 a pack from the current 87 cents. If passed, the average price of a pack of cigarettes in California would rise from $4 to $6.55.

But critics point out that these onerous taxes, even when they can be proved to reduce smoking, lead to smuggling across state lines, gang activity, and hardships on smaller retailers.

Confusing Vice and Crime

Sin taxes fail to consider the crucial distinction between vice and crime. Before we empower the government with what are, effectively, pastoral responsibilities, we ought to consider fundamental issues regarding the interplay between private morality and public policy.

When the state treats a certain behavior as sinful and thus taxable, it assumes certain moral categories. It says the taxed behaviors are less morally justifiable than other forms of behaviors, and therefore more justifiably taxed. The moral reasoning behind such a tax is clearly evident. Punishing wrongdoers is among the usual lists of powers appropriate to government. What is not obvious is why the central state puts itself in the business of determining the sinsfulness of certain behaviors given that the taxed sins are not directly invasive of other peoples’ rights.

Actions and Consequences

This is not to say the behaviors targeted by the sin tax are “victimless crimes,” as many civil libertarians might be inclined to say. That phrase confuses more than it clarifies. All actions have consequences outside the individual. A person who drinks excessively victimizes his family to the extent that liquor distracts from his family life. A smoker who contracts cancer imposes sometimes terrible burdens on his family. Even sins with no identifiable earthly victims are sometimes objectionable when judged by the eternal law. There is no such thing as an action without consequence. It is possible that certain behaviors that are not direct attacks on property or person are in need of correction—but they are not best addressed by civil authority, as St. Thomas Aquinas pointed out long ago.

The question often comes down to the means of discouraging sin, not whether the sin itself is harmful. We must be careful not to confuse opposition to sin taxes with moral relativism. Rather the question is: Do we want to charge politicians and bureaucrats with sanctioning sins in areas that are morally ambiguous? Or should this task be left to community, family, church, and tradition—social institutions that are often more trustworthy in determining the limits of nonviolent behavior?

The Rev. Robert A. Sirico ([info@acton.org](mailto:info@acton.org)) is president and co-founder of the Acton Institute for the Study of Religion and Liberty, in Grand Rapids, Michigan ([http://www.acton.org](http://www.acton.org)).
Florida

Continued from page 1

An economic analysis by the Distilled Spirits Council (DISCUS), a trade association representing the makers and marketers of distilled spirits in the United States, concluded the repeal could generate more than $30 million in new economic activity for the state, and consequently the creation of more than 400 jobs.

According to DISCUS, taxes in Florida already made up 52 percent of the average cost of a 750 ml bottle of spirits, Florida is one of only two states (the other is North Carolina) that had applied a per-volume tax on on-premises beverage alcohol product sales.

‘Dumb Idea, Bad Policy’

“The tax was a dumb idea and bad policy from the beginning,” Brummer said. “Brummer said. The tax was implemented about 15 years ago.

“Currently affecting 21,646 Florida businesses, the drink tax is an expensive and cumbersome tax to collect,” said FRLA President Carol Dover before Bush's veto. “Today the alcohol beverage surcharge costs Florida’s restaurants and hotels more to collect than is remitted to the state.”

Much-Needed Break

DISCUS Vice President Jay Hibbard, whose organization worked closely with Florida’s hospitality industry to support the repeal, commended Bush and the legislature for repealing the tax.

“Florida’s restaurants, bars, hotels, and tourist attractions are going to get a much-needed break with the repeal of these regressive taxes,” Hibbard said. “Lower taxes stimulate the economy, which creates jobs. With all of the money Florida puts into its hospitality industry, it just makes good business sense not to balance the budget on the back of the hospitality industry.”

Ben Jenkins (bjenkins@discus.org) is director of communications at the Distilled Spirits Council of the United States.

Ohio, Other States

Do Big Business in Booze

Statetnet.com’s Capitol Journal on July 31 summarized a Cleveland Plain Dealer article on Ohio’s liquor operations as follows:

“Ohio, like 17 other states and a couple of counties in Maryland, is what's known as a ‘control state,’ meaning the distribution of hard liquor within the state’s borders is the exclusive province of the government. That turned out to be a very beneficial arrangement for the Buckeye State this past year, when it sold more booze than it had in any other 12-month period since 1989. According to the Ohio Division of Liquor Control, 9.9 million gallons of the stuff was doled out, generating $638.8 million in sales.

