States, Feds Look to Hike Minimum Wage

Sen. Edward Kennedy (D-MA) speaks at a rally for increasing the federal minimum wage, in Washington on November 16, 2006. Six states raised their minimum wages as a result of the midterm elections. Kennedy was joined by Sen. Charles Schumer (D-NY) and Sen. Hillary Clinton (D-NY).

Effect on minorities and poor is likely to be negative

By John W. Skorburg

The stage is set for 2007 to be a hot year in the debate over raising the minimum wage. In November 2006, voters in six states approved initiatives to increase their minimum wages. Illinois lawmakers approved a minimum wage hike in November. Iowa and New Mexico lawmakers vowed to raise minimum wages as soon as their legislative sessions open in 2007. “But they’ll have to act quickly, or Congress could beat them to the punch,” said Christine Vestal of stateline.org. “The new Democratic congressional leadership also has announced plans to raise workers’ pay in its first 100 days, a move that could take the wind out of state efforts to boost wages.”

Minimum wages were increased in 2006, effective in 2007, to $6.85.

Pocketbook Issues Were Key to November 2006 Election

By Peter J. Sepp

In politics, election results usually are known within a few hours after the polls close, but the real story often takes more time to emerge.

So it has been with the November 2006 contest. In their haste to view the Democrats’ takeover of the House and Senate as a consequence of the Iraq War and scandals in Congress, the pundits overlooked another important factor: tax and budget issues.
One and two are where numbers start — not where they end. And in politics, right and left are part of the equation, but not the sum total. That’s why so many people say “right” and “left” fall short of properly defining their politics.

No wonder. A simple line from “left” to “right” isn’t sophisticated enough to include every possible variety of political ideology. That’s where the World’s Smallest Political Quiz comes in. It’s a better “map” of politics. Answer 10 questions about personal and economic issues, and the Quiz pinpoints your political identity on its innovative political “Diamond Chart” that includes liberal, conservative, libertarian, statist, and centrist.

The World’s Smallest Political Quiz has been praised by the Washington Post, and more than 7.8 million people have taken it online. What’s your real political identity? Take the Quiz. For each statement below, circle A for agree, M for maybe/not sure, and D for disagree. Then find your position on the chart.

How do you stand on PERSONAL issues?

- Government should not censor speech, press, media or Internet. A
- Military service should be voluntary. There should be no draft. A
- There should be no laws regarding sex between consenting adults. A
- Repeal laws prohibiting adult possession and use of drugs. A
- There should be no National ID card. A

PERSONAL SCORING: Take 20 for every A, 10 for every M, and 0 for every D: ___________

How do you stand on ECONOMIC issues?

- End “corporate welfare.” No government handouts to business. A
- End government barriers to international free trade. A
- Let people control their own retirement: privatize Social Security. A
- Replace government welfare with private charity. A
- Cut taxes and government spending by 50% or more. A

ECONOMIC SCORING: Take 20 for every A, 10 for every M, and 0 for every D: ___________

Find Your Place on the Chart

Mark your PERSONAL score on the lower left scale; your ECONOMIC score on the lower right. Then follow the grid lines until they meet at your political position. The chart shows the political group that agrees with you most. LIBERALS tend to value personal freedom. CONSERVATIVES tend to value economic freedom. LIBERTARIANS value both. STATISTS are against both. CENTRISTS tend to hold different values depending on the issue.

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Double Taxation of Dividends Should End

By Robert H. Albrecht

There is no good reason for government to tax dividends twice, as it now does, and many reasons not to.

Companies need capital to finance a business. There are three sources for a company to raise capital: (1) issue stock, (2) borrow by issuing bonds, and (3) earnings. Finances for the start-up of a company and the company’s growth come primarily from proceeds from stock sales and sales of bonds.

Owning stock amounts to having voting rights and some control of the company. Most companies now pay zero or very low dividends on stock. The result is that shareholders pay little or no attention to how well the company is run. This lets top management pad their own pay with stock options, take bonuses (even when their company is going bankrupt!), and give themselves numerous perks (perhaps we should call them perks).

Because dividends are paid after operating results are in, and bond interest on debt is an operating expense, there is reluctance by management to pay much in dividends.

“This is no good reason for government to tax dividends twice, as it now does, and many reasons not to.”

6. A huge additional benefit is that companies will value loyal workers more than machinery. There will be fewer sudden layoffs of workers, fewer mergers, fewer buy-outs of competition, and a drop-off in problems from near-monopolies.

7. Tax evasion, especially at the top levels of management, could be controlled more effectively, and the IRS tax codes could be greatly minimized. Individuals would be able to prepare their own income tax returns again.

Robert H. Albrecht (think@heartland.org) of suburban Chicago has spent most of his more than 90 years of life as a businessman, and he continues to take a keen interest in business and government policies that affect business.
Minnesota Budget Surplus Brings New Pressure for Property Tax Relief

By Mark Giga

I f all politics is indeed local, there was no more political issue during the 2006 legislative campaign in Minnesota than property taxes. From gubernatorial and state legislative candidates to city council and school board elections, rising property taxes and what to do about another year of increases already imposed was the dominating issue of the November election. The issue was further complicated by the November 29 announcement from the state’s Department of Finance of a projected $2 billion budget surplus.

Taxes Up 8.2 Percent

Taxpayer advocates and property owners, who are facing an overall property tax levy increase of 8.2 percent this year, following increases that have averaged 7 percent over the past three years, are less than optimistic despite the state’s good fortune. “Using the surplus for property tax relief sounds great, but the devil may be in the details. Anything short of permanent reform like TABOR-style [Taxpayer Bill of Rights] limits or a reverse referendum process may just lead to taxpayers getting ripped off,” said David Strom, president of the Taxpayers League of Minnesota.

Strom’s concern is echoed by incoming House Minority Leader Marty Seifert (R-Marshall). “We’re going to look at property taxes as the special interests second,” Seifert said.

Those special interests may be more formidable now that the Minnesota Democratic Farmer-Labor (DFL) party has regained the majority in the House and increased its margin in the Senate. Special interests helped torpedo direct property tax relief at the end of the 2006 legislative session by instead pushing for more state aid to local units of government and public school districts. “Only increasing aid payments to local units of government or school districts won’t provide any relief” for taxpayers, Strom said.

