Voters Reject Spending Caps

By J.D. Tuccille

Voters in Maine, Nebraska, and Oregon unequivocally rejected proposals on their November 7 ballots to restrict growth in state government spending.

By varying margins, residents of those three states cast their ballots against initiatives that would have limited annual state spending increases to the rate of inflation plus increases in state population, a formula known as P+I.

While disappointed by the results, backers of the ballot measures vowed to refine their approach and renew efforts to bring fiscal restraint to their state governments.

Property Rights Initiatives Win in Nov. 2006 Landslides

Voters in nine states pass measures to curb gov’t abuse of eminent domain

By Leonard C. Gilroy

Besides Democrats and anyone hoping for gridlock in Washington, the big midterm election winners were homeowners in the nine states that passed initiatives protecting property rights and reining in government’s power to take homes and businesses.

Those initiatives were sparked by the U.S. Supreme Court’s controversial 2005 ruling in Kelo v. New London. The ruling gave state governments a green light to use eminent domain to take private property and turn it over to developers for “economic development” purposes.

Traditionally, eminent domain was used only to acquire private land for clearly defined public uses such as roads, parks, and public buildings. Kelo opened the door for government to take private property.

Public Incensed

Most Americans were incensed that governments could arbitrarily evict people from their homes, businesses, and churches simply because more local tax revenue could be generated if the properties were redeveloped as condos, offices, and hotels.

Kelo opened the door for government to take private property to increase local tax revenue.

Minneapolis Lifts Cap on Taxi Licenses

By Nick Dranias

Minneapolis Mayor R.T. Rybak (Democratic-Farmer-Labor) has signed reforms to the city’s taxi ordinance that remove the government-imposed cap on the number of taxis legally operating within city limits.

The new ordinance, signed October 12, will increase the number of taxicabs allowed on the streets of Minneapolis.

Railroad Seeks $2.3 Billion Federal Loan

By John W. Skorburg

Sen. John Thune (R-SD) has added language to a federal railroad bill to enable the Dakota, Minnesota & Eastern Railroad Corporation to secure a $2.3 billion loan from the federal government, more than twice the size of the Chrysler Corporation bailout in 1979.

The loan would fund part of a $6 billion project by the railroad to rebuild 600 miles of track and add 260 new

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CAPS p. 6
Need a Speaker with a Crystal Ball?

Brian Wesbury is The Heartland Institute’s senior fellow for economics and chief investment strategist for Claymore Advisors, LLC in Lisle, Illinois. He is one of the nation’s most widely cited authorities on interest rates, economic trends, trade, and government policy.

The Wall Street Journal ranked Wesbury the nation’s number one U.S. economic forecaster in 2001 and USA Today ranked him a top 10 forecaster in 2004. He is a regular contributor to the Wall Street Journal’s editorial page and is regularly featured on CNBC and Bloomberg TV. He was dubbed “Chicago’s most prominent New Era Economist” by the Chicago Tribune.

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Local Institutions, Attitudes Crucial to Small Businesses: NFIB Poll

By Holly Wade

Small business owners consider local institutions and attitudes toward enterprise to be key factors contributing to a small firm’s success, according to a new National Federation of Independent Business Small-Business Poll on local business climates.

The poll was released in October. Half of those surveyed felt local governments made little effort to boost entrepreneurs.

Nearly two-thirds of the owners surveyed, 65 percent, think their local community has a favorable business climate. Characteristics most valued by Main Street are community support, people working together, a strong customer base, constant growth and expansion in the area, a close-knit community, little government interference, opportunity, diversity, and quality of life.

More than two-thirds of the business owners agreed that, in their own locality, a true community spirit exists. A local business community that works closely together and a local school system that works cooperatively with business groups were each cited by 55 percent of the owners surveyed as important factors in creating a good business climate.

Community Support Valued

Community spirit received the most favorable assessment as an element key to the success of small businesses. Fifty-two percent of respondents agreed that bankers and investors go out of their way to help local businesses, including those trying to start a business.

Community groups and organizations also were ranked favorably by 52 percent of those polled. Local news media outlets fared well, too.

Survey respondents said among the characteristics they valued least in a community were government interference and regulation, the cost of doing business and taxes, lack of support or encouragement, and resistance to change.

“Small business owners consider local institutions and attitudes toward enterprise to be key factors contributing to a small firm’s success ...”

Citizens’ Attitudes Viewed Favorably

“Typically, those who own and operate America’s small firms view the attitudes of local citizens in a favorable light even if they see the local government as an obstacle,” said NFIB Senior Research Fellow William J. Dennis.

Three-fourths of the business owners surveyed, for example, believe their local business community open to newcomers, and nearly two-thirds view their community as placing importance on the responsibility of the individual to manage his or her own life.

But a majority believes young people do not receive the encouragement necessary to be independent and start their own small enterprise.

Local Conditions Crucial

The study delved into key community issues that affect small firms, including the role local institutions play, values and attitudes, and the decisions that determine business location. Of those surveyed, 86 percent of businesses are still located in the community where they were founded.

“By the beginning, most businesses operate and market their business in a relatively small geographic area,” said Dennis. “That means the local business climate for a small firm can be critical to a small business owner’s success or failure.”

Spirit Is Key

Local communities and institutions are starting to realize what’s at stake.

Nearly one-fourth of the small business owners surveyed will plan or consider a significant expansion of their business. Most, 59 percent of those considering expansion, said they plan to do so within their own community.

Of those who are looking to locate elsewhere, half noted that business imperatives were pulling them away, while one-fourth said the local business climate was pushing them out.

Holly Wade (holly.wade@nfib.org) is a policy analyst for the National Federation of Independent Business.
Unfunded State and Local Government Health Costs Reach $1.4 Trillion

By Chris Edwards and Jagadeesh Gokhale

State and local government retiree health benefits are underfunded by $1.4 trillion nationwide, according to our review of data for 27 jurisdictions. This underfunding comes on top of state and local government bond debt that has soared to $1.9 trillion, and state and local pension plans that are underfunded by about $700 billion.

All of these liabilities represent a looming threat to taxpayers and indicate the need for major reform of government benefit plans and other spending activities.

State and local governments put aside assets to pre-fund their pension plans, and thus the level of underfunding can be eased if plan assets rise in value. By contrast, retiree health benefits provided by state and local governments to follow when reporting on the finances of their health plans and other post-employment benefits (OPEB).

To comply with those rules, many jurisdictions are examining their unfunded health costs, but there has been no accurate data available on total costs nationwide.

$135,313 for Each Employee

Some jurisdictions have made public their estimates of unfunded retiree health costs, which are projections of future costs measured on a present value basis. The accompanying table summarizes data we found for 16 states and 11 local governments. For each jurisdiction, we calculated the unfunded health costs per active employee in the related health plan.

The average of unfunded health costs for the sampled governments was $135,313 per employee. We used this average to make a national estimate of unfunded state and local retiree health costs. If the average of $135,313 per worker is representative of the total state and local workforce that receives retiree health benefits, it indicates a total unfunded cost of $1.4 trillion.

There are 15.9 million state and local workers in the United States. About 10.3 million, or 65 percent, are covered by employer health plans during retirement.

“State and local government retiree health benefits are underfunded by $1.4 trillion nationwide ... on top of state and local government bond debt that has soared to $1.9 trillion, and state and local pension plans that are underfunded by about $700 billion.”

Fiscal Binds

The large funding gaps in retiree health and pension plans are putting state and local governments in a fiscal bind. If governments adopt no reforms, worker retirement costs will create a rapidly increasing drain on state and local budgets. That, in turn, would put pressure on governments to raise taxes—a losing strategy in today’s competitive global economy.

Another option is for states to issue bonds to convert some of their unfunded obligations into explicit debt. Many states have issued debt to partly cover future pension costs, and some are planning to do so for unfunded health costs.

That increases transparency, but it does not cut overall liabilities, and it limits the flexibility to cut excessive benefits going forward.

Savings Systems, Benefit Cuts

A better option is to convert traditional pension and retiree health plans into individual savings-based systems so that workers pre-fund their own retirements.

Two states, Alaska and Michigan, have moved to savings-based (known as defined-contribution) pension plans for new employees. For pension plans, there are often legal hurdles to surmount before benefits can be cut. But most governments have substantial flexibility in cutting health benefits for workers and retirees.

State and local governments typically have much more generous health benefit plans than those in the private sector. Federal data show the average cost of health benefits provided to state and local workers is $3,91 per hour worked, which compares to an average of just $1,72 in the U.S. private sector. While 65 percent of governments provide health benefits to retirees, only about one-quarter of large private businesses do.

Chris Edwards (cedwards@cato.org) is director of tax policy studies at the Cato Institute. Jagadeesh Gokhale (jgokhale@cato.org) is a senior fellow at the Cato Institute. A version of this article appeared in the October 2006 issue of Cato’s Tax & Budget Bulletin, available online at http://www.cato.org/pubs/tbb/tbb-0925-40.pdf.
Proposed Spending Limit Fails in Pennsylvania

By Grant R. Gulibon

What had seemed a promising effort to limit state spending growth in Pennsylvania fell short in the 2005-06 session of the Pennsylvania General Assembly. Lawmakers adjourned without enacting the Taxpayer Fairness Act (TFA).

“The financial imperative of slowing state spending should be obvious to all,” said state Rep. Sam Rohrer (R-Berks), chairman of the Commonwealth Caucus, a group of Pennsylvania state legislators who have consistently worked to restrain spending. “The simple indexing of [spending] growth to economic growth is one simple way to avoid future tax increases and still permit restrained yet reasonable growth.”

Despite the failure to maneuver a spending limitation through Pennsylvania’s legislative minefield, there is growing recognition among residents that the state cannot continue its free-spending ways and expect to compete effectively with other states for jobs and economic opportunity.