“You could almost hear state officials clinking their glasses over the state’s share of the till, $138 million. ‘Some people look at it as good and bad,’ said superintendent of liquor control Rae Ann Estep, but ‘we’re generating more revenue for the state, and all Ohioans benefit from that whether they drink alcohol or not.’

‘Ohioans aren’t the only ones with something to drink to. Estep said alcohol consumption was ‘up not only in Ohio, but also in the other 18 controlled liquor states.’

‘Matthew Ballish, a senior instructor at the Professional Bartending School in Cleveland, tendered one possible explanation for the liquor boom. ‘Vodka-based martinis are on a huge rise because of all of the flavored vodkas out there right now,’ he said. Meanwhile, he added, ‘the old standbys gin and tonic, rum and Coke aren’t going away.’

‘A second and equally occupation-centric opinion was offered by psychiatrist Dr. Kenneth Miller, who runs a practice in suburban Columbus. ‘Certainly with economic times and the current conditions of traumatic crises across the world ... people tend to seek out ways to calm their anxiety and depression,’ he said.’
Job Losses Mount

It is no secret that Michigan’s economy has been hurting. From January 2004 to January 2006 the Great Lakes State was the only state not hit by Hurricane Katrina to lose jobs, according to the Mackinac Center for Public Policy, a Midland, Michigan-based research institute.

“Data from household mover United Van Lines (UVL), released June 30, indicate Michigan has eclipsed North Dakota as the number one “outbound” state in America, with 65 percent of the firm’s Michigan-related moving traffic out of the state.”

The Mackinac Center reports Michigan’s per-capita Gross State Product (GSP) ranking among the states has fallen to 35, dropping from 16 in 1999. From 2004 to 2005 the state’s GSP percentage growth was last in the nation. In other words, the state and its people are growing poorer relative to the rest of the nation. That Michigan’s citizens have less wealth means they have less to spend on housing, and many are leaving for greener pastures and attempting to sell their homes in the process.

North Dakota, Louisiana, New Jersey, and Indiana round out the top five states in terms of outbound traffic, according to UVL, while Oregon, North Carolina, Nevada, South Carolina, and Georgia are the top inbound states.

Michael LaFai(e (lafai(e@mackinac.org) is director of the Morey Fiscal Policy Initiative at the Mackinac Center for Public Policy.

According to the Office of Federal Housing Enterprise Oversight (OFHEO), Michigan finished dead last among the states in home price appreciation from the first quarter of 2003, 2.8 percentage points in 2004, and 3.0 percentage points in 2005. During the first half of 2006 the outbound rate was up 1.1 percentage points over the 2005 rate.

It may not be long before the Great Lakes State eclipses its 1981 record of 66.9 percent of UVL traffic moving out of state. Michigan had double-digit unemployment that year.

Responses to a new question added to this year’s UVL data indicate 57 percent of all U.S. moves are job-related.

This moving trend appears to be affecting other important sectors of the state’s economy.

High Taxes Spur Michigan Migration

Ohio University Prof. Richard K. Vedder has written more than 100 migration studies during more than 40 years of work as an economist. Recently, he said the data support Michigan residents increasingly believe the quality of life is, or soon will be, better in places other than Michigan.

“This should be a wake-up call for public policy to take actions to make the state more attractive, like lowering the price of government services via reduced taxes,” Vedder said.

Vedder has repeatedly found a negative correlation between taxes and migration—even when many other variables, such as sunshine, are factored into the analysis. In other words, there is a correlation between high taxes and people moving out of a state.

“This is confirmed by a study of how the elderly respond to different incentives, “Elderly Migration and State Fiscal Policy: Evidence from the 1990 Census Migration Flow.” Writing in the National Tax Journal in March 2001, economists Karen Smith Conway of the University of New Hampshire and Andrew J. Houtenville of Cornell University found the elderly skewed to states “with a long history of low taxes and minimal government interference. To the extent that state government expenditure per person is higher, the likelihood people move to that state is less.”

Business Tax Huge Burden

In the most recent legislative session the Michigan legislature debated doing away with the Single Business Tax (SBT), which is highly complex and can result in businesses paying taxes even when they make no profit. According to advocates of SBT reform or elimination, reducing the SBT could help stem the flow of residents to other states by making Michigan more attractive to job providers.

Early this year Michigan lawmakers passed a plan to speed the elimination of the SBT, but Gov. Jennifer Granholm (D) vetoed the bill. Under current law the SBT will expire in 2009 and “Michigan Governor Vetoes Repeal of ‘Jobs-Killing’ Tax, Budget & Tax News, June 2006.”