“Anything short of permanent reform like TABOR-style [Taxpayer Bill of Rights] limits or a reverse referendum process may just lead to taxpayers getting ripped off,” said David Strom, president of the Taxpayers League of Minnesota.

New Jersey

Continued from page 1

State House observers, the proposal, announced in November, resembles previous tax relief programs that proved short-lived and ineffective. “A slipshod reform effort,” opined the Star-Ledger, New Jersey’s largest daily newspaper. The Express-Times editorialized, “Once again, the tax-reform momentum is sliding in the wrong direction—higher fees, more spending, and an unwillingness to address the size of government.”

“After three months of extensive and intensive study, the New Jersey Legislature has begun considering 98 policy initiatives aimed at reducing the state’s reliance on local property taxes.”

Who Gets Break?

Petition writers were reacting primarily to the central recommendation, which calls for a 20 percent reduction in the local property tax paid by homeowners. It is not clear which homeowners would qualify for the program, and legislative leaders did not specify the proposal’s cost or identify the revenue sources to pay for it.

To construct a more substantial and durable property tax relief program and reduce the pressures that cause local spending to increase, the legislature in 2006 established four bicameral and bipartisan committees to examine such issues as consolidating local jurisdictions, regionalizing local services, taxing commercial property at a higher rate than residential property, restructuring public employee pension and medical benefits, and writing a new school funding formula.

Funding Shortfall?

In November, the four committees issued reports which recommended, among other things:

• increase the pension retirement age for government workers from 55 to 62;
• require public employees to contribute to their medical benefit premiums;
• move school board elections from April to November;
• impose county-based management on some school district administrative functions; and
• cap property tax increases for education spending.

While many of the recommendations are far-reaching and challenge powerful special interests, they appear to fall short of paying for the expensive direct property tax relief proposal.

Tom Moran, a respected Star-Ledger columnist, wrote on November 17, “The 98 reforms in the Democratic package … will not finance the 20 percent credit Democrats are promising. If you ask 10 Democrats where they hope to get that money, they give you 10 different answers. Ask [Assembly Speaker Joe] Roberts (D), and he acts like a game show host with a hidden price behind a curtain.”

Another $18 to Schools?

Jerry Cantrell, president of the Silver Brigade, a grassroots taxpayer advocacy group, noted, “The school funding committee is writing a new school funding formula that will give maybe $1 billion more in state aid to school districts. Due to the lack of tax dollars, the current formula is not fully funded. How do legislators expect to pay for a more expensive aid formula when they haven’t funded the existing one?”

Cantrell noted that in July lawmakers increased the sales tax from 6 to 7 percent and earmarked one-half of the increase to be used for property tax relief. “Even before they had devised the 20 percent property tax relief program, lawmakers were raising taxes to pay for it,” Cantrell said. “We should expect more of the same.”

The property tax relief proposal and related recommendations aimed at reducing local government spending were prompted by the public’s demand for action. Surveys consistently show property taxes are New Jersey voters’ number one concern.

Nation’s Highest Tax Burden

Garden State residents pay the highest per-capita property taxes in the country, according to the Washington, DC-based Tax Foundation. The Star-Ledger calculated the average 2005 property tax bill in New Jersey was more than $5,800. New Jersey property taxes result primarily from two facts.

First, the property tax is the only broad-based tax available to counties, municipalities, and school districts to fund the services they provide.

Second, local government spending is high. New Jersey’s per-pupil school spending may be the highest of the 50 states, at $12,981 a year in 2004, according to the latest Census Bureau report on public school funding. The heavy reliance on the property tax coupled with high spending means New Jersey residents shoulder heavy property tax burdens.

Prior Failures

Previous attempts at providing property tax relief did not actually reduce tax bills but instead provided only limited, temporary rebates. When tax revenues were available, the state government sent checks to selected residential property taxpayers. Sometimes these rebate programs were funded by raising other taxes. In good economic times, the programs were expanded. In bad times, they were reduced or eliminated.

Equally important, the programs did not reduce the growth in property tax increases. From 2002 to 2005, the average property tax bill increased by 29 percent, according to a Star-Ledger analysis.

Part of the DFL’s reasoning for increased education funding stems from compromises made during the 2003 legislative session, when the state balanced a $4.5 billion budget deficit in part by shifting a portion of education funding to local levels of government. Reliance on local referenda, combined with increased nonessential spending by city and county governments, has been the primary driver behind recent property tax increases, according to a 2005 report by the State Auditor.

Governor Proposes Tax Cap

But even with both houses of the state legislature controlled by Democrats, the final word on property tax relief may come from Gov. Tim Pawlenty (R). A longtime advocate of holding state spending increases to a rate comparable to inflation plus population growth, Pawlenty will now recommend the same for property taxes, according to spokesman Brian McClung.

“The governor has proposed a reasonable cap on property tax increases, such as population growth plus inflation, and will be taking that proposal to the 2007 Legislature,” McClung told WCCO-TV in Minneapolis for a November 23 report.

Order of the Day

States are finding new ways to provide property tax relief. In New Jersey, Speaker Robert Reed (R-Union) introduced a bill in the Senate to cap property tax increases. The bill, Senate Bill 18, would place an annual cap of 3 percent on property tax increases.

The bill has not been introduced in the House, but House Speaker Joe Roberts (D-Clifton) has indicated his support for the legislation. If passed, the bill would cap property tax increases at 3 percent for two years, with the cap increasing to 4 percent in the third year.

The bill has been referred to the Senate’s Appropriations Committee, where it is likely to face opposition from members of the Senate. The bill has not been introduced in the House, but House Speaker Joe Roberts (D-Clifton) has indicated his support for the legislation.

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Newest Sin Tax Targets: Soft Drinks, Vending Machines, Drive-Throughs

By Sandra Fabry

West Virginia lawmakers passed a series of bills during a special session in November 2006 that would raise the sales tax on soft drinks and vending machine items to 6 percent while reducing the food tax to 3 percent by 2008.

The legislative package was a compromise, reached after Gov. Joe Manchin (D) initially called for a tax increase on junk food and soft drinks.

The West Virginia legislature’s action fits a pattern that has been increasingly visible recently.