“What had seemed a promising effort to limit state spending growth in Pennsylvania fell short in the 2005-06 session of the Pennsylvania General Assembly. Lawmakers adjourned without enacting the Taxpayer Fairness Act.”

Economic Performance Near Bottom

Pennsylvania was near the bottom of the national chart in terms of employment growth (49th among the 50 states from 1970 to July 2006), population growth (47th among the 50 states between 1970 and 2005), and personal income growth (45th among the 50 states from the first quarter of 1970 to the first quarter of 2006).

When the performance of Pennsylvania and the other nine states with the largest increases in their state and local tax burdens is contrasted with that of the 10 states with the largest decreases in tax burden between 1970 and 2006, the economic case for fiscal restraint is evident:

- The 10 states with the largest state-local tax burden increases had a cumulative 1970-2005 population growth rate of 18.3 percent. The corresponding growth rate in the 10 states with the largest state-local tax burden decreases was 88.8 percent.
- From the first quarter of 1970 through the first quarter of 2006, the 10 states with the largest state-local tax burden increases had a cumulative personal income growth rate of 97.8 percent, while the 10 states with the largest state-local tax burden decreases had a cumulative personal income growth rate of 1,589.9 percent.

State Rep. Daryl Metcalfe (R-Butler) said, “Reducing state spending is a tried and true economic stimulus initiative that will leave more money in the hands of taxpayers, increase private-sector investment by individuals and businesses, and create more jobs.”

Grant R. Gulibon (grgulibon@comcast.net) is an independent public policy consultant in Harrisburg, Pennsylvania, a fellow of the Commonwealth Foundation, and author of “Pennsylvania’s Unlimited Government Equals Limited Economic Growth,” a report issued in October by the Commonwealth Foundation.

Targeted Incentives Hinder Economy

By Nathan A Benefield

Despite Pennsylvania’s poor economic record, many elected officials say they support economic development by targeting select businesses for taxpayer-financed grants, loans, and tax credits.

Jake Haulk, president of the Allegheny Institute, a public policy research and education organization in Pittsburgh, questions the impact of such programs.

“Governor [Ed] Rendell claims his spending proposals have ‘created jobs’ and cites the ‘record number of jobs’ in the state,” noted Haulk. “However, the reality is that job growth has been lackluster and concentrated in sectors that are heavily dependent on government programs, namely, education and health care. Otherwise, except for eating and drinking places, private-sector job growth is virtually nonexistent [in the state].”

“Had job creation in Pennsylvania matched the nation’s performance since Rendell became governor [in 2003], the state would have tens of thousands more jobs spread widely over many sectors,” Haulk pointed out.

Burden Outweighs Benefits

The benefits of targeted state and local economic development incentives are far outweighed by the detrimental effect a high tax burden has on economic growth, according to “Pennsylvania’s Unlimited Government Equals Limited Economic Growth,” a report issued in October by the Commonwealth Foundation.

“It is clear that this type of economic development spending has been ineffective,” said Matthew Brouillette, president of the Commonwealth Foundation.

“A healthy business climate would not require such corporate welfare programs to ‘stimulate the economy.’ No amount of spin attracts businesses better than a welcoming tax climate.”

Nathan A. Benefield (nab@commonwealthfoundation.org) is a policy analyst with the Commonwealth Foundation in Harrisburg, Pennsylvania.

INTERNET INFO

“Pennsylvania’s Unlimited Government Equals Limited Economic Growth,” Commonwealth Foundation, October 2006, is available online at http://www.commonwealthfoundation.org/index.cfm?MainContent=research/index.cfm?section=commentaries&articleID=1759&amp;articleType=29


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Steve Forbes, Publisher and Author

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STAMP and a local version named LAMP are available to state and city governments, research institutes and other entities and persons conducting research on tax policy. “The STAMP model is a tremendous tool for helping to leverage our influence on public policy,” says Larry Mone, President of the Manhattan Institute for Policy Research.

For more information about BHI’s models visit www.beaconhill.org today!
Caps
Continued from page 1

Trounced in Nebraska, Oregon
Matt Evans, spokesperson for Oregon’s Rainy Day Amendment Committee, partially attributes his measure’s 70 percent to 30 percent drubbing at the polls to the general political climate of the 2006 election.

“There will be more analysis on this later, but I believe conservative Republicans stayed home in large numbers,” Evans said.

In addition, Evans conceded the campaign didn’t fully succeed at getting its message across to voters.

“Even if these folks had turned out, I do not believe this would have delivered us the election because in general we did not do a good job of connecting with fiscal conservatives on the measure,” Evans said.

Nebraska’s spending cap also lost by a 70 percent to 30 percent vote.

“I think there’s a number of Nebraskans that don’t realize how serious the problem is,” prominent spending-cap supporter Dave Nabity, an Omaha businessman, told the Associated Press. “I think voters, unfortunately, bought the scare tactics.”

Evans pledged.

We will work to consolidate those gains and build on them for future elections,”

We need to remember that it took three turns for TABOR to pass in Colorado,” Bill Becker, president of the Maine Heritage Policy Center, told the Portland Press Herald. Colorado voters enacted their state’s spending lid in 1992 after rejecting it in 1988 and 1990.

Government Unions Biggest Opponents
The story was the same in Oregon.

“About 90 percent of the money spent against Measure 48 came from the government employee unions,” said Evans. “Another 6 or 7 percent came from businesses seeking to protect tax breaks or other favors they receive from government.”

Like their counterparts in Maine, Oregon activists plan to try again.

“They are more than 165,000 Oregonians who will vote for such measures. We will work to consolidate those gains and build on them for future elections,” Evans pledged.

Government Unions Biggest Opponents

The close margin in Maine has energized supporters of the spending cap, who are already planning to place a similar measure on the 2008 ballot. In the meantime, they will lobby state officials in hopes of achieving their goals through legislative means.

“We need to remember that it took three turns for TABOR to pass in Colorado,” Bill Becker, president of the Maine Heritage Policy Center, told the Portland Press Herald. Colorado voters enacted their state’s spending lid in 1992 after rejecting it in 1988 and 1990.

“Voters in Maine, Nebraska, and Oregon unequivocally rejected proposals on their November 7 ballots to restrict growth in state government spending.”

Outspent 5 to 1
Maine’s spending cap supporters were outspent five to one by opponents of the measure.

The National Education Association teachers union alone contributed about half of the $2 million used to defeat TABOR. The Maine Education Association and Maine Municipal Association also led the campaign against spending limits.

The heavy labor presence among spending-cap opponents was felt across the country.

The list of supporters of Nebraskans Against 423, the anti-spending cap coalition, was heavy with groups such as the Nebraska AFL-CIO and Nebraska Association of Public Employees.

Government Unions Biggest Opponents

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Government Unions Biggest Opponents

The list of supporters of Nebraskans Against 423, the anti-spending cap coalition, was heavy with groups such as the Nebraska AFL-CIO and Nebraska Association of Public Employees.
Election Roundup

A summary of November 7 election results related to tax and spending issues

By Steve Stanek

**CALIFORNIA OIL PRODUCTION TAX DEFEATED**

By a 55 percent to 45 percent vote, voters in California rejected Proposition 87, a measure that sought to reduce oil consumption in California by 25 percent and impose a new tax on oil production to raise $4 billion for a range of alternative energy programs.

Polls during the summer showed the measure with strong support, but it fell away as the implications became known. Spending by both sides in the debate totaled more than $130 million, making this the most expensive initiative battle in California history.

**Support Dried Up**

Al Lundeen, a spokesman for Nooiltax.com, which opposed the measure, said there were several reasons enthusiasm for the proposition dried up as the campaign went on.

“There was nothing in Prop. 87 that required the new agency to produce any results,” said Lundeen.

“The biggest point in our favor was the cost to consumers. It would have resulted in much higher prices,” Lundeen said. “The symbolism of Prop. 87 put the proponents of government bureaucracy with political appointees running this program.

“California has had 40 years of politically motivated energy policy and they haven’t gotten it right yet,” Tanton pointed out.

**BILLIONS FOR INFRASTRUCTURE BONDS APPROVED IN CALIFORNIA**

Five bond measures totaling $42.85 billion for spending on “infrastructure”—including transportation, housing, school construction, and water resources—won approval in California. Because of interest that would be charged on the borrowed money, the total cost of the bond proposals exceeds $80 billion.

The bonds package had the support of an unusual coalition that included Gov. Arnold Schwarzenegger (R), the pro-Democrat California Teachers Association, and the pro-Republican state Chamber of Commerce.

Tax watchdog organizations opposed the measures, arguing they lack accountability, do not ensure taxpayer dollars will be used on the most-needed projects, are an unfair and unsustainable means of financing the stated objectives, and ignore the failures of previously passed bonds.

Ted Balaker, policy analyst at the Los Angeles-based Reason Foundation, said, “The state with the nation’s lowest credit rating sinks even deeper into debt. California is in need of an infrastructure upgrade, but much of the spending will not actually build new roads, schools, or homes. Instead the bonds violate a core principle of public finance by devoting huge sums of money toward ongoing operations.

“It is the statewide equivalent of a deep-in-debt family that decides to sink even deeper into the red by paying for groceries with credit cards,” Balaker said.

**SEATTLE STADIUM SUBSIDIES REJECTED**

Seattle voters overwhelmingly approved Initiative 91, a measure designed to block the National Basketball Association’s SuperSonics from receiving city tax subsidies for a new stadium.

Initiative 91 won by a 3 to 1 margin. It requires the city to receive a return “at or above fair market value” for any taxpayer investment in KeyArena or another facility leased to “for-profit professional sports organizations.”