Leon Drolet (R), a commissioner in southeast Michigan’s Macomb County, is one official who would like to do away with the SBT. He also opposes replacing the $1.9 billion in net revenue the SBT generates with a new tax.

“You don’t remove cancer cells and ask what to put in their place,” said Drolet. “The best way for Michigan to overcome competitive disadvantages such as cold weather and its hostile labor climate is to dramatically reshape tax policy. Killing the SBT will announce that Michigan has reopened for business.”

Experts Question Higher Spending

But Prof. Richard Vedder of Ohio University contends economic growth is adversely affected by higher education spending.

In Going Broke by Degree: Why College Costs Too Much, Vedder reports on statistical analyses he performed on the relationship between spending on higher education and the economic growth enjoyed by states. He found a negative correlation: The more a state spends on universities, the slower the rate of economic growth. Vedder also found a small negative correlation between state higher education spending and migration. In other words, contrary to Rothwell’s claims, the more Michigan spends on higher education the greater the likelihood people may leave the state, according to Vedder’s analysis.

“The best way to keep Michigan’s economy moving is to substantially reduce the size and scope of state government and substantially reduce the cost of doing business in Michigan,” Vedder said.

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Labor unions are conducting rallies in cities across the country in anticipation of a decision by the National Labor Relations Board (NLRB) dealing with the definition of supervisors. Some union leaders claim the decision could take from 8 million Americans the right to join a union and bargain collectively.

Three court cases collectively known as the Kentucky River cases have forced the NLRB to rework the definition of supervisor. The key case is NLRB v. Kentucky River Community Care, which the U.S. Supreme Court decided on a 5-4 vote in May. The NLRB had used a flawed analysis of the supervisory status of six “charge” nurses at a Kentucky hospital. The other cases involved “charge” nurses in a nursing home facility and “lead men” and “loaders” in a manufacturing plant.

Plain Meaning Ignored

The court ruled the NLRB had ignored the plain and simple meaning of the language of the National Labor Relations Act (NLRA) in favor of a definition that included in collective bargaining units people who obviously had supervisory responsibilities. The Act bars supervisors from participating in bargaining units.

Labor groups fear a new definition will broaden the number of workers considered to have supervisory positions. Business groups support a more expansive definition.

The NLRB decision is expected to be announced this fall, though there is no deadline for a ruling.

A decision by the NLRB clarifying the definition of supervisors could have a significant effect in the public sector because more than 36 percent of local, state, and federal employees are union members. In the private sector, barely 8 percent of all employees are union members.

Definition Dates to 1935

When Congress enacted the NLRA in 1935 it excluded “any individual employed as a supervisor” from its coverage. The reasoning, in the context of the labor relations climate of the era, was that supervisors represented management and it would be inconsistent to require management to engage in collective bargaining with supervisors.

The NLRA defines a supervisor as “any individual having authority, in the interest of the employer, to hire, transfer, suspend, lay off, recall, promote, discharge, assign, reward, or discipline other employees, or to direct their grievances, or effectively to recommend such action, if in connection with the foregoing the exercise of such authority is not of a merely routine or clerical nature, but requires the use of independent judgment.”

The distinction harkens back to an industrial era when there were clear lines of responsibility. Industrial workers, many of whom lacked much in the way of education, did exactly what they were told to do, exactly as they were told to do it. Little or no independent judgment was involved. Supervisors told them what to do, made sure they did it, kept track of how much the statistics and conformed company policy.

Changing Rules Muddy Roles

Much has changed in the past 80 years. The confrontational model of relations between unions and management has evolved into a more cooperative model that deals with employees as individuals rather than union members. A higher proportion of jobs require educational attainment and professional certification. The advent of technology has eliminated multiple levels of management. Employees have gained increased responsibility for how their work is done and for supervising the work of others.

Hence, a decision by the NLRB bringing its definition of supervisors into compliance with the language of the NLRA could have consequences for employer-employee relations far beyond the scope of the NLRA.

Most public-sector bargaining laws were modeled on the NLRA, and many of them adopt the NLRA’s definition of supervisor virtually word for word and exclude them from coverage. These situations can differ greatly from state to state and even among government units within a state.

In most of the states that have enacted public-sector collective bargaining laws, most public-sector bargaining laws were modeled on the NLRA, and many of them adopt the NLRA’s definition of supervisor virtually word for word and exclude them from coverage. These situations can differ greatly from state to state and even among government units within a state.