Shift Toward Excise Taxes

A recent study (“State Tax Trends Over Twenty-Five Years: Tax Increases Down, Revenue Sources Shifting”) by Daniel Clifton and Elizabeth Karasmeighan of Americans for Tax Reform shows a shift away from broad-based income tax increases and sales taxes to targeted tax increases, particularly taxes on products some consider sinful, such as tobacco and alcohol.

“By targeting their tax increases to narrower segments of the population, legislators divide taxpayers into smaller groups and minimize voter backlash,” Clifton and Karasmeighan explain in their report.

While the West Virginia tax package exemplifies the shift toward targeted taxes, tobacco tax increases have been the poster child of this trend, with numerous states recently hiking their rates and others still considering hikes.

Tobacco Tax Hikes

On November 17, 2006, Indiana Gov. Mitch Daniels’ (R) office issued a news release in which Daniels said, “Indiana can’t be a healthy state with the second highest rate of smoking in the country, and we can’t lower our smoking rate when we sell some of the cheapest cigarettes in America.”

The governor’s statement accompanied a proposal to increase the state’s cigarette tax by at least 25 percent.

In Iowa, where health activists and special interests have long pushed for a cigarette tax increase, Iowa Gov. Chet Culver (D) said raising the cigarette tax “will be a priority in the Culver administration.”

Iowa’s Republican House leadership had previously blocked a cigarette tax increase. With both houses now under Democrat control, incoming Senate Majority Leader Mike Gronstal (D-Council Bluffs) believes a cigarette tax increase is likely to pass. He told the Des Moines Register for a Register for a November 27, 2006 article, “I certainly think lots of things are possible now that weren’t possible before.”

Taxpayer groups point out that tobacco tax increases, like any tax increase, drain money out of the private sector and impose a selective, disproportionate burden on low-income taxpayers for consuming a legal product.

TV Taxes

But for groups who are unimpressed by economic arguments, like the Center for Science in the Public Interest in Washington, DC, tobacco taxes are only the tip of the iceberg. They advocate higher excise taxes on everything from fatty foods to cars and TV sets.

In an oft-quoted comment that fueled debate between Tucker Carlson and the center’s director, Michael Jacobson, on CNN’s Crossfire program in 2002, Jacobson said, “We could envision taxes on butter, potato chips, whole milk, cheeses, fries, meat.”

While the American Medical Association recently backed away from recommending a tax on soft drinks to battle obesity, the issue of higher taxes on things that are perceived to be bad for us is far from dead.

Drive-Through Tax

In the October 19, 2006 New York Times, Martin B. Schmidt, a professor of economics at the College of William & Mary, called for a 10 percent tax on drive-through foods, while leaving walking-in orders alone.

“At the very least,” Schmidt told the Times, “it may entice some to park and walk rather than waiting in the car.”

He continued, “Imposing a drive-through tax would be one way of recouping future taxpayer outlays—perhaps revenues could go directly to government health programs. And who knows, it could help the environment, too: With one move, we could fight obesity and reduce emissions at the same time.”

Grover Norquist, president of Americans for Tax Reform, wonders where big government busybodies will draw the line.

“The food police are at it. Soda is bad for you; slap a tax on it. Fat is bad for you; slap a tax on it. Salty food is bad for you; slap a tax on it. Where does it end?” Norquist said.

“A recent study ... shows a shift away from broad-based income tax increases and sales taxes to targeted tax increases, particularly taxes on products some consider sinful, such as tobacco and alcohol.”

Additional Burden on Poor

While acknowledging there is a measurable, albeit small, increase in Americans being overweight, Dr. Elizabeth Whelan, president of the American Council on Science and Health, thinks taxing certain food groups is the wrong answer to the obesity problem.

“Taxing certain foods is one of the strategies the big government advocates are looking at,” Whelan said. “From a scientific point of view, I cannot possibly see how that’s going to do anything except to add a burden on people at the lowest economic level, who spend such a disproportionate amount of their income on food.

“Food obviously supports life. ... and the idea of taxing food to deter people from buying certain foods is such an unscientific way of addressing the obesity issue,” Whelan said.

Norquist thinks government is clearly overstepping its bounds when it imposes taxes on particular foods.

“Obesity may be a problem in this country, but even if you accept the premise that it is a public health issue and not a personal health issue, the tax code is not the place to try to solve this problem. The tax code should not be corrupted and used as a consumer control device, but solely as a means to raise revenue for necessary, and only necessary, programs,” Norquist said.

Tax Neutrality Important

That standard has been accepted as a key guideline by the National Conference of State Legislatures.

“The primary purpose of a revenue system is to raise money. One of the goals of a revenue system is to be economically neutral, a goal that is inconsistent with the use of tax policy to make budget decisions or to influence behavior,” NCSL states in its “Principles of a High-Quality State Revenue System.”

Still, a number of states are expected to consider raising taxes on various foods and drinks, along with higher taxes on tobacco products, in the coming months.
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Utah Lawmakers Consider Congestion Pricing Instead of Taxes for Roads

By Mike Jerman

Despite recent sales tax hikes in Salt Lake and Utah Counties, some Utah state and local officials are talking about more tax increases for transportation.

In response, other lawmakers are suggesting an alternative to further tax hikes: congestion pricing.

"Congestion pricing pencils as a more efficient user fee than a gas tax in maximizing the use of road infrastructure," said state Sen. Sheldon Killpack (R-Syracuse), chairman of Utah's Senate Transportation Committee. "A gas tax simply assesses a cost per gallon and does not make a distinction between efficient user fee than a gas tax in maximizing the use of road infrastructure."

Utah Lawmakers Consider Congestion Pricing Instead of Taxes for Roads

Sales Taxes Already Rising

State Rep. Becky Lockhart (R-Provo), whose district is one of the fastest growing in Utah, said, "Utah relies on multiple revenue sources, including user fees and general taxes, to finance road construction and maintenance. Congestion pricing is another tool in the toolbox of funding options."

However, in a recent forum in which transportation issues were discussed, state Sen. Ed Mayne (D-West Valley) recommended an annual $500 million increase in state sales taxes to fund additional transportation projects. But with the chairman of the Senate transportation committee and other lawmakers open to congestion pricing, and the state already having imposed recent tax hikes to fund transportation projects, more taxes may be a hard sell.