Fair market value is defined by I-91 as “no less than the rate of return on a 30-year U.S. Treasury Bond.” The return on Treasury bonds is currently about 4.75 percent.

SuperSonics owners have been threatening to move the team out of Seattle if the city’s taxpayers do not finance the construction of a new stadium. The requirement for the city to receive a market return on stadium subsidies makes any subsidy plan almost impossible, according to city officials.

“Seattle voters overwhelmingly approved Initiative 91, a measure designed to block the National Basketball Association’s SuperSonics from receiving city tax subsidies for a new stadium.”

Team Plans to Move

“The team fully intends to honor its lease at KeyArena until 2010 and then hopes to relocate to a new facility outside of Seattle, but within King County,” Clayton Bennett, chairman of the team’s ownership group, said in a statement. He added a number of Seattle suburbs have expressed interest in hosting the team.

“If Mr. Bennett thinks for one moment that a vote like this in the city of Seattle will encourage state legislators to fund tax subsidies for a professional sports team anywhere in Washington state, he is dead wrong,” said Chris Van Dyk, a spokesperson for Citizens for More Important Things, which led the effort to pass I-91, to reporters at the Seattle Times the night of the election.

Jason Mercier, director of the Economic Policy Center of the Evergreen Freedom Foundation in Olympia, Washington, said the vote “is very encouraging. Even in a liberal city like Seattle, people are recognizing there are core functions of government. It was clear to voters this is not a core function of government and should not be funded by tax dollars.”

**CALIFORNIA CIGARETTE TAX HIKE DEFEATED**

California voters refused to approve Proposition 86, a proposal to hike the state’s cigarette tax 300 percent, from 87 cents to $3.47 a pack.

Carla Hass, spokesperson for Californians Against Unaccountable Taxes, said in a statement, “Prop. 86 was an ill-conceived, special-interest measure, and we are pleased that California voters recognized this and have defeated the initiative.

“The defeat of Prop. 86 is due in large part to the tremendous efforts of the more than 300 physicians, educators, law enforcement, firefighters, and taxpayer and business groups who opposed the measure because of its fundamental and far-reaching flaws,” Hass noted.

“California voters refused to approve Proposition 86, a proposal to hike the state’s cigarette tax 300 percent, from 87 cents to $3.47 a pack.”

The tax would have applied to cigars and smokeless tobacco products as well as cigarettes.

Less than 10 percent of the funds raised by the tax would have gone to programs related to tobacco use. Most of the money would have gone to hospitals, the main backers of the campaign. They inserted language into the proposal that would have exempted the state’s hospitals from antitrust laws.

**EDUCATION FUNDING HIKES REJECTED**

In Idaho, voters rejected a 1 cent sales-tax increase that would have pushed the state sales tax up to 6 percent.

The additional revenue would have created an Idaho Local Public Investment Fund to funnel more money to public education.

In Nebraska, voters overwhelmingly rejected a measure that would have allowed the proceeds of video “keno” gaming devices to be spent on K-12 education.

Video gaming is already legal in 140 communities in the state, near the borders with Iowa and Missouri, which now allow keno machines. Nebraska’s Initiative 421 would have allowed the expansion of keno gaming devices across the state and directed most of the proceeds to education.

Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News.
Voters in Oregon took one of the strongest stands in recent years to protect their property rights. Measure 39, a statutory initiative that reins in eminent domain abuse, passed November 7 with more than two-thirds of the vote.

Oregon Blocks Regulatory ‘Takings’

Measure 39 followed the heels of voters’ passage of Measure 37 in 2004, which was designed to protect Oregonians from “regulatory takings,” a far more pervasive threat to private property rights than eminent domain abuse.

Local governments routinely pass restrictions on the ability of property owners to use their land in ways that were legal at the time they bought their property. These laws often result in enormous losses to private property values, yet the governments refuse to compensate owners for these impacts.

After several decades of egregious regulatory abuse, Oregonians passed Measure 37 to require state and local governments to pay landowners for these “regulatory takings” or waive the regulations.

‘Kelo-Plus’ Plans Offered

Voters in Arizona followed Oregon’s lead in November and passed Proposition 207—the Private Property Rights Protection Act—breaking new ground in the process. The measure received 65 percent of the popular vote.

Prop. 207 was designed to address both eminent domain abuse and regulatory takings in one comprehensive set of property rights protections. Such proposals have come to be known as “Kelo-Plus” initiatives.

“The big midterm election winners were homeowners in the nine states that passed initiatives protecting property rights and reining in government’s power to take homes and businesses.”

Untested prior to this election, the passage of Prop 207 establishes “Kelo-Plus” as a feasible strategy to target the two biggest threats to property rights in one fell swoop. However, two similar “Kelo-Plus” measures failed to pass. Despite garnering more than three million votes, California’s Proposition 90 was narrowly defeated, with 48 percent of voters approving the measure and 52 percent rejecting it. Idaho’s Proposition 2 also failed to pass.

Opponents of the measures—including environmental groups, municipal associations, and urban planners—crafted a message that more effectively connects with urban voters, supporters say.

Leonard C. Gilroy (leonard.gilroy@reason.org) is a certified urban planner and policy analyst at the Reason Foundation.
Tax Code Became More Progressive in 2000-2004, IRS Data Show

By Gerald Prante

New IRS data published for tax year 2004 show the code was more progressive in 2004 than it was in 2000. That trend also sheds light on the surge in revenue that cut the federal deficit so sharply in the summer and fall of 2006.

The commonly accepted definition is that a tax system is progressive if high-income people pay a larger fraction of their income in taxes than lower-income taxpayers.

For each income group of U.S. taxpayers, the accompanying table compares the shares of income paid to the shares of income earned.

In a purely proportional income tax system, each income group’s share of tax payments would be the same as its share of income.

For example, if tax returns with adjusted gross income (AGI) between $200,000 and $500,000 account for 9.97 percent of personal income (as the table shows they did in 2004), then they would pay 9.97 percent of the taxes. And if tax returns with AGI between $40,000 and $50,000 account for 6.97 percent of income (as they did in 2004), then they would pay 6.97 percent of the taxes.

In a proportional tax system, then, the ratio of tax share to income share is equal to 1.

Big Earners Socked

Because the U.S. federal tax system is progressive, however, the $200,000-to-$500,000 group didn’t pay 9.97 percent in 2004; it paid much more, 26.71 percent. And the $40,000-to-$50,000 group didn’t pay 6.97 percent; it paid much less, 4.20 percent.

Because all of the major Bush tax cuts took effect in May 2003, tax year 2004 was the first to reveal their full effect. For many who predicted these cuts benefited only “the rich,” these data showing greater progressivity will be a surprise.

It may be tempting to conclude the tax cuts targeted explicitly at low- to middle-income people—the new 10 percent bracket and the doubled child credit caused dramatic reductions in tax payments for lower-income earners. As a result, the ratio of tax share to income share for the $25,000-30,000 group was cut in half.

Two other income groups stand out. Taxpayers in the $75,000-to-$100,000 group benefited more than the group below that earned $50,000-$75,000.

Most likely, the higher income group earned enough to benefit from elimination of the marriage penalty and from cutting the 28 percent rate to 25 percent, but they didn’t make so much that they lost the benefit of the doubled child credit or the new 10 percent bracket. Their share of the nation’s income grew substantially, and their tax share barely grew at all.

People making between $200,000 and $500,000 saw their tax share increase even more than the groups above them. That is the effect of the Alternative Minimum Tax, which takes away many of the Bush tax cuts for people in this range. Tax filers earning above $500,000 don’t “fall into” the AMT, because they already owe more under the regular income tax code.

Overall Progressivity Grew

Overall, the federal income tax became markedly more progressive between 2000 and 2004. Without knowing exactly how much the Bush tax cuts caused this growing progressivity, one can tentatively conclude that in the mix of tax cuts passed in 2001 and 2003, the ones aimed at people earning less than $100,000 turned out to be more powerful than those aimed at people earning more than $100,000.

With no data for 2005 and 2006 available yet, no one can say definitively that the income tax has continued to become even more progressive since 2004. However, the recent wave of “unpredictable” tax receipts is powerful evidence that it has, because increasing progressivity typically causes sudden waves of tax revenue when the economy booms and shock falling-offs when it falters.

Gerald Prante (prante@taxfoundation.org) is a staff economist at the Tax Foundation in Washington, DC. A version of this article appeared in the Tax Foundation’s Fiscal Fact No. 70, published October 17. Used by permission.


A ratio of tax share to income share for each group in 2000 and 2004 shows how progressivity has increased. The rightmost column of the table shows the change in the tax-to-income share ratio. A positive number means the income group's tax share has grown faster than its income share. If the number is negative, the income share has grown faster than the tax share.