In most of the states that have enacted public-sector collective bargaining laws, the states are comprehensive, covering all levels of government. In other states, however, separate statutes have been enacted covering municipal employees, public school employees, state employees, etc.

Definition Differs by State

This isn’t without some nuances. The Ohio public-sector bargaining law, for example, uses the NLRA language but then says, “Employees of school districts who are department chairpersons or consulting teachers shall not be deemed supervisors.” Ohio law uses the NLRA language but then specifies, “All school superintendents, assistant superintendents, principals and assistant principals shall be deemed to be supervisory employees.”

Rather than exclude supervisors from coverage under the NLRA, New York’s Taylor Act excludes “managerial” employees and then puts strict limits on the definition of “managerial” so as to extend coverage of the Taylor Act to employees with supervisory responsibilities, which would be excluded in many other states. In 2005 public-sector union density in New York state was the highest in the nation at 68.9 percent, compared to a national average of 36.5 percent.

Other states’ public-sector bargaining laws take a different approach. For example, in Connecticut supervisors aren’t excluded from coverage of the collective bargaining law, but the law provides, “no unit shall include both supervisory and nonsupervisory employees.” This means there must be a unit for supervisors and another for nonsupervisors. Public-sector union density in Connecticut was 63.5 percent in 2005.

Public Safety Supervisors Limited

The question of including supervisors in collective bargaining units is even more complicated in police and fire departments because of the historical development of unionism in those activities. In most public safety departments only the highest officials are not bargaining unit members.

The Ohio law noted above is typical. It provides, “With respect to members of a police or fire department, no person shall be deemed a supervisor except the chief of the department or those individuals who, in the absence of the chief, are authorized to exercise the authority and perform the duties of the chief of the department.”

This often leaves the heads of such departments relatively powerless to exert managerial control.

By David Denholm


david[at]psrf.org

is president of the Public Service Research Foundation, an independent, nonprofit organization that studies labor unions and union influence on public policy.

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### Public-Sector Workforce Unionization

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<tr>
<th>State</th>
<th>Percent of Public-Sector Workforce in Unions</th>
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<td>New York</td>
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State of the Unions
A review of union news, labor reform, and research findings

By Ryan Bedford

Paycheck Protection in the Balance

Lawsuits challenging the constitutionality of “paycheck protection” are gaining national attention.

Following a ruling from Washington state’s supreme court permitting the union to spend dues on politics without members’ permission, Washington state’s attorney general and the National Right to Work Legal Defense Foundation joined the U.S. Supreme Court in June. In May the state’s attorney general supported a number of free-market members’ dues on political donations. In June the state’s highest court struck down a law forbidding unions to spend members’ dues on political campaigns. In May the state’s highest court struck down a law forbidding unions to spend members’ dues on political campaigns. In May the state’s highest court struck down a law forbidding unions to spend members’ dues on political campaigns.

Utah’s ban on political payroll deductions is also in limbo. In May the state’s highest court struck down an unconstitutiona law forbidding unions to spend members’ dues on political donations. In June the state’s attorney general, supported by a number of free-market organizations, appealed to the Tenth Circuit Court of Appeals.

Source: “Union Can Use Dues for Politics: Court,” http://heartland.org/Article.cfm?artId=19267

Federal Financial Reports Apply to Union Affiliates

In August, the D.C. Circuit Court of Appeals said the U.S. Department of Labor may require state affiliates of national unions to comply with federal financial reporting regulations. The reports will help state employees hold their unions accountable in jurisdictions that do not already have such regulations.

Source: The Appeals Court opinion is available online at http://pacer.caed.uscourts.gov/docs/common/opinions/200608/05-5218a.pdf

NEA Benefits from Teacher Perks

Los Angeles Times reporter Kathy M. Kristof revealed the National Education Association collected nearly $50 million in 2004 for pushing underperforming annuities, life insurance, and other financial products on its 2.7 million members.

The New York teachers’ union was investigated by that state’s attorney general for covering up a similar program and agreed to a settlement in June. The agreement includes more transparency in the marketing of financial products.

New York State United Teachers received $3 million a year for endorsing annuities that carried fees and expenses nearly three times higher than the cost of many popular competing investments. The union allegedly tried to conceal from its members an arrangement with ING Group to sell the annuities.