Salt Lake and Utah Counties in November enacted 0.25 percent sales tax hikes, with the additional money to be spent on transportation projects, including preservation of transportation corridors. In Salt Lake County, the total sales tax rate (state and local combined) has risen to 6.85 percent. In Utah County, the new rate is 6.5 percent.

Pricing Influences Demand

Vehicle miles traveled in rush hour in the Salt Lake City area have been growing faster than population, imposing a huge burden on the transportation infrastructure.

Congestion pricing is a form of variable tolling in which the toll increases as congestion increases. For example, a driver would pay more to drive during peak traffic hours but little or nothing to drive during off-peak hours. Congestion pricing gives commuters a financial incentive to car pool, telecommute, travel earlier or later, live closer to work, or embrace a combination of options. Other taxes such as sales taxes do not provide such incentives.

In most areas with congestion pricing, it is implemented by having drivers mount transponders on the dashboards of their cars. The transponders communicate with the highway's tolling system.

When drivers with transponder-equipped vehicles enter a zone where congestion pricing is in force, their credit cards are billed. Drivers without transponders are identified using license plate numbers and billed.

Multiple Taxes in Place

Opponents of tolling argue that tolls are a tax increase ... but toll opponents are themselves proposing massive increases in sales taxes. Toll opponents also argue tolling is a "double tax" because motorists are "already paying at the pump."

But supporters of congestion pricing note taxpayers are already paying multiple taxes for transportation:

- twice at the pump (federal and state gas taxes);
- three times at the cash register (portions of state, county, and city sales taxes are used for roads);
- once when they buy a newly built home (many cities impose impact fees for roads); and
- twice when they register their vehicles (state and some counties).

Mike Jerman (mike@utahtaxpayers.org) is vice president of the Utah Taxpayers Association.

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Giving money and power to government is like giving whiskey and car keys to teenage boys.

—P.J. O'Rourke

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Limited Government – Low Taxation – Free Enterprise
Lancaster Convention Center Battle
Shatters Penn. Amish Country Calm

By Christiaan A. Hart Nibbrig

The project started out modestly enough.

In 1999, a $75 million convention center and hotel was conceived for downtown Lancaster, Pennsylvania, a city of about 50,000 in a county with a population of approximately 500,000.

Private investment would cover $40 million. The rest would be absorbed by a state grant of $15 million and a $20 million bond supported by a hotel room tax levied against every hotel and motel in the county.

Today the project, which hasn’t begun construction, has mutated into a $175 million behemoth, of which only $11 million is private investment, less than the private investors will make on $11 million.

Local officials are concerned because of the projected annual deficit of up to $6.5 million to a single law firm.

The administration of the project has prompted public demands for greater disclosure and a call by three members of the authority board for a district attorney investigation of expenditures.

One of the three board members to call for the investigation is business owner Laura Douglas. She said, “Quite simply, the Convention Center Authority is the worst-run organization I have ever encountered, let alone been a part of. It is very clear to me that this authority has no regard for the source of its revenues, the taxpayer. I have absolutely no confidence at all in this authority’s ability to build this project and keep it within budget, much less run the facility after the fact.”

Investigations Requested

The Lancaster project is administered by a seven-person joint city-county-appointed authority, which has spent more than $7 million to date—including more than $4.5 million to a single law firm.

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“In 1999, a $75 million convention center and hotel was conceived for downtown Lancaster, Pennsylvania...

Today the project, which hasn’t begun construction, has mutated into a $175 million behemoth...”

The project is touted by sponsor Penn Square Partners as a way to revive a moribund city economy. According to the group, the convention center/hotel promises to attract tourist and investment dollars into the city.

Penn Square Partners includes the formidable union of the area’s largest industrial firm (High Industries), biggest bank (Fulton Bank), and monopoly newspapers (Lancaster Newspapers, Inc.).

Newspapers at Center

The role of project partner Lancaster Newspapers, Inc. (LNP), a 44 percent project owner, has been pivotal.

LNP publishes two dailies and a Sunday paper and has been run by the same family since the mid-nineteenth century. Critics of the project accuse all three Lancaster newspapers of using their news and editorial pages to cheer for the project and report events selectively and with bias.

The newspapers have further been accused of using their monopoly position to attack two of the authority’s three sitting county commissioners, Chairman Dick Shellenberger, a Republican, and Molly Henderson, a Democrat.

Commissioners Stand Firm

Shellenberger and Henderson, elected after the previous board entered into the county bond guarantee agreement, have challenged the viability of the project and the validity of the county’s portion of the $40 million bond.

They also have expressed concerns that a project failure will lead to pressure for a county bailout at taxpayer expense.

“My job is to protect the taxpayers of Lancaster County,” said Shellenberger, “and I believe this project is too risky. And I cannot, and will not, support that, no matter what they write about me.”

Even the market studies commissioned by developers Penn Square Partners suggest Lancaster’s relatively weak position in the convention center market.

Those studies point out the local airport provides service only to Pittsburgh and has only three flights per day. The city lies 20 miles off the Pennsylvania Turnpike and is not served by any through interstate highway.

The convention center would be located in the most congested part of downtown Lancaster, and visitors arriving by automobile would have to wind their way through a maze of difficult-to-navigate city streets. The studies also noted a paucity of downtown attractions.

Bond Guarantees Opposed

A poll sponsored by the local Fox television affiliate and conducted by national pollster Opinion Dynamics, Inc. showed a local public about evenly divided about building a convention center.

But when county residents were asked if they support taxpayer guarantees of the project bonds, 78 percent of county residents with an opinion said they were opposed.

The Lancaster Newspapers never published the results. A private citizen took out an advertisement in the newspapers showing the results.

The project has provoked significant organized opposition, street protests, flier campaigns, opposition Web sites, and unruly public meetings. Some landmark buildings have already been demolished to make way for the project.

CONTINUED on right

Deficits Projected, County Officials Worried

An independent feasibility study of a convention center project to be funded largely by taxpayers in Lancaster, Pennsylvania concluded the project “should be downsized or an alternate use for the site” should be found. The study projected an annual deficit of up to $4.8 million even after public subsidies.

Lancaster County officials ordered the study in 2006, nearly seven years after the project was proposed, and after seeing the project more than double in size to $175 million from $75 million—and go from largely private financing to mostly public financing.

Market Problems Nationally

A report published in 2005 by The Brookings Institution underscores the problems of the convention center market nationally.