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<td>$10,000 to $15,000</td>
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<td>$20,000 to $25,000</td>
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<td>$25,000 to $30,000</td>
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<td>$30,000 to $40,000</td>
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<td>$40,000 to $50,000</td>
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<td>$75,000 to $100,000</td>
<td>11.59%</td>
<td>12.85%</td>
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<tr>
<td>$100,000 to $200,000</td>
<td>16.75%</td>
<td>18.98%</td>
<td>19.39%</td>
<td>22.51%</td>
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<td>$200,000 or more</td>
<td>26.71%</td>
<td>25.52%</td>
<td>47.27%</td>
<td>49.98%</td>
</tr>
<tr>
<td>$2,000,000 to $5,000,000</td>
<td>9.64%</td>
<td>9.57%</td>
<td>15.42%</td>
<td>17.89%</td>
</tr>
<tr>
<td>$5,000,000 to $10,000,000</td>
<td>6.23%</td>
<td>4.20%</td>
<td>8.39%</td>
<td>8.17%</td>
</tr>
<tr>
<td>$10,000,000 to $15,000,000</td>
<td>1.89%</td>
<td>1.85%</td>
<td>2.70%</td>
<td>2.99%</td>
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<tr>
<td>$15,000,000 to $20,000,000</td>
<td>1.21%</td>
<td>1.15%</td>
<td>2.37%</td>
<td>2.56%</td>
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<tr>
<td>$2,000,000 to $5,000,000</td>
<td>3.13%</td>
<td>2.86%</td>
<td>6.13%</td>
<td>6.16%</td>
</tr>
<tr>
<td>$5,000,000 to $10,000,000</td>
<td>1.89%</td>
<td>1.59%</td>
<td>3.62%</td>
<td>3.31%</td>
</tr>
<tr>
<td>$10,000,000 or more</td>
<td>4.12%</td>
<td>3.78%</td>
<td>8.02%</td>
<td>6.96%</td>
</tr>
</tbody>
</table>

*Federal income taxes paid equals income taxes after credits minus the refundable portions of both the Earned Income Tax Credit (EITC) and the additional child tax credit.

**Certain values are negative because those income groups as a whole receive more back from the IRS (i.e., negative taxes) than they pay in federal income taxes.

Source: Internal Revenue Service, Tax Foundation calculations.
By Gerald Prante

In recent years, controversy in many state legislatures has erupted over the right way to tax smokeless tobacco.

Even though the federal government taxes smokeless tobacco at a per-unit rate based on weight, most states tax it based on the sale price, as can be seen in the accompanying table of tax rates on smokeless tobacco across the country.

As the table shows, the lowest tax burdens on smokeless tobacco are found in the tobacco-producing South, which also imposes the lowest tax rates on cigarettes.

But it is not immediately clear why some states outside the South tax smokeless tobacco so heavily and some so lightly, nor why some base their tax on weight and others on price.

Why Tax It?

Assuming the role of government is to prevent individuals from harming one another, and not to prevent individuals from harming themselves, then special taxes on tobacco products should exist only if those products impose significant costs on third parties.

A frequently cited example is the health care costs associated with tobacco consumption. Another often cited external cost of tobacco products, cigarettes in particular, is secondhand smoke, both in public places and in homes where children reside.

Smokeless tobacco, however, imposes no such harm.

Other costs supposed to be unfairly imposed on society from tobacco consumption have been cited, such as the unattractiveness of witnessing certain behavior associated with chewing tobacco, and the message children receive as a result of viewing adult tobacco consumption.

“How Tax It?”

To the extent tobacco imposes undue costs on society, specific taxation of the product may be warranted. But a government official who merely desires to influence individual consumption decisions because of his own anti-tobacco sentiment cannot justify it as sound tax policy.

There are two methods of levying an excise tax on any product. The first and most common type is a per-unit tax. In this case, the tax is independent of the price of the product.

The other type of excise tax is an ad valorem tax, which is akin to a typical general sales tax where the tax is a percentage of the sale price.

Regardless of the rationale for the government’s attempt to limit tobacco consumption via taxation—whether through the proper framework of controlling for negative costs imposed on others or through the authoritative method of trying to control individual decisions—tobacco products should be taxed via a per-unit tax.

The harm caused by a unit of tobacco is essentially unrelated to its price. A $5 pack of cigarettes would not impose any cost to society or harm any individual more than a $2 pack of cigarettes would. With respect to cigarettes, most tax-levying officials have properly understood this—every state imposes the tax based on weight.

Smokeless Tobacco Tax Policy Is Highly Inconsistent Across States

<table>
<thead>
<tr>
<th>State</th>
<th>Tax Rate on Moist Snuff Tobacco (MST)</th>
<th>Type of Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>2 cents per typical can1</td>
<td>Per Unit</td>
</tr>
<tr>
<td>Alaska</td>
<td>75% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Arizona</td>
<td>13.3 cents per ounce</td>
<td>Per Unit</td>
</tr>
<tr>
<td>Arkansas</td>
<td>32% of manufacturer’s price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>California</td>
<td>46.76 percent of wholesale price2</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Colorado</td>
<td>40% of manufacturer’s price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Connecticut</td>
<td>40 cents per ounce3</td>
<td>Per Unit</td>
</tr>
<tr>
<td>Delaware</td>
<td>15% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Florida</td>
<td>25% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Georgia</td>
<td>10% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Hawaii</td>
<td>40% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Idaho</td>
<td>40% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Illinois</td>
<td>18% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Indiana</td>
<td>18% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Iowa</td>
<td>22% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Kansas</td>
<td>10% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Kentucky</td>
<td>9.5 cents per unit4</td>
<td>Per Unit</td>
</tr>
<tr>
<td>Louisiana</td>
<td>20% of manufacturer’s price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Maine</td>
<td>78% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Maryland</td>
<td>15% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>90% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Michigan</td>
<td>32% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Minnesota</td>
<td>70% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Mississippi</td>
<td>15% of manufacturer’s price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Missouri</td>
<td>10% of manufacturer’s price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Montana</td>
<td>85 cents per ounce</td>
<td>Per Unit</td>
</tr>
<tr>
<td>Nebraska</td>
<td>20% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Nevada</td>
<td>30% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>19% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>New Jersey</td>
<td>75 cents per ounce</td>
<td>Per Unit</td>
</tr>
<tr>
<td>New Mexico</td>
<td>25% of product value</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>New York</td>
<td>37% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>North Carolina</td>
<td>3% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>North Dakota</td>
<td>60 cents per ounce</td>
<td>Per Unit</td>
</tr>
<tr>
<td>Ohio</td>
<td>17% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>60% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Oregon</td>
<td>65% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>No tax</td>
<td>n/a</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>$1.00 per ounce</td>
<td>Per Unit</td>
</tr>
<tr>
<td>South Carolina</td>
<td>5% of manufacturer’s price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>South Dakota</td>
<td>10% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Tennessee</td>
<td>6.6% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Texas</td>
<td>35.213% of manufacturer’s price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Utah</td>
<td>35% of manufacturer’s price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Vermont</td>
<td>$1.49 per ounce</td>
<td>Per Unit</td>
</tr>
<tr>
<td>Virginia</td>
<td>10% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Washington</td>
<td>75% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>West Virginia</td>
<td>7% of wholesale price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>25% of manufacturer’s price</td>
<td>Ad Valorem</td>
</tr>
<tr>
<td>Wyoming</td>
<td>20% of wholesale price (or 10% of retail)</td>
<td>Ad Valorem</td>
</tr>
</tbody>
</table>

1 Alabama charges 1.5 cents per ounce of chew tobacco, and a varying rate on snuff tobacco per tax, depending upon the size.

2 Adjusted annually by the California Board of Equalization.

3 Connecticut charges a tax of 20 percent on other tobacco products besides snuff.

4 Kentucky charges a tax of 7.5 percent on other tobacco products besides snuff.

Source: Federation of Tax Administrators; various updates compiled by Tax Foundation

CONTINUED on right
on the number of cigarettes, not based upon the sale price.

Why Ignore Quantity?
But with respect to smokeless tobacco, most states have gone in the opposite direction of sound tax policy and have imposed ad valorem taxes, which are based on the sale price of the smokeless tobacco.

Only nine states impose the tax on a per-unit basis, even though the federal government taxes moist smokeless tobacco based on weight, which is essentially a tax on quantity and is the proper way of taxing the product.

It is not logical to base the tax on the value of the product. A $6 can of premium smokeless tobacco does no greater harm to the user or to society than a $2 brand of generic smokeless tobacco, but under the current system in most states, the premium brand is charged a tax three times that of the generic brand.

Much of the effect of this ad valorem tax is merely to encourage more consumption of inexpensive brands, thereby making irrelevant much of the government policy designed to limit the quantity of tobacco consumed.

How Heavily Tax It?
In standard economic theory, a tax designed to compensate for a negative externality imposed on society should be levied on a per-unit basis and should equal the difference between the social cost of the good (the cost to society at large) and the private cost (the cost to individual consumers).

Therefore, if the social cost of tobacco consumption is greater than the total private cost, then the tax should be set at a level that will make the two costs equal, thereby improving overall societal well-being.

The problem that governments face is calculating the social cost of tobacco and comparing it to the private cost. Often, those with certain agendas try to overstate the difference between the private cost and the social cost of tobacco in order to impose their principles of morality on everyone else.

What constitutes a true cost to society is therefore always a subject of disagreement and should be carefully calculated. Policymakers should be clear about the factors involved in their calculations when they recommend a level of taxation.

As noted, this can be accomplished only with per-unit excise taxes because the dollar value of the tobacco consumed is irrelevant to the social costs and to the goal of reducing overall consumption of tobacco.

Gerald Prante (prante@taxfoundation.org) is a staff economist at the Tax Foundation in Washington, D.C. A version of this article appeared in the Tax Foundation’s Fiscal Fact No. 65, published September 22. (Used by permission.)

Nonsmokers Benefit from Smokers

Some economists note that any health care cost imposed on society by smokeless tobacco or any other product is technically a transfer that has been created by government through a quasi-socialized health care system.

“Current federal, state, and local fiscal regimes have been found to transfer tens of billions of dollars from smokers to nonsmokers.”

In addition, they note, while it is commonly assumed that individuals’ unhealthful habits must necessarily impose health care costs on society, this is not at all the case. A field of economics known as social cost accounting attempts to discern the aggregate fiscal effects of different types of behavior, and its findings are often counterintuitive.

Smoking, for example, has been found not to impose health care costs on nonsmokers. To the contrary, current federal, state, and local fiscal regimes have been found to transfer tens of billions of dollars from smokers to nonsmokers.