Unions Losing Ratification Elections

March and April 2006 were dreadful months for union growth. In March, the National Labor Relations Board conducted only 139 representation elections—fewer than the average of 151 for the previous five months. In April, only 128 elections were held, and unions won only 60 percent of them. April also saw losses lose 19 of 25 decertification elections.


Nocturnal Union Bosses

In the darkness of closed negotiation sessions, outrageous demands by union officials remain hidden from the public, according to recent reports. In “Let the Public In” and “A Culture of Complaint,” the Hoover Institution concluded collective bargaining is taking public education in an unsustainable direction. The system can be fixed, the reports say, by applying to collective bargaining negotiations the same “sunshine” laws that apply to other public business.

In “Strike Phobia: School boards need to drive a harder bargain,” the American Enterprise Institute and Brookings Institution contend, “While productive negotiations require the confidence to float ideas without fear that they will appear in tomorrow’s headlines, greater transparency would force both the union and management to justify their demands in the face of public scrutiny.”


“[T]he National Center for Policy Analysis notes labor union officials are the main proponents of minimum and prevailing wage policies, which increase unemployment, reduce benefits and competition, and hurt low-wage earners.”

Will Courts Mandate School Choice?

A novel class-action lawsuit was filed in July in New Jersey by Education Excellence for Everyone (E3) and the Alliance for School Choice on behalf of 12 children attending chronically failing public schools. The plaintiffs and their parents are seeking the right to leave their failing schools—taking their per-pupil state funding with them—and find a better education in successful public or private schools.

The named plaintiffs of the suit, Crawford v. Darcy, represent more than 60,000 students attending 96 schools in 25 public school districts in 16 New Jersey counties.


Wage Policies Hurt Workers

In “The Negative Effects of the Minimum Wage,” the National Center for Policy Analysis notes labor union officials are the main proponents of minimum and prevailing wage policies, which increase unemployment, reduce benefits and competition, and hurt low-wage earners.

the company would pull out of a 32-acre shopping mall on the city's South Side and suggested they may also abandon a North Side shopping center. A few days later Lowe's announced it would hold off building two planned home improvement stores in Chicago. Officials at both store chains said their plans could change again, depending on what ultimately happens with the ordinance.

Wal-Mart officials also said they may reconsider plans to build new stores in Chicago.

Daley Wonders Who's Next?

Daley, who has never vetoed an ordinance since being elected mayor in 1989, hinted he would veto the big-box measure.

Thirty-four votes are needed to override a mayoral veto, and the ordinance passed with 35 votes. Daley has until September 13 to issue a veto.

"It affects a big box today," Daley told reporters immediately after the City Council vote. "Does it affect someone with 50,000 square feet tomorrow? Or 25,000? Next week is it going to be some-thing else?"

The ordinance would take effect in 2007. Any retailer with $1 billion in national sales and a store 90,000 square feet or larger would be forced to pay employees wages that will climb to $10 an hour, and another $3 an hour in health benefits by 2010. Afterwards, minimum pay would climb annually to match cost-of-living increases. The federal minimum wage is $5.15 an hour. Illinois' state minimum is $6.50 an hour.

Communities Fear Impact

Chicago Sun-Times columnist Mary Mitchell reported the views of many of the city's out-of-work minority residents in a July 23 column.

"Without a doubt, every worker deserves a living wage," Mitchell wrote.

"But the big-box ordinance is a bomb that is being dropped on a community that can least survive the damage. If Wal-Mart or Target pull out [of Chicago], it's the people who are already living outside of the American dream who are going to suffer."

Two days later, in a news conference with Daley, Bishop Arthur Brazier, pastor of the Apostolic Church of God in Chicago, said much the same thing.

"No one is interested in salary or start-ing point," said Brazier. "All they want is jobs. When you say a living wage and a person has no wage, it doesn't strike their heart."

Minorities Will Suffer: Mayor

"This is going to hurt the minority com-munity," Daley said at the news confer-ence. "This is basically redlining. This deals with economic development in the African-American community."

Heartland Institute President Joseph Bast concurred.

"Chicago's anti-Wal-Mart law has nothing to do with helping the poor or minorities, since it saws off the bottom rungs of the economic ladder that mil-lions of people climb each year on their way to better-paying jobs," Bast said. "It has everything to do with the growing political clout of groups created specifically to advance organized labor's agen-da."

"In a move that could result in the first veto in Chicago Mayor Richard M. Daley's 17-year tenure, the Chicago City Council on July 27 voted to mandate 'living wages' and benefits for employees of so-called big-box retailers."