“While the supply of exhibit space in the United States has expanded steadily, the demand for convention and trade-show exhibit space has actually plummeted,” wrote Heywood Sanders, author of “Space Available: The Realities of Convention Centers as Economic Development Strategy.”

Treasurer Concerned

The man responsible for collecting a Lancaster-area hotel room tax, 80 percent of which would go to help fund the convention center, is Lancaster County Treasurer Craig Ebersole. Ebersole expressed concern about the bottom line.

“If there is a funding gap between revenues, debt service, and operating expenses,” Ebersole said, “the first monies in play would be the portions of the lodging tax currently paid to the Pennsylvania Dutch Visitors Bureau for promoting the convention center.

“If this happens,” Ebersole continued, “and marketing money is used to simply pay light and heating bills, a slippery slope could quickly become a downward spiral. Thus the County Government Tax Fund would be in play in this scenario.”

Legality Questioned

Other project critics include former Lancaster City Controller Robert “RB” Campbell, who refused to sign convention center papers on behalf of the city because of questions about city financing.

“I am concerned that the taxpayers of the city are being unfairly burdened with the majority of the financial risk, with very little risk to the private partners,” Campbell said.

Frankly, it appears to be a scheme to shelter the owner of the proposed hotel.

“I am concerned that the taxpayers of the city are being unfairly burdened with the majority of the financial risk, with very little risk to the private partners.”

ROBERT “RB” CAMPBELL
CITY CONTROLLER
LANCASTER, PENNSYLVANIA

from having to pay their fair share of property taxes and various fees to the city, and it may be illegal,” Campbell concluded.

—Christiaan A. Hart Nibbrig

Delays, High Costs Hit Des Moines Project Governed by Labor Agreement

By Steve Stanek

Despite a Project Labor Agreement (PLA) that supporters said would ensure on-time work and on-budget costs, significant construction delays and higher costs have plagued the Iowa Events Center in Des Moines, according to a 2006 report by the Public Interest Institute (PII) in Mt. Pleasant, Iowa.

Critics say PLAs raise prices by forcing the project to be manned by union labor, which reduces competition for bids.

The Iowa Events Center project was conceived by the Polk County Board of Supervisors in 2000 to help revitalize the downtown Des Moines area. The project included construction of the new Wells Fargo Arena and Hy-Vee Hall and renovations to the existing Veterans Memorial Auditorium.

“The use of a PLA on this construction project placed an unnecessary burden on the workers who were frozen out of the opportunity to work, businesses that were not allowed to compete, and the taxpayers who were forced to pay even more for the Iowa Events Center construction because of the cost overruns of the project,” said PII President Don Racheter.

No PLA, Lower Costs

The Tyson Events Center in Sioux City, Iowa is similar to the Iowa Events Center, with new construction and renovation of existing facilities. The Tyson Events Center project did not use a PLA, however, and was completed on time (it opened at the end of 2003) and on budget.

The cost of the entire Tyson Events Center project was $245 per square foot, compared to $268 per square foot for the Iowa Events Center. When comparing only the newly built portions of each project, the Tyson Events Center’s cost is $233 per square foot, compared to $315 per square foot for the Iowa Events Center.

That’s a difference of $82 per square foot.

According to Polk County Auditor’s Reports for the fiscal year ended June 30, 2010, the Iowa Events Center was projected to cost up to $200 million. But by fiscal year 2005, the cost had risen to $217 million, according to the auditor.

Agreement Struck in 2002

Supervisors approved a PLA with the Central Iowa Building and Construction Trade Council for the Iowa Events Center in 2002, arguing the agreement was necessary to complete the project on time, on budget, and safely.

Because events must be scheduled well in advance in this type of venue, completing the project by the specified opening date was vital.

The first event scheduled to be held at Hy-Vee Hall was the 2004 Autumn Festival Arts and Crafts Show. Although that event was scheduled nearly two months after the project completion date of the hall, construction was not finished on time. Officials halted work for the weekend and opened the hall temporarily in order to hold the long-planned fall festival.

Hy-Vee Hall and Wells Fargo Arena were completed 105 and 40 days, respectively, after the promised dates of completion.

Many Bidders Shut Out

While proponents of PLAs, mainly unions and their supporters, claim these agreements are necessary to prevent disruptions such as strikes or work slowdowns on construction work projects, opponents believe PLAs can be and are being used to circumvent right-to-work laws by effectively requiring non-union construction companies to become “unionized” to bid on and participate in a construction project governed by a PLA. Iowa is one of 22 right-to-work states.

The Iowa Events Center PLA established requirements for contractors that kept non-union and many union companies from bidding on the project, reducing competition and raising costs.

The PLA required contractors to recognize “the Union as the sole and exclusive bargaining representative of all craft employees” and “hire employees for covered work through the job referral systems offered by each signatory Local.”

Contractors who were not parties to the current collective bargaining agreement between the trade unions and contractors—in other words, non-union shops—were allowed to employ their “core” employees on the project, but only if those employees applied to the local union for project work.

Court Appeals Pending

The outcome may hinge on two legal appeals pending in Harrisburg. One is before the Commonwealth Court, and the other is before the state supreme court. The county government is taking the lead in both suits opposing the financing on the project, and a local businesswoman also has intervened.

Pending before the Pennsylvania Supreme Court is a challenge to a $20 million state grant for the project, citing the Uniformity Clause of the Pennsylvania Constitution.

The county is arguing that Act 42 of 2006, which modified requirements in a state grant program under Act 23, creates a non-uniform means of taxation because it gives municipalities (including Lancaster) “unfettered discretion to abate or waive taxes on projects funded by Act 23 grants,” according to Howard Kelin, special counsel for the county.

“We are currently completing the briefing process,” Kelin said. “Oral argument has not been scheduled.”

Pending before the Commonwealth Court is an appeal of Judge Joseph Madenspacher’s October 23, 2006 decision upholding the validity of the county’s construction bond.

The county commissioners are challenging the county’s guarantee on a $80 million construction bond, arguing that documents prepared in 2003 by the authority’s bond counsel and reviewed by the county’s special counsel are badly flawed.

Board to Change

The endgame could be determined by the county commissioners, who will appoint a fourth member of the Convention Center Authority board to a four-year term in September 2007.

The city currently holds a four to three majority on the board. Every two years the majority alternates. In September the county will take the majority.