— Gerald Prante

INTERNET INFO


PolicyBot™, The Heartland Institute’s free online research database, offers more than a dozen articles on the cost to society imposed by tobacco products. Point your Web browser to http://www.policybot.org and select the topic/subtopic combination Smoking/Cost to Society.

AMA Drops Call for Soft Drinks Tax

By Steve Stanek

The American Medical Association (AMA) has backed away from a proposed resolution calling for states and the federal government to levy special taxes on “sugary drinks” that are devoid of nutritional value.

At a November meeting of AMA delegates in Las Vegas, delegates instead opted for an alternate resolution calling for collaborative efforts across the health and beverage industries to fight obesity.

“At a November meeting of AMA delegates in Las Vegas, delegates [approved a resolution] calling for collaborative efforts across the health and beverage industries to fight obesity.”

“The beverage industry appreciates the hard work of the American Medical Association in adopting a comprehensive approach to addressing the complex problem of obesity,” said Susan K. Neely, president and chief executive officer of the American Beverage Association. “The beverage industry is and will continue to be part of collaborative efforts with the medical and health community to help tackle this issue.”

Soft drink bottlers and the American Beverage Association, which represents more than 200 bottlers of soft drinks, fruit juices, and water, had argued there is no need for a tax on sugary soft drinks.

The AMA’s Resolution 437 was introduced in 2005. Delegates debated it in June 2006 and sent it back to committee for further study and a vote at the November meeting.

Anti-Obesity Taxes Out

The resolution would have delivered to all 50 state medical societies and specialty and subspecialty medical societies, urging them to work for the passage of taxes on sugar-sweetened soft drinks to reduce the incidence of obesity. Instead, those medical societies will receive the broader resolution calling for collaboration to reduce the incidence of obesity.

The AMA’s original resolution said “levying small taxes on soft drinks” is warranted because numerous studies identify them as a contributing cause of obesity.

The original resolution did not specify the level of tax, but stated that raising taxes to hike the price of soft drinks likely would reduce consumption, call more attention to the problem of obesity, and provide funding for anti-obesity programs.

“Taxes distract from real solutions, like balancing diets and more physical activity,” said Kevin Keane, senior vice president of communications for the bottlers association.

“We’ve always argued a big part of the equation is the overlooked physical activity. It’s easier to demonize certain products than tell people to get off their computers and Game Boys and be more active.”

Industry Regulating School Sales

Keane said the soft drink industry is already taking big strides in fighting obesity. In May 2006, he noted, bottlers voluntarily enacted a program to regulate what they sell in schools and the portion size of those items.

That move was part of an agreement announced with the Alliance for a Healthier Generation, a partnership between the Clinton Foundation and American Heart Association.

“That’s a dramatic step, especially when there may not be a need to do it,” Keane said, “but we recognized the unique environment of schools. First, it’s an educational environment. We believe we should be supportive of a calorie-based policy as a contribution to the education effort.

“Also, kids are away from parents when they’re at school. Especially for kids in elementary and middle school, parents want help. They want their options to be limited, and that’s what we’ve done. They are consumers, and we listen to consumers,” noted Keane.

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

INTERNET INFO

Taxes, Fees Increase Illinois Electricity Prices

By Jeff Trigg

As Illinois politicians, citizens, and power companies across the state spar over whether to extend a nine-year freeze on electricity rates that is set to expire in January, they should consider the impact of taxes on electricity prices.

Taxes increase what consumers pay for their electricity by more than 10 percent in many areas of the state, and by more than 15 percent in Chicago.

Illinois charges an electricity tax of .33 cents per kilowatt hour, and part of everyone's customer charge also goes to the state for programs such as corporate subsidies, according to the Citizens Utility Board's May 2006 CUB Facts.

With typical electricity rates between 6.618 and 8.84 cents per kilowatt hour, the .33 cents per kilowatt hour is essentially a tax rate of between 3.7 percent and 5 percent added to everyone's electricity costs.

Revenues Rising

According to fiscal year 2007 tax revenue estimates produced by the Illinois' Commission on Government Forecasting and Accountability, the state's electricity tax revenues have increased by 15 percent since July 2005. Electricity tax revenues were $29 million higher in FY 2006 than they were in the previous year.

At the local level, municipalities often “double dip” by charging both a sales tax and a franchise tax. Franchise taxes are passed on to consumers simply for the privilege of being able to have and use electricity.

“Taxes increase what consumers pay for their electricity by more than 10 percent in many areas of Illinois, and by more than 15 percent in Chicago.”

The City of Chicago's franchise tax starts at .53 cents per kilowatt hour for the first 2,000 kilowatt hours used in a month. This amounts to a tax rate between 4.6 percent and 8 percent. Adeline, East Hazel Crest, and Ford Heights are the only other municipalities in Illinois charging more than 3 percent for franchise taxes.

Municipal sales taxes on electricity vary. Cicero has the highest at .632 cents per kilowatt hour, followed by Chicago and Bellwood at .628.

Many cities have no municipal tax on electricity, so it is unclear why these cities feel the need to tack on another 7 to 9.5 percent in taxes.

Nearly 18% in Taxes

Examining the September 2006 electric bill for my Chicago residence, I discovered I was being charged a $2.98 franchise tax, $1.86 state tax, $3.53 Chicago tax, and another $0.45 monthly fee, for a total of $8.82 in taxes.

My monthly customer charge was $2.94; my electricity used charge was $46.59. There was a $0.42 decommissioning adjustment, for a total of $49.95, not including taxes. Hence, I paid 17.7 percent in electricity taxes, and millions of Illinois families are paying similar tax rates on their electricity.

Chicago's taxes alone totaled 13 percent of the bill.

Rate Freeze Ending

Nine years ago Illinois embarked on a deregulation program that forced electric utilities to sell their power generation plants, cut their rates for electricity by 20 percent in most cases, and live with those rates until 2007. In September a power auction was held, and rates in 2007 will go up as a result.

Most consumers will see their cost of electricity climb more than 20 percent, to about the level they experienced nine years ago. Others will see their rates climb 40 to 55 percent. That hike would be a lot less painful if taxes and fees weren’t already adding significantly to the price of electricity.

Jeff Trigg (trigg@ntui.org) is executive director of the Illinois Taxpayer Education Foundation.
Electricity Deregulation Hailed as a Success in Texas

By Bill Peacock

As of January 1, most retail prices for electricity in Texas will be completely deregulated, solidifying the state as the national leader in deregulating electricity markets.

In many areas of the state, consumers can already choose from up to 41 different plans offered by as many as 18 retail electric providers. To date, more than 60 percent of residential customers have exercised choice.

Deregulation has led to a surplus of electric generating capacity, so there have been no major blackouts in Texas as there have been in more heavily regulated markets such as California and New York.

“As of January 1, most retail prices for electricity in Texas will be completely deregulated, solidifying the state as the national leader in deregulating electricity markets.”

Prices Stable
Barry Smitherman, commissioner of the Texas Public Utility Commission, notes prices for electricity today in the Electric Reliability Council of Texas (ERCOT) region—the competitive portion of the Texas market—are not much different from the rates prior to deregulation.

“Competitive rates in ERCOT are not significantly different from where they were before the retail market was deregulated,” said Smitherman. “That’s remarkable given the over 200 percent increase in natural gas prices over the same time frame. Only the forces of competition can be credited with keeping electricity prices lower.”

More Capacity Proposed
More generation is on the way as the market responds to reports of declining future capacity reserves. As many as 17 new coal-fired power plants have been proposed. The 12 that are in some stage of the permitting process would provide 11,229 megawatts of new generating capacity.

Currently, Texas has slightly more than 70,000 megawatts of capacity. TXU, the major electric provider in north Texas, plans to invest more than $10 billion in 11 new power plants.

“TXU’s plan will meet the urgent power needs of Texas, lower wholesale power prices, create tens of thousands of jobs, and improve air quality,” said Mike McCull, CEO of TXU Wholesale.

The proposed new generation will raise the forecasted reserve margin (the safety margin above peak capacity) from around 17 percent today to more than 22 percent in 2011.

Critics Express Concern
Despite those successes, critics of deregulation complain the market hasn’t responded fast enough to the decline in natural gas prices from their 2005 peak.

“Since the deregulation of the electric industry, Texas electric consumers have been paying much more for electricity than it really costs to produce,” said Tom Smith, director of the Texas office of Public Citizen. “While this may be legal, it isn’t right.”

However, Smitherman said the claim that electric prices in Texas haven’t exactly tracked natural gas prices is not a fair indictment of retail competition.

“Deregulated markets are more efficient at quickly passing through changes in fuel cost, in both directions,” said Smitherman. “Prices are now falling just as regulated utilities elsewhere are lumbering toward rate increases.”

Prices Respond Rapidly
In other words, consumers in regulated markets will be paying for the increase in natural gas prices for some time to come, while electricity prices in Texas are already falling.

The benefits of deregulation may also be seen in today’s prices as they reflect the voluntary tradeoffs consumers make between cost, quality, and convenience. In this case, higher prices could reflect Texans’ desires to invest in new plants that have lower emissions and provide reliable supplies.

Electricity generation in Texas is heavily dependent on expensive natural gas—72 percent of capacity in Texas versus 45 percent in the rest of the country.

“Competitive rates … are not significantly different from where they were before the retail market was deregulated. … Only the forces of competition can be credited with keeping electricity prices lower.”

BARRY SMITHERMAN
COMMISSIONER
TEXAS PUBLIC UTILITY COMMISSION

Natural gas prices are much higher than they were in 1999 when deregulation began, and prices for electricity in Texas have naturally tracked upward with gas prices.

Another factor that could be impacting Texas’ electricity prices is the permitting process for the new plants.