Labor Unions Back Law

Labor unions were the main supporters of the ordinance. Chicago Federation of Labor President Dennis Gannon told the Sun-Times he doubts Target would turn its back on $58 million in city subsidies at the North and South Side projects. He said Target’s threats are merely scare tactics.

"It’s a corporate strategy by Target and whoever else to try to hold a gun to people’s heads and say, ‘If you don’t back off, this is what we’re gonna do,’” Gannon told the Sun-Times for an August 4 article. "I still believe they’re going to come. There’s value to this marketplace."

In a news conference, Daley said unions and allied groups engaged in scare tactics of their own by threaten-ing to run candidates against aldermen who opposed the measure.

Stores, Jobs in Jeopardy

The big-box ordinance would affect not only potential new stores that would have been built in Chicago by Wal-Mart and Target, but existing stores such as Costco, Sears, Home Depot, Knmart, Menards, Value City, and others on the Chicago Gold Coast on North Michigan Avenue.

According to the Chicago Department of Planning and Development, at least 18 retailers operating more than 40 stores in the city would be affected by the ordi-nance.

"I’m not as disappointed as the thousands of job seekers who would have had an opportunity for employment,” said David Vite, president of the Illinois Retail Merchants Association (IRMA).

Lawsuit Possible

The IRMA board of directors has given Vite the authority to “look into potential legal action” because of the discrimina-tory stance of the ordinance in applying only to certain large retailers. For example, the revenues of drugstore operator Walgreen’s exceed $1 billion nationally, but the company would not be affected by the ordinance because it does not have any Chicago stores larger than 90,000 square feet.

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 implementa-tion in 1996, second only to Wyoming among all fifty states. The welfare rolls in Chicago’s 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.

MacDougal’s extraordinary journey shows the way for the rest of the nation and proves 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.

**Make a Difference**

Gary MacDougal
A Spectacular Breakthrough in the Fight Against Poverty

Make a Difference is both a compelling memoir and convincing proof that we now know important answers to help solve America’s poverty problem—without spending any more of the taxpayers’ money.

Author Gary MacDougal spent years working in Illinois inner cities and rural communities—talking with “ladies in the backyard” befriending community leaders, and working with local organizations in his quest to find solutions that have long eluded academic researchers and politicians. As chairman of the Governor’s Task Force on Human Services Reform, MacDougal was the catalyst for the complete overhaul of the state’s welfare system, which included the largest reorganization of state government since 1900.

Available for purchase through The Heartland Institute’s online store at www.heartland.org or call 312/377-4000.

A limited number of COMPLIMENTARY COPIES are also available to elected officials and their staff.

Send your request by fax on office stationery to 312/377-5000.

John W. Skorburg (skorburg@heartland.org) is visiting lecturer in econom-ics at the University of Illinois at Chi-cago and associate editor of Budget & Tax News.
Proposed Mass. Wind Farm Generates Intense Criticism

By Frank Conte

The developer of a proposed “wind farm” off the Massachusetts coast dodged a bullet recently when Congressional leaders removed a provision from a Coast Guard reauthorization bill that would have granted Massachusetts Gov. Mitt Romney (R) veto power over the project.

Romney opposes developer Jim Gordon’s Cape Wind project, which would erect 130 giant electricity-generating wind turbines in Nantucket Sound. Romney has said he would veto the plan if given the chance.

Cape Wind needs permits from 17 federal and state agencies, under the National Environmental Policy Act and the Massachusetts Environmental Policy Act, before construction may begin. Company plans call for operation to begin in 2009.

Although the project recently overcame a political hurdle, financial and economic ones remain. Despite high oil and gas prices, questions remain about the financial viability of the wind power project.

Condemned As ‘Giant Boondoggle’

Writing in The Wall Street Journal recently, William Koch, noted energy industrialist and 1992 winner of the America’s Cup yacht race, explained his decision not to invest in the project. He said Gordon’s numbers do not add up.

“When you do the math, it is clear that every other form of power generation would be cheaper to build, produce more electricity and at a consistent rate, and save consumers more money,” wrote Koch, whose Oxbow Corporation operates a number of alternative power plants. “When you consider the costs and risks of an offshore wind farm, and the fact that New England does not need more power, the project becomes nonsensical, a giant boondoggle for the benefit of one developer.”