It may be a new chairman who will have the last word.

Christiaan A. Hart Nibbrig (christiaanhn@earthlink.net) is news editor of NewsLanc.com, which has been documenting the convention center fight.
New York State Government Grows

By E. J. McMahon and Kathryn McCall

Employment and wage trends in New York State since the beginning of this decade could be described as a tale of two sectors: public and private.

According to the latest available data:

- While private employment has yet to recover to its 2000 pre-recession peak, New York has more state and local government employees than ever. (Recent rates of change in both categories are shown in Figure 1.)
- In 51 of New York’s 62 counties, the average salary for state and local government jobs is higher than the private-sector average.
- When comparisons are narrowed to hourly wages for similar occupations, government workers earn more than employees of private firms in most job categories in the state’s largest regions.

Private-Sector Job Losses

Private-sector employment in New York hit a record 7.2 million in late 2000, then plummeted in the wake of a national economic recession, the World Trade Center attack, and a sharp downturn in the stock market.

After losing more than 300,000 private-sector jobs between 2000 and 2003, the state began a slow economic recovery that has trailed the national average.

As of July 2006, private payrolls in New York remained about one-half of a percentage point below their July 2000 levels—a difference of some 40,000 jobs.

Government Job Increases

Despite plunging tax revenues early in the same period, state and local government employment in most regions of New York was barely affected by the economic shocks of 2001-03.

On a year-to-year basis, the number of state and local government jobs in New York has risen by 37,600 since October 2000.

The latest preliminary Bureau of Labor Statistics employment estimate, as of October 2006, is the highest ever for that month, registering 1.38 million New York state and local government employees. The 1.36 million average for the first 10 months of 2006 (reflecting seasonal fluctuations) also indicates that government employment in New York may have reached a new record high in 2006.

As shown in Table 1 on page 11, the most recent growth in state and local payrolls has occurred entirely outside New York City. Within the city, both private- and public-sector payrolls remain smaller than they were in 2000.

Job Losses Upstate

Private-sector employment increases in the Hudson Valley and Long Island have been offset by job losses upstate over the past six years, resulting in virtually no net change in private employment for regions outside New York City.

But state and local government employment in these same regions has grown by 7.9 percent since 2000. Even after subtracting Indian tribal payrolls—which the federal government reclassified as “local government” during this period—we estimate the net growth in state and local government jobs outside New York City has exceeded 6 percent since 2000.

State government employment has not increased significantly on a statewide basis, reflecting the impact of a 2002 early retirement incentive and a hiring freeze instituted the same year. The bulk of the public-sector increase has been concentrated in local governments.

New York’s recent growth in public-sector jobs is consistent with national trends. State and local government employment across the country is up 7.4 percent over the past six years—nearly four times the 2 percent increase in private-sector jobs during the same period.

Higher Paying Government Jobs

Government jobs are not only virtually recession-proof; on average, in most New York communities, they pay more, too.

The latest estimated statewide average salary for all jobs in the state and local government sector was $45,956—only 87 percent of the private sector’s $52,966 salary average. However, the private-sector figure is inflated by a large concentration of very highly paid jobs in Manhattan’s financial sector.

When average salaries are broken down by place of work on a regional basis, a different picture emerges: in 51 of 62 New York counties, government workers collect higher average salaries than private-sector employees, as detailed in Table 2 on page 11.

Public-Private Pay Comparisons

While government salaries average barely half the private level in Manhattan, government pay easily exceeds private-sector averages in the city’s other four boroughs.

Aside from Manhattan, the 11 counties in which private-sector salaries exceed government salaries tend to be those with a large concentration of high-wage jobs in corporate management and the professions (Westchester), private colleges and universities (Tompkins), or manufacturing (Steuben) or some combination of all three (Monroe).

The Southern Tier is the only region other than New York City in which average private salaries are higher than government salaries. This reflects the relatively high wages paid by manufacturers in the region, such as Corning and Lockheed-Martin.

Higher Hourly Pay

A comparison of wages for similar occupations can be gleaned from the U.S. Bureau of Labor Statistics’ National Compensation Survey.

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salination Survey, which includes data for private sector and government job titles. Figure 2 on page 10 illustrates summary figures for “white-collar” and “blue-collar” workers in each of the New York regions covered by the national survey: New York-Northern New Jersey-Long Island, Rochester, and Buffalo-Niagara Falls.

In all three regions, hourly wages for white-collar occupations are higher in government than in the private sector.

The difference is smallest in the New York City region, where government workers in blue-collar jobs earn $3.44 per hour more than their counterparts in the private sector, whereas the government pay advantage for blue-collar occupations widens to $6.02 in the Rochester region and a whopping $10.04 per hour in Buffalo-Niagara Falls.

The work week is also at least three hours shorter for white-collar employees of state and local government in all three regions.

“Employment and wage trends in New York State since the beginning of this decade could be described as a tale of two sectors: public and private.”

Blue-Collar Similarities

The differences are smaller for blue-collar occupations. Government workers in blue-collar jobs earn $3.44 per hour more than in the private sector in New York-Northern New Jersey-Long Island, but the government edge narrows to 87 cents per hour in the five-county Rochester region.

In the Buffalo-Niagara Falls region, blue-collar workers in the private sector earn $1.10 per hour more than state and local government workers in similar occupations—a difference that stems in large part from relatively high private-sector wages in the region’s “precision, production, craft and repair” jobs.

The work week is longer for private-sector blue-collar workers in all three regions, but the differences between the two sectors are small, ranging from a half hour less in Buffalo-Niagara Falls to 1.4 hours in Rochester.

Government Workers’ Better Benefits

Wages and salaries are only part of the compensation story. Government employees also enjoy an edge in several other significant respects:

More time off. Most government workers in New York are entitled to 12 paid holidays—two more than the average allowed by private employers. Many government workers (for example, those employed by New York State and New York City) can qualify for four weeks of paid vacation (plus holidays) after as little as seven years; in the private sector, most workers need to put in 15 years before getting four weeks of vacation. For school district employees, of course, time off per year is measured in months rather than weeks.

Bigger retirement benefits. It has been well documented that pensions and health benefits for retired public-sector workers in New York are significantly more generous than those available to private-sector workers. On average, government workers can retire earlier and receive more from their former employers in retirement, including guaranteed pensions and health benefits, on top of federal Social Security and Medicare.