Texas Gov. Rick Perry (R) in 2005 issued an executive order shortening the process, but environmental activists and some big-city mayors have attempted to halt or significantly increase the cost of the process over concerns about air quality and global warming.

Positive Effect on Economy
One issue lost in the debate over deregulation and the environment is the impact that reliable electric supplies have had on the Texas economy.

At press time, year-to-date employment growth in Texas was 2.7 percent—more than twice the national average—accounting for an increase of 177,300 jobs.

Site Selection magazine, which has recognized Texas for attracting the most business relocations the past two years, points out that fast growth job markets and innovative strategies by electric providers are key components in these relocations.

Bill Peacock (bpeacock@texaspolicy.com) is director of the Center for Economic Freedom with the Texas Public Policy Foundation, an Austin-based research institute.
Minneapolis

Continued from page 1

from 343 to 523 by 2010. At that point the cap will be removed entirely, opening the door to all taxi businesses willing and able to serve the public.

The reform law also removes the requirement that applicants for new taxi licenses join an existing taxi service company.

The Institute for Justice Minnesota Chapter (IJ-MN), which had advocated the reforms, hailed passage of the ordinance as a victory for consumers and taxicab entrepreneurs who would rather drive for themselves than pay steep leases to taxicab permit holders.

“Minneapolis Mayor R.T. Rybak has signed reforms to the city’s taxi ordinance that remove the government-imposed cap on the number of taxis legally operating within city limits.”

Cartel Broken

“Minneapolis has finally broken a cartel it created decades ago,” said Lee McGrath, IJ-MN’s executive director. “Transportation entrepreneurs finally have the ability to earn an honest living in the field of their choice without facing ridiculous, discriminatory regulations.

“This reform helps restore the first rung of the economic ladder to Minnesotans of modest means,” McGrath said. “Now, budding entrepreneurs, whether they are long-time residents or new Minnesotans from Ecuador, Egypt, Laos, Somalia, or elsewhere, will be able to realize the American Dream.”

Competition Coming

One who expects to benefit from the reforms is Angel Paucar, co-owner of A & R Taxi, which currently serves the city. He applied for a Minneapolis taxicab license in April 2006 and was denied. He said the secondary market price for a license is $25,000, too much for him and most others to afford. IJ-MN contacted him and offered help.

“Finally, we’ll get new people into the market,” Paucar said. “I think for customers, they’ll have more opportunity to choose, and better service. With more taxis and more competition, we’ll do a better job for the customers.

“Competition will make us do the best job we can do. Our operation is bilingual, with operators 24 hours a day. People are going to be happy with this,” Paucar predicted.

City Council Member Paul Ostrow introduced the ordinance and received strong support from fellow councilmen Don Samuels and Gary Schiff. The final vote for the ordinance was 8 to 4.

Other Successes Cited

IJ-MN campaigned for the reform by highlighting the success of similar taxi reforms enacted by the nearby city of St. Paul and by Indianapolis. Among those who testified for reform were Professor Jerry Fruin of the Center for Transportation Studies at the University of Minnesota and Professor Robert Hardaway of the University of Denver College of Law.

Owners of Blue & White and Rainbow Taxi, which currently serve the city of Minneapolis, oppose the reform and have threatened legal action against the city.

“The Minneapolis taxi industry has no legal right to be a cartel,” McGrath said. “The city’s reforms are constitutionally sound, and no court should allow a private cartel to deprive the public of good taxi service and entrepreneurs the right to enter a market and earn an honest living.

“If the cartel does sue the city,” McGrath said, “we will consider becoming legally involved in support of the reforms.”

Nick Dranias (ndranias@ij.org) is a senior attorney at the Minnesota Chapter of the Institute for Justice.

Minneapolis

Taxi Reform

Knocks Down Three Hurdles

Until the reform law’s passage, three nearly insurmountable government-imposed hurdles stood in the way of operating any taxi business in the City of Minneapolis:

1) the “taxi vehicle” license cap, by which the city arbitrarily limited to 343 the number of cabs that could provide service;

2) the requirement to join an existing taxi company as a precondition of holding any existing taxi vehicle license; and

3) the restricted issuance of new, reissued, or temporary taxi vehicle licenses to existing taxi service companies.

The first hurdle blocked entry to anyone who could not afford to pay $25,000 for a taxicab vehicle license from an existing license holder on the secondary market. The second and third hurdles further blocked competition because the laws were interpreted by the city as requiring entrepreneurs to join existing taxi companies before they could obtain a taxi vehicle license.

Market Access Opened

The newly enacted taxi reforms not only gradually eliminate the license cap, but they also make the second and third hurdles much easier to cross by allowing entrepreneurs to apply for taxi vehicle licenses without being required first to join an existing taxi company.

“We invite other entrepreneurs to join us in challenging irrational barriers to entry, and we urge the legislative, executive, and judicial branches to protect economic liberty by reviewing new and existing occupational licensing schemes with an appropriately skeptical eye,” said Lee McGrath, executive director of the Institute for Justice’s Minnesota Chapter.

Opened in 2005, the Minnesota chapter is one of three state chapters of the Institute for Justice, a public interest law firm headquartered in Arlington, Virginia and founded in 1991 to advance free speech, property rights, educational choice, and economic liberty.

— Nick Dranias
Long-Term Structural Deficit Imperils Md. Budget

By Tori Gorman and Karin Flynn

Despite projections of steady economic and revenue growth, Maryland leaders will soon have to come to grips with a long-term structural budget deficit in the state.

Maryland enjoyed an estimated $1.3 billion surplus in the 2006 fiscal year, but state spending commitments in the coming years will produce deficits approaching 10 percent of general fund revenue by FY 2011. The cumulative gap between revenues and spending will exceed $5 billion over the next five years.

Given current levels of taxation and the state’s spending commitments over the coming years, total personal income in Maryland has grown at a rate of more than 9 percent per year—nearly double the expected rate—in order avoid a deficit.

‘Antiquated’ Tax Structure

Maryland’s tax structure has been criticized as “antiquated,” and evidence suggests that charge may be valid.

Between the 1990 and 2005 fiscal years, general fund revenue collections averaged 5.1 percent of total personal income. Revenues today are increasingly falling short of that benchmark, despite the state’s vigorous economy.

Lackluster performance of the sales and use tax, business franchise taxes, and lottery revenue are keeping the state from realizing its “potential” revenue. Closing that gap could reduce Maryland’s structural deficit by approximately 40 percent.

Big Spending Hikes

Compounding the problem is Annapolis’s willingness to take on new spending commitments without determining how they will be paid for.

For instance, the Thornton Act has boosted state K-12 spending by 59 percent since fiscal year 2002, and K-12 spending now equals one-third of the entire state general fund. That budget item is projected to grow to 36 percent of the general fund by fiscal year 2011, crowding out other spending priorities.

Expenditures on Medicaid and the Maryland Children’s Health Program are projected to increase at an annualized rate of 7 percent over the coming years, also significantly outpacing revenue growth.

Without fundamental changes, Maryland will spend nearly one-fifth of its general fund budget on medical assistance by FY 2011, and that percentage will continue to grow as the Baby Boom generation ages.

Recommendations Offered

Each year Annapolis delays in addressing its structural imbalance adds to the severity of the coming budget crisis. With that in mind, here are some recommendations lawmakers and the governor should consider:

Recapture lost “potential” revenue. Maryland should rethink its reliance on lottery revenues, which have proven to be very unstable. Those revenues should be replaced by an alternative revenue source, or lawmakers should reconsider legalizing slot gaming and other casino games. In addition, Maryland should examine the decline in the sales and use tax and business franchise taxes (relative to historical norms) and make the necessary adjustments to recapture the lost base.

Reform Medicaid. Under the federal Deficit Reduction Act of 2005, Congress gave states new latitude to alter Medicaid benefits, structure cost-sharing, and emphasize preventative care, expand the role of private insurers, and encourage patients to take more personal responsibility for their health care decisions. Program managers should use this flexibility to retool Medicaid and reduce the program’s overall cost.

Reform education. One-third of Maryland’s education spending goes to pay teachers, and of those teachers, one-third are not even college graduates. To keep the rest of the state afloat, Maryland is devoting more than one-fifth of its education dollars toward making ends meet.

Along with various dollar limit restrictions for sponsors, the draft proposal prohibits sponsorship by control products or services; or “Commentary, advocacy, or promotion of political issues or candidates; or “Depiction in any form of proflavity or obscenity, or promotion of sexually oriented products, activities, or materials; or “Promotion of the sale or use of firearms, explosives, or other weapons, or glorification of violent acts; or “Promotion or depiction of illegal products, or glorification of illegal activities, or materials; and “Promotion by sponsors that discriminate or are in any other way inconsistent with federal, state or local laws, or with the policies of the Commission.”

“The Washington State Parks and Recreation Commission is considering a draft proposal that would permit limited private ‘sponsorship’ of state parks.”

By Jason Mercier

The Washington State Parks and Recreation Commission is considering a draft proposal that would permit limited private “sponsorship” of state parks. The commission is currently gathering comments from stakeholders and hopes to have a finalized proposal available for consideration early next year.

According to the draft, “A sponsorship is a commercial relationship in which the Commission and the external entity exchange goods, services, or funds for public recognition or other consideration. ‘Sponsorship’ includes the right of an external entity to associate its name, products, or services with the Commission’s name, programs, services, or facilities.”

Agency Seeks Sponsors

The Seattle Times noted in a September 15 article, “The agency already has begun advertising for nonpotential sponsors.” Join the fun when Seattle’s active urbanites go play in the great outdoors!”