WILLIAM KOCH

OXBOW CORPORATION

Would Exploit Huge Subsidies

If energy-savvy private investors like Koch are questioning Cape Wind’s financing, why does the developer think he can succeed? The answer lies with federal and state governments eager to subsidize alternative energy projects.

A study released in May by the Beacon Hill Institute at Suffolk University finds Cape Wind’s wind farm would confer above-average profits on its developer thanks to hundreds of millions dollars in public subsidies.

In its analysis, the institute found the developer, Cape Wind Associates, would receive a 25 percent return on equity, 2.5 times the historical average for all corporations, due entirely to the subsidies.

David G. Tuerck, executive director of the Beacon Hill Institute, noted, “What we found was quite remarkable. Cape Wind stands to receive subsidies of between $731 million to 1.3 billion in present-value terms.”

Multiple Subsidies Offered

If, as planned, the wind plant nears completion in 2008, Cape Wind would be looking forward to receiving three subsidies at different stages over the 25-year life of the project: federal production tax credits, Massachusetts “green” credits, and a tax break through the accelerated depreciation feature of the federal tax code.

Because these subsidies vary in size and timing over the life of the project, it is necessary to compare them in “present-value” terms, Tuerck notes.

Money Better Used Elsewhere

While it would not pay royalties for generating electricity on public land, as do offshore oil and gas producers, Cape Wind would pay taxes to federal, state, and local governments.

Taxes over the lifespan of the project would have a present value of $151 million in 2008. Subtracting this amount from the $950 million in subsidies leaves a “net subsidy” of $851 million. Yet it is the $731 million “gross subsidy” before taxes that seems most germane to the question: What would Cape Wind cost taxpayers and electric ratepayers?

Businesses that generate average or above-average profits for their investors ordinarily pay taxes on those profits without the benefit of any subsidies. Had the $950 million that Cape Wind would invest in this project been invested elsewhere, there would have been a similar contribution to the tax rolls without the need for any public subsidy, Tuerck notes.

“Before the project gets approval, taxpayers and ratepayers should know what they will have to pay in subsidies so that Cape Wind can provide for a very small fraction of the region’s energy needs,” said Tuerck. “We suspect that they will be surprised to discover just how much they have to pay.”

Frank Conte (fconte@beaconhill.org) is director of communication and information services at the Beacon Hill Institute at Suffolk University.

Cape Wind Has Powerful Critics, Supporters

The Cape Wind project has powerful opposition, including Massachusetts Gov. Mitt Romney (R) and the Bay State’s senior Democrat senator, Edward M. Kennedy. An environmental group, the Alliance to Protect Nantucket Sound, also has worked against the project.

This summer Kennedy and allies in the U.S. Senate attempted to short-circuit the project by ensuring legislation that would require the governor’s approval of the wind farm. If he had been granted such powers, Romney would have stopped the wind farm plan.

After pressure from members of Congress who threatened to scuttle the entire Coast Guard reauthorization bill, however, Kennedy assented to a compromise that gives the Coast Guard—not the governor—regulatory review over the wind farm proposal.

Kennedy, a boating enthusiast who spends summers at his Hyannisport home, contends the wind farm would be a navigational hazard and a threat to Cape Cod’s vibrant tourist economy. That worry is shared by Massachusetts Sen. Edward M. Kennedy.

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Massachusetts Gov. Mitt Romney opposes the wind farm proposed for Nantucket Sound.

local fishermen, chambers of commerce, and the real estate industry.

Grid Operator Backs Project

Supporters of the project argue the wind farm would generate 170 megawatts of electricity to a high-cost region. ISO New England, a not-for-profit corporation that runs the region’s power grid, expressed support for Cape Wind in a letter to federal regulators earlier this year.

“Our region is in need of both new generation sources and a diversification of its generational base,” wrote ISO New England Vice President Stephen Whiteley. “This is important for both the economy and electric system reliability.”

The project would generate about 2.5 percent of the electricity used by Massachusetts, or 1 percent of that used by all of New England.

Polls Show Support

According to some polls, the project enjoys public support. Several environmental groups, including the Conservation Law Foundation and the Sierra Club, also support the project. A poll in May by the Civil Society Institute, a public policy think tank in Newton Centre, Massachusetts, found 81 percent of adults statewide and 61 percent of Cape Cod residents supported the Cape Wind project. Only 14 percent opposed it.

Another poll, by the College of Marine Studies at the University of Delaware, found high-income residents were the least likely to support Cape Wind.