Greater job security. Union contracts and civil service guidelines provide most government workers with the equivalent of tenure. Layoffs are rare, even in severe economic downturns. More than not, elected officials respond to budget shortfalls by raising taxes, freezing hiring, and offering experienced employees early retirement as an incentive to retire early.

Unionization Trends

Although union membership is in a long-term decline across the country, New York remains the nation’s most heavily unionized state by a large margin. More than 2 million New York State workers are union members, and fully half of them work in the public sector. One of every eight workers in the Empire State is a unionized government employee; in the rest of the country, the ratio is roughly one of every 19 workers. (See Figure 3 on page 10.)

Between 1995 and 2005, union membership in New York was 48.83% in the private sector and 43.87% in the public sector. In 2005, the overall rate of decline in the state’s private-sector union membership has been 0.43%.

E. J. McMahon is director and Kathryn McCall is research associate at the Empire Center for New York State Policy. (Both may be reached at info@empirecenter.org.) Originally published in Research Bulletin No. 1.1, September 1, 2006. Used by permission.

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Public-Sector Unions Are a Major Obstacle to Fighting Waste, Abuse

By Tom Schatz

Recent studies by Citizens Against Government Waste (CAGW) show public-sector unions are among the biggest obstacles to efforts aimed at addressing state and local government waste, fraud, and abuse. The organization’s ongoing series of Piglet Books chronicle wasteful government spending in individual states.

In almost every state examined so far, public-sector unions flexing their political muscle create budget problems, hurt government performance, and threaten states’ and cities’ economic health, according to the CAGW reports.

Source of Waste

Undue labor influence is a major source of waste in the education system. The Los Angeles Daily News reported on November 28, 2005, for example, that the cash-strapped Los Angeles Community College District (LACCD) lost nearly $1 million over the past three years on its food-service operation. Cafeteria workers in the LACCD were paid $15 an hour plus benefits, the article noted.

State law requires the district to use unionized employees to flip the burgers and ring the registers. The political strength of public employee unions makes it difficult for local school districts to contract out food services, transportation, and basic facilities maintenance.

“Teachers’ unions are often more powerful in setting school policy than parents, voters, and elected officials. To express their displeasure with a contract offer by the Ramona school district in California, about 135 members of the Ramona Teachers Association showed up at a board meeting in January 2006 to oppose an unrelated bond measure. In a bold display of hardball, the union president told trustees the bond campaign would never go forward unless the union’s demands were met first.

Claims of Underfunding

Also in January 2006, Oklahoma’s largest labor union, the Oklahoma Education Association (OEA), joined three school districts to file a lawsuit claiming school funding in Oklahoma is inadequate. But according to the Oklahoma Council of Public Affairs, the per-pupil cost of education in Oklahoma was $11,250 in 2003. That’s about $200,000 per classroom.

One district, Jenks, was so “underfunded” it had 18 football coaches for nine K-12 schools.

Two weeks after the labor union filed its lawsuit, Cole Hargrave Snodgrass & Associates asked 400 Oklahoma voters, “Which of the following comes closest to your beliefs?” While 41 percent said, “the simple fact is that our schools need more money,” 52 percent said, “our schools would have enough money if they spent it appropriately instead of wasting it.”

Burgeoing of Bonuses

Including pay, perks, and pensions, total compensation for public employees is vastly superior to that in the private sector. In Los Angeles, public-sector employees have hit the lottery.

Intense labor negotiations have led to a quadrupling of bonus payments over the past five years. Los Angeles police and firefighter bonuses soared to $80 million in fiscal 2005, accounting for nearly three-quarters of the $117 million in bonus payments to all municipal workers. In the fire department, the annual increase in bonuses has averaged a whopping 41 percent since 2001.

City Controller Laura Chick told the Los Angeles Daily News for a March 21, 2006, article, “I think the most pure and simple answer is labor asked for these bonuses, and the city gave them.”

Los Angeles is battling a projected budget deficit of nearly $300 million over the next five years.

Record Pay Raises

In June 2006, California state firefighters received the largest one-time pay increase ever obtained by members of a state labor union, costing taxpayers $38.7 million in fiscal 2007. Some raises reached an average of 22 percent, and some employees will be able to retire with pensions higher than even their final salary.

And this does not include retiree health benefits. New government accounting rules that have recently gone into effect require the reporting of retiree health benefit liabilities, and preliminary figures indicate in many cities, retiree health care will soon be nearly double the cost of existing workers’ health care.

Calculating health care costs for state and government workers, the University of California, and local school districts, California taxpayers could be liable for up to $140 billion or more over the next 30 years.

Need for Transparency

With their sky-is-the-limit approach to government benefits, unions are oblivious or indifferent to the drastic tax increases or deep spending cuts that will be necessary down the road. Much of this information is now available thanks to a change in California accounting standards, whereby “governments must account today for future costs of guaranteed medical benefits for retirees.”

However, the trend toward increasing transparency is not universal. The Marin County Board of Supervisors, the Marin Independent Journal reported on January 25, 2006 that Marin County officials have a new privacy policy prohibiting the public from obtaining names of public employees and their pay.

For more than 130 county employees, Marin officials doled out more than $120,000 in annual pay raises for 2006. The Marin County Board of Supervisors undermine transparency and accountability, and individuals … but not with the taxpayer-paying public.

Chic Perks

Some union contracts even require chic perks such as bottled water for employees. The San Francisco Chronicle on November 26, 2006 reported that San Francisco has spent more than $2.3 million of taxpayers’ money in the past four-and-a-half years on bottled water, despite having access to some of the best-tasting tap water in the nation.

Unions also lobby against measures designed to hold public employees accountable. In Minnesota, for example, the original intent of the Quality Compensation (Q-Comp) Aid program was to replace a teacher pay system based on college degrees and tenure with a system based on student performance. What ultimately emerged from the legislative process was a watered-down version to appease the union.

The new pay system complements, but does not replace, the old system, providing a funding windfall to school districts.

Systemic Abuse

In CAGW’s Piglet Books series, there is a chapter on the pattern of systemic abuse of taxpayers by public-sector unions. The books show government union power to lobby for extravagant pay and benefits, dictate public policy, and undermine transparency and accountability, behaving more like masters than public servants.