Along with various dollar limit restrictions for sponsors, the draft proposal prohibits sponsorship by organizations primarily engaged in any of the following activities or products:

• Promotion of the sale or consumption of alcoholic beverages, or promotion of establishments that are licensed to sell and primarily do sell alcoholic beverages, including bars; excepting establishments at which the sale of alcohol is incidental to providing food service or lodging;

• Promotion of the sale or consumption of tobacco products;

• Promotion of the sale of birth control products or services;

• “Commentary, advocacy, or promotion of political issues or candidates; or “Depiction in any form of proflavity or obscenity, or promotion of sexually oriented products, activities, or materials; or “Promotion of the sale or use of firearms, explosives, or other weapons, or glorification of violent acts; or “Promotion or depiction of illegal products, or glorification of illegal activities, or materials; and “Promotion by sponsors that discriminate or are in any other way inconsistent with federal, state or local laws, or with the policies of the Commission.”

“IT is encouraging to see the commission exploring ways to partner with the private sector,” said Amber Gunn, policy analyst for the Evergreen Freedom Foundation’s Economic Policy Center. “Hopefully other areas of government will learn from this example and consider additional competitive contracting and private sponsorship opportunities.”

Washington Begins to Explore Private Sponsorship of State Parks

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Jason Mercier (jmercerieffwa.org) is senior budget analyst at the Evergreen Freedom Foundation.

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Increase budget discipline. Maryland has adopted several procedures aimed at achieving budget stability, including five-year revenue forecasts, spending projections, a spending affordability process, and a well-managed reserve fund. But more is needed. Lawmakers should consider establishing five-year discretionary spending caps; adopting pay-as-you-go requirements so state spending won’t eclipse revenues; and instituting entitlement “triggers” to check mandatory spending growth.

Tori Gorman (torman@mdpolicy.org) is Concord Coalition policy analyst, a former economist for the Maryland General Assembly, and a visiting fellow at the Maryland Public Policy Institute. Karin Flynn (flynkp@gmail.com) is a management consultant.

INTERNET INFO

Organized Labor Supports Democrats with Biggest Voter Mobilization Ever

By Ryan Bedford

The labor movement geared up for its "biggest political blitz ever" in the November 2006 elections, according to the Capital Research Center. The AFL-CIO announced it intended to pour $40 million into 80 targeted races in 21 states—the largest voter organization drive in the history of organized labor.

That is only the tip of the iceberg and doesn’t account for in-kind contributions such as volunteer hours, phone lines, brochures, etc.

In a post-election news release, the AFL-CIO claimed to have accomplished the following:

• Reached 13.4 million voters in 32 states.
• Involved 205,000 volunteers who knocked on 8.25 million union doors; made 30 million phone calls to union voters; mailed 20 million pieces of mail to union members; distributed 14 million worksite fliers.
• Reached out to 496,000 drop-off voters (voters who participate only in presidential elections) in Ohio alone.
• Worked for minimum wage initiatives in every state where they were on the ballot: Arizona, Colorado, Missouri, Montana, Nevada, and Ohio.

Those numbers do not include election activities by the bitterly partisan Change to Win unions. Source: Capital Research Center, “Unions Hope to Put Democrats in Power,” http://www.capitalresearch.org/pubs/pdf/FLW1106.pdf

Unions to Press Agenda

With the Democratic Party in control of the Senate, unions will push to implement Card Check elections, which make workers vulnerable to union harassment during organizing campaigns. They are also planning to work to overturn the fall 2006 rulings in what are known as the Kentucky River cases, which expanded by about eight million the number of workers considered to be supervisors ineligible for union representation.

The Alliance for Worker Freedom has posted on its Web site a set of talking points that note the Card Check elections permit union organizers to observe as workers “check the card” to join and harass them when they don’t “vote” the right way. This is an assault on secret ballot elections, which gives workers the liberty to “decide on union membership free of influence by either the union or the employer.”

Talking points on the Kentucky River cases include the National Labor Relations Board definition of “supervisor” and note, “Nurses who regularly run shifts at health care facilities should be considered supervisors.”

Big Labor Backs Soros

George Soros has moved his focus from trying to buy the presidency to buying ideas and funding think tanks. The change has crippled many of the 527 organizations he has funded. 527s are political action committees not subject to the same regulations as PACs regulated by the Federal Election Commission.

In “George Soros: The Left’s One-Man Message Machine,” the Capital Research Center explains how Big Labor will more than make up for the lost revenue, noting, “labor-affiliated political action committee (PACs) raised about $100 million in 2005.”


Prevailing Wages, Crumbling Schools

Kentucky’s prevailing wage laws are as obsolete and dangerous as the dilapidated school buildings the state forces children to attend, according to the state’s budget director and a Kentucky-based think tank.

“Any policy that frustrates our objective of replacing those obsolete buildings is a policy that competes directly with one of our most important objectives, which is to empower our children with higher opportunities,” testified State Budget Director Brad Cowgill to the Kentucky House Labor and Industry Committee in 2006.

In “The pinch of prevailing wage,” Jim Waters, director of policy and communications for the Bluegrass Institute for Public Policy Solutions, explains, “Bricklayers aren’t the only ones carrying a heavy load as a result of the state’s prevailing-wage policy. It’s breaking the backs of teachers, students, and taxpayers, too.”


Ryan Bedford (rbedford@effwa.org) is a labor analyst with the Evergreen Freedom Foundation in Olympia, Washington.
‘Project Labor Agreements’ Send Construction Costs Soaring

By David Denholm

Government agencies across the country are being pressured by building trades unions to sign “project labor agreements” on public works construction projects. A “project labor agreement,” or PLA, is an agreement between the government body and the building trades unions requiring all workers on the project either to be union members or to be obtained through union hiring halls.

Proponents of PLAs contend they reduce costs by ensuring on-time completion of the project. That is another way of saying the project will not be delayed by labor disputes, even though there are several examples of strikes delaying projects covered by PLAs.

Scrapped PLA, Saved Millions

There is evidence, however, that PLAs substantially increase costs, in part because they severely reduce the number of companies willing to bid on a project. Fewer bidders mean higher bids.

A clear example occurred recently in Fall River, Massachusetts. The city had agreed to a PLA for school construction. There were few bidders, and in some construction categories there were none. The bids that did come in totaled $9.6 million over budget.

Fall River scrapped the PLA, resulting in at least three bidders in each category and savings of nearly $5 million.

Ron Cogliano, executive director of the Merit Construction Alliance in Massachusetts, told the Fall River Herald News in an October 6 article, “It is no coincidence that the new bids on the schools are substantially less than the bids made under a PLA. PLAs are discriminatory, unfair, and costly to taxpayers, who pay a premium for union-only labor but see absolutely no benefit for the increased price tag.”

Unions Want Protection

From a union point of view, PLAs became necessary as a result of at least two converging factors.

Years ago almost all major construction companies were unionized, and small open-shop firms were not in a position to compete for major public works construction projects. Now there are many large open-shop construction firms capable of successfully bidding on even the largest projects.

Moreover, several decades ago most construction workers were union members. In those days there was always a strong likelihood that the prevailing wage would be the union wage. This is no longer the case, because of the rise of nonunionized construction firms.

“Government agencies across the country are being pressured by building trades unions to sign ‘project labor agreements’ on public works construction projects.”

Also, in some areas, prevailing wage laws no longer provide unions the protection from competition that they once did. Because the construction workforce is not as unionized as it once was—just 31.1 percent of construction workers in 2005 were union members—it is somewhat less likely that union scale will be determined to be the prevailing wage.

David Denholm (david@psrf.org) is president of the Public Service Research Foundation in Vienna, Virginia.

Nonprofit Legal Services Corporation Is Living Large on Taxpayer Dollars

By Alexa Moutevelis

Free legal help is getting more expensive for taxpayers, and much of the money is going to waste.

The Legal Services Corporation (LSC), which receives $330.8 million in federal funding in fiscal 2006, distributes money to 138 local nonprofit legal aid organizations across the country to help provide free legal services for the indigent. However, the Associated Press reported in September that audits from the group’s internal inspector general, Kirt West, have caught the LSC inflating the number of applicants refused help and inflating the number of services for lack of resources. In the past, the Government Accountability Office has caught the LSC inflating the number of cases it works, so the proportion of applicants refused help may be even higher.

Shoot-the-Messenger Mentality

In April 2006, with examples of unseemly behavior from top board members met (over meals costing $8,726) to discuss firing the inspector general, when members of Congress caught wind of the board’s plans, they sent a letter to the board’s chairman warning them not to shoot the messenger.

Later, at Congressional hearings, the board denied wanting to fire West, but transcripts of the meeting proved otherwise, further reducing the board’s credibility.

The LSC is no stranger to controversy. In the past, LSC grantees have challenged states’ abortion restrictions, fought to give alcoholics and drug addicts Social Security Disability Insurance benefits. Grantees also have engaged in political advocacy, against the orders of Congress.

Alexa Moutevelis (amoutevelis@cagw.org) is a media associate at Citizens Against Government Waste. This article appeared in CAGW’s October 2006 Waste-watcher report. Used by permission.
U.S. Benefits from International Tax Competition

By Andrew F. Quinlan

The beneficial effects of international tax competition continue, 25 years after President Ronald Reagan and Prime Minister Margaret Thatcher of Great Britain reduced personal income tax rates. Many other nations followed suit, much to the benefit of the global economy.

In 2006 alone, plans for tax reductions and major reforms were announced by a string of nations, including the Isle of Man, Switzerland, the Netherlands, Germany, and New Zealand.

Government officials in all those nations have cited the need to make their economies more competitive in attracting foreign investment. All are finding ways to govern more efficiently, reduce tax rates, and thus keep jobs and capital within their borders.