— Frank Conte

By Frank Conte

The developer of a proposed “wind farm” off the Massachusetts coast dodged a bullet recently when Congressional leaders removed a provision from a Coast Guard reauthorization bill that would have granted Massachusetts Gov. Mitt Romney (R) veto power over the project.

Romney opposes developer Jim Gordon’s Cape Wind project, which would erect 130 giant electricity-generating wind turbines in Nantucket Sound. Romney has said he would veto the plan if given the chance.

Cape Wind needs permits from 17 federal and state agencies, under the National Environmental Policy Act and the Massachusetts Environmental Policy Act, before construction may begin. Company plans call for operation to begin in 2009.

Although the project recently overcame a political hurdle, financial and economic ones remain. Despite high oil and gas prices, questions remain about the financial viability of the wind power project.

Condemned As ‘Giant Boondoggle’

Writing in The Wall Street Journal recently, William Koch, noted energy industrialist and 1992 winner of the America’s Cup yacht race, explained his decision not to invest in the project. He said Gordon’s numbers do not add up.

“When you do the math, it is clear that every other form of power generation would be cheaper to build, produce more electricity and at a consistent rate, and save consumers more money,” wrote Koch, whose Oxbow Corporation operates a number of alternative power plants. “When you consider the costs and risks of an offshore wind farm, and the fact that New England does not need more power, the project becomes nonsensical, a giant boondoggle for the benefit of one developer.”

WILLIAM KOCH

OXBOW CORPORATION

Would Exploit Huge Subsidies

If energy-savvy private investors like Koch are questioning Cape Wind’s financing, why does the developer think he can succeed? The answer lies with federal and state governments eager to subsidize alternative energy projects.

A study released in May by the Beacon Hill Institute at Suffolk University finds Cape Wind’s wind farm would confer above-average profits on its developer thanks to hundreds of millions dollars in public subsidies.

In its analysis, the institute found the developer, Cape Wind Associates, would receive a 25 percent return on equity, 2.5 times the historical average for all corporations, due entirely to the subsidies.

David G. Tuerck, executive director of the Beacon Hill Institute, noted, “What we found was quite remarkable. Cape Wind stands to receive subsidies of between $731 million to 1.3 billion in present-value terms.”

Multiple Subsidies Offered

If, as planned, the wind plant nears completion in 2008, Cape Wind would be looking forward to receiving three subsidies at different stages over the 25-year life of the project: federal production tax credits, Massachusetts “green” credits, and a tax break through the accelerated depreciation feature of the federal tax code.

Because these subsidies vary in size and timing over the life of the project, it is necessary to compare them in “present-value” terms, Tuerck notes.

Money Better Used Elsewhere

While it would not pay royalties for generating electricity on public land, as do offshore oil and gas producers, Cape Wind would pay taxes to federal, state, and local governments.

Taxes over the lifespan of the project would have a present value of $151 million in 2008. Subtracting this amount from the $950 million in subsidies leaves a “net subsidy” of $851 million. Yet it is the $731 million “gross subsidy” before taxes that seems most germane to the question: What would Cape Wind cost taxpayers and electric ratepayers?

Businesses that generate average or above-average profits for their investors ordinarily pay taxes on those profits without the benefit of any subsidies. Had the $950 million that Cape Wind would invest in this project been invested elsewhere, there would have been a similar contribution to the tax rolls without the need for any public subsidy, Tuerck notes.

“Before the project gets approval, taxpayers and ratepayers should know what they will have to pay in subsidies so that Cape Wind can provide for a very small fraction of the region’s energy needs,” said Tuerck. “We suspect that they will be surprised to discover just how much they have to pay.”

Frank Conte (fconte@beaconhill.org) is director of communication and information services at the Beacon Hill Institute at Suffolk University.

Cape Wind Has Powerful Critics, Supporters

The Cape Wind project has powerful opposition, including Massachusetts Gov. Mitt Romney (R) and the Bay State’s senior Democrat senator, Edward M. Kennedy. An environmental group, the Alliance to Protect Nantucket Sound, also has worked against the project.

This summer Kennedy and allies in the U.S. Senate attempted to short-circuit the project by ensuring legislation that would require the governor’s approval of the wind farm. If he had been granted such powers, Romney would have stopped the wind farm plan.

After pressure from members of Congress who threatened to scuttle the entire Coast Guard reauthorization bill, however, Kennedy assented to a compromise that gives the Coast Guard—not the governor—regulatory review over the wind farm proposal.

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