There are certainly many hardworking government employees who produce results and make sacrifices in their line of work. But the public must distinguish between those workers and the politically driven unions that represent them, the books make clear.

Tom Schatz (media@cagw.org) is president of Citizens Against Government Waste, a nonpartisan, nonprofit organization representing more than one million members and supporters nationwide.

INTERNET INFO

All of Citizens Against Government Waste’s Piglet Books are available online at http://www.cagw.org.
**Pressure Grows to End Binding Arbitration with Government Unions**

By David Denholm

People from coast to coast apparently are coming to realize the harm to taxpayers that can be caused by allowing binding arbitration with government employee unions.

On November 7, 2006 the voters of Santa Clara, California rejected a ballot measure, by 54 to 46 percent, that would have imposed binding arbitration on contract negotiation impasses with public safety unions.

In an October 26 editorial opposing the measure, the San Jose Mercury News noted, “Binding arbitration nearly always is bad for cities. It takes control of the budget away from elected representatives and hands it to an independent arbitrator, who looks at numbers but not the broader good of a community.”

“On November 7, 2006 the voters of Santa Clara, California rejected a ballot measure, by 54 to 46 percent, that would have imposed binding arbitration on contract negotiation impasses with public safety unions.”

**Consortium Pushes Reform**

On the other side of the nation, in Connecticut, town officials are joining together in a new effort called the Connecticut Municipal Consortium for Fiscal Responsibility.

One of the chief goals of the consortium, which has been endorsed by more than 170 boards within 102 of the state’s 169 municipalities, is reform of the state’s binding arbitration law. Connecticut towns have multiple boards of officials, including Board of Selectmen, Board of Education, Board of Assessment Appeals, and Zoning Board of Appeals.

Connecticut’s Senate Republican leader, Louis C. DeLuca (R-Woodbury), has introduced legislation that would, among other things, give municipalities the right to reject an arbitration award and restart the process. This right is enjoyed by the state but denied to municipalities, even though it is state law that imposes arbitration on the cities.

DeLuca doesn’t mince words. “What it all comes down to is it’s your money,” DeLuca said. “It’s your tax dollars the unions keep taking to pay the relatively small number of Connecticut residents who have been lucky enough to secure state or municipal employment.

“Reforming the binding arbitration process would be the single most effective step to bring property tax relief to the people of Connecticut, because the unions would no longer be able to dictate how your money is spent,” DeLuca said. “The General Assembly has a choice: Reform binding arbitration and bring tax relief to all of Connecticut’s residents, or succumb to special interest pressure and make all of Connecticut pay for the convenience of a select few.”

**Resolves Disputes**

Binding arbitration is a process in which two parties at an impasse in negotiations submit the dispute to a third party that makes a decision binding on both parties. There are two types of arbitration: rights and interest. Rights arbitration is used to resolve disputes about the meaning of an agreement. Interest arbitration is used to resolve disputes arising in contract negotiations.

Rights arbitration has many useful applications as an alternative dispute resolution mechanism. It is sometimes used as an alternative to litigation in resolving disputes. Many contracts include a clause stipulating that disputes will be resolved by arbitration.

But in the public sector, when the dispute is between a labor union of public employees and the elected representatives of the people, other important considerations come into play.

“Binding arbitration nearly always is bad for cities. It takes control of the budget away from elected representatives and hands it to an independent arbitrator, who looks at numbers but not the broader good of a community.”

**Can Increase Taxes**

A statement in the 2006 Legislative Program of the New York Conference of Mayors and Municipal Officials illustrates these considerations.

“An arbitration panel has significant responsibilities and can issue an award which requires an increase in taxes. However, a panel is not responsible for its award and is not accountable to the taxpayers. Over the years that the compulsory arbitration law has been in existence, many unions have sought to rush to arbitration and avoid substantive negotiations. The compulsory arbitration process is an unfunded mandate upon municipalities and should be repealed.”

In the public sector, arbitration is often mandated by the state public-sector collective bargaining law.

“The rationale for compulsory binding arbitration is that strikes against government are intolerable and thus arbitration is justified to prevent strikes. Because compulsory binding arbitration raises so many concerns about the nature of government, it is often restricted to disputes with public safety unions. In several states, however, it applies to all levels and units of government.”

**Officials Lose Spending Control**

Arbitration awards, Young said, “have caused more damage to the public service in Detroit than the strikes they were designed to prevent.”

David Denholm (david@psrf.org) is president of the Public Service Research Foundation, an independent, nonprofit organization that studies labor unions and union influence on public policy.

“The General Assembly has a choice: Reform binding arbitration and bring tax relief to all of Connecticut’s residents, or succumb to special interest pressure and make all of Connecticut pay for the convenience of a select few.”

LOUIS C. DELUCA
SENATE REPUBLICAN LEADER
WOODBURY, CONNECTICUT

“Compulsory arbitration of public-sector bargaining impasses is, if possible, even more destructive of governmental and popular sovereignty than are public sector bargaining and strikes.”

The late Coleman Young, as a state senator, sponsored Michigan’s binding arbitration law, but as mayor of Detroit he said in a February 7, 1981 National Journal article, “We know that compulsory arbitration has been a failure. Slowly, inexorably, compulsory arbitration destroys sensible fiscal management.”

Arbitration awards, Young said, “have caused more damage to the public service in Detroit than the strikes they were designed to prevent.”

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Supreme Court to Hear Washington Lawsuit Opposing Forced Union Dues

First Amendment at issue in teachers’ right-to-work case

By Justin A. Hakes

A group of teachers has successfully persuaded the U.S. Supreme Court to review a case in which Washington State’s high court rejected a campaign finance regulation referred to as “paycheck protection.”

The Supreme Court was scheduled to hear arguments in January. The National Right to Work Foundation (NRTW) has provided free legal assistance for the effort.

The underlying Evergreen State law was designed to require government union officials to obtain prior consent from non-union workers before spending their compulsory union dues, taken as a condition of employment, on certain types of political activities.

“A group of teachers has successfully persuaded the U.S. Supreme Court to review a case in which Washington State’s high court rejected a campaign finance regulation referred to as ‘paycheck protection.’”

Threat to Other Laws

In striking down the law, the Washington court said there is a constitutional “right” for union officials to spend on politics the money of employees who