The ultimate effect is a more robust global economy that benefits workers, consumers, and investors worldwide.

'Celtic Tiger' Roars Ahead

This is more than theory; it is real-world experience. A few years ago Ireland cut tax rates on corporations, capital gains, and personal income. Since then, the “sick man of Europe” has become the “Celtic Tiger.” Other European nations have been cutting corporate tax rates to keep pace.

In 2001, Russia abolished its so-called progressive tax and enacted a flat tax, in part because the Baltic nations of Estonia, Latvia, and Lithuania had adopted successful flat tax systems.

To remain competitive, other Eastern European nations soon went down the same path. Ukraine implemented a 13 percent flat tax, and Slovakia scrapped a tax code with a 38 percent top rate in favor of a 19 percent flat tax. Romania adopted a 16 percent flat tax, and Georgia now has a 12 percent flat tax.

Competition, Freedom Indispensable

To friends of free markets, there’s nothing surprising in this. We know that competition, and the freedom it requires, are indispensable foundations of prosperity.

Unfortunately, many lawmakers and policymakers today need to be educated on the importance of tax competition. Lower tax rates and tax reform came about in these cases because each nation started to compete for capital and labor. Like gas stations at a busy interstate exit, each has to fight for customers.

As Nobel laureate Milton Friedman has said, “Competition among national governments in the public services they provide and in the taxes they impose is every bit as productive as competition among individuals or enterprises in the goods and services they offer for sale and the prices at which they offer them.”

Unfortunately, there has been a growing threat to tax competition. Even though government officials in many countries have responded to competitive pressure by reforming their uncompetitive tax regimes and lowering tax rates—the correct approach—others are bucking the trend.

“...beneficial effects of international tax competition continue, 25 years after Ronald Reagan and Prime Minister Margaret Thatcher of Great Britain reduced personal income tax rates.”

‘Old Europe’ Attacks Competition

High-tax welfare states such as Germany and France have no desire to compete with low-tax nations. Their aim is to eliminate the competition, because tax competition threatens the revenues that support their top-heavy welfare states.

Big government is the status quo in much of Europe. In 1965, the 16 European Union nations paid 20 percent of their combined gross domestic product in taxes. By 2000, they were taking almost 42 percent.

But tax competition has forced them to begin trimming taxes, which have fallen about two percentage points since 2000.

That is not a big drop, but it’s enough to show welfare statisticians the writing on the wall. If tax competition continues to flourish, they will be forced to reduce and gradually abandon the state principles of their centralized, command-and-control economies and permit greater economic and political freedom.

Rather than do that, they have mounted an all-out offensive to preserve the status quo.

NGOs Provide Clout

High-tax European countries are using multinational organizations to press their agenda.

Operating through international bureaucracies such as the Organization for Economic Cooperation and Development (OECD), European Union (EU), and United Nations (UN), the welfare states of Old Europe are using their clout to dictate policies that are detrimental to lower-tax countries.

Those bureaucracies favor “tax harmonization” to combat tax competition.

Tax harmonization can be inflicted on low-tax countries in two ways. In some cases, the international bureaucrats argue for explicit harmonization, which would occur by forcing all nations to enact high tax rates. In other cases, they urge implicit forms of harmonization such as global information-sharing, so high-tax governments can track and tax capital that flees to lower-tax countries.

Many high-tax welfare states want low-tax nations to “share” private financial information on non-resident investors. If the OECD has its way, financial privacy will be emasculated, a goal it made explicit in June 2004 with its amended Tax Model Convention.

U.S. Is Target

The United States should care about this because even though U.S. tax rates are far too high and the aggregate tax burden is onerous, American taxpayers are lucky compared with their counterparts in the nations of Old Europe. As such, this anti-tax competition campaign by Old Europe, the OECD, the EU, and the UN is particularly worrisome.

As evidence builds for fundamental tax reform in the United States, international pressure would make it all the more difficult to achieve any real results.

According to the Commerce Department, foreigners have invested more than $10 trillion in the U.S. economy. This money creates a huge number of jobs and dramatically boosts American prosperity, but our competitive position will be undermined if European governments are able to reach across the ocean and tax that money.

Coalition Defends Competition

To combat such proposals, the Center for Freedom and Prosperity started the Coalition for Tax Competition, which includes more than 35 influential organizations. Participants include The Heritage Foundation, Cato Institute, the American Enterprise Institute, American Conservative Union, Americans for Tax Reform, FreedomWorks, National Taxpayers Union, and the Small Business & Entrepreneurship Council.

The coalition is fighting to restrict funding to the OECD and UN and other international organizations if they continue to promote taxing U.S. citizens and corporations or otherwise interfering with American tax policy. The coalition has been successful in stalling the advancement of these schemes so far, but continued vigilance is needed.

Andrew F. Quinlan (quinlan@freedomandprosperity.org) is president and CEO of the Center for Freedom and Prosperity and its affiliated think tank, the CFP Foundation.

For more information on tax competition, tax harmonization, and the OECD and UN tax grab schemes, visit the Center for Freedom and Prosperity’s Web site at http://www.freedomandprosperity.org.
Who’s Really Behind the Anti-Wal-Mart Campaign?

By Steve Stanek

To be honest, not to toot my own horn, but ACORN was really and truly [sic] the backbone of the ordinance. We did most of the organizing and turn out.

This is part of a message I found in my email inbox in early November, following Chicago Mayor Richard Daley’s veto of a “big-box” living wage ordinance covering retail stores that sell goods at bargain prices. I was baffled by the email, sent by Shiren Rattigan-Ouni, special project coordinator for ACORN-Chicago.

Why would someone at ACORN (Association of Community Organizations for Reform Now) admit to a reporter that ACORN had orchestrated public support for an ordinance that would have required stores of at least 90,000 square feet operated by firms with $1 billion or more in annual sales nationwide to pay workers $10 an hour and another $3 an hour in benefits?

I had written about Chicago’s big-box ordinance and Daley’s veto for the November issue of Budget & Tax News, and even though I quoted an ACORN representative in the article, I was still taken aback by the email.

Left-Wing Advocacy

ACORN, a national organization of low- and moderate-income persons, has been around since the early 1970s. The organization claims about 175,000 member families in 80 cities and advocates left-wing populist approaches to a variety of issues including public housing, jobs, wages, taxes, and voter registration.

ACORN has been calling for “living wages,” which would raise wages for low-skilled workers and boost union membership by wiping out the price advantage non-union jobs have over union jobs.

While advocating living wages, though, ACORN has opposed paying even minimum wages to its own workers.

Sought Minimum Wage Exemption

This was made apparent back in 1995, when ACORN sued the state of California to be exempted from paying its own workers the minimum wage. According to the December 21, 1995 ruling of the California Court of Appeal, First Appellate District:

“ACORN contends that California’s minimum wage laws ... are unconstitutional as applied to ACORN because they restrict ACORN’s ability to engage in political advocacy. According to ACORN, this adverse impact will be manifested in two ways: first, ACORN will be forced to hire fewer workers; second, its workers, if paid the minimum wage, will be less empathetic with ACORN’s low and moderate income constituency and will therefore be less effective advocates.

“Leaving aside the latter argument’s absurdity (minimum wage workers are ipso facto low-income workers) as well as irony (an advocate for the poor seeking to justify starvation wages), we find ACORN to be laboring under a fundamental misconception of the constitutional law.”

A 2003 study of ACORN by the Employment Policies Institute noted, “ACORN pays a wage of $5.67 per hour, less than half the level demanded by many proposed ‘living wage’ ordinances that ACORN supports.”

Despite ACORN’s demands that all workers be allowed to organize, ACORN has tried to prevent its own workers from joining unions. In March 2003, after firing workers who had tried to organize, ACORN lost its final appeal of a National Labor Relations Board ruling, which found ACORN had violated the rights of its employees to unionize.

Not a Grassroots Movement

I’m just guessing, but I think my ACORN correspondent mistook me for another Steve Stanek, one who apparently is a student at Northwestern University in the Chicago suburb of Evanston and writes for the school’s Medill News Ser-

Eleven-year-old Jordan Negley holds up an ACORN (Association of Community Organizations for Reform Now) flag during an August 9, 2004 rally to kick off the group’s minimum wage campaign. ACORN doesn’t practice the populist rhetoric it preaches, though; in 1995, the group sought to have itself exempted from California’s minimum wage laws.

A quick Google search shows he has written about Chicago’s big-box ordinance and living wage laws.

Rattigan-Ouni thanks him (in the email sent to me) for “publishing a fair article about the Living Wage” and also describes his article as “a breath of fresh air.”

I’m not sure which of his articles Rattigan-Ouni is writing about, but no matter. I’m glad to have on the record that ACORN was the spoon that stirred the big-box kettle.

Supporters of the big-box ordinance had taken pains to convince news reporters and city officials a grassroots movement was afoot. Now here, in my email inbox, is the special project coordinator for ACORN-Chicago, a group that opposes paying its own workers a living wage or allowing them to join unions, admitting it led the effort.

Daley and the city’s voters would do well to remember ACORN’s hypocrisy regarding wages and union organizing, and voters around the country should be suspicious of groups such as ACORN that don’t practice the populist rhetoric they preach.

Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News.
Isn’t it time you joined a think tank?

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* Source: Bureau of the Public Debt, U.S. Department of the Treasury

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</table>

❑ My check in the amount of $_______ is enclosed. ❑ Charge $_______ to my ❑ Visa ❑ MC ❑ Am Ex

ACCOUNT NUMBER

EXPIRATION DATE

SIGNATURE

NAME

TITLE/COMPANY

ADDRESS

CITY/STATE/ZIP

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Please return this form to:
The Heartland Institute
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Chicago, Illinois 60603
fax 312•377•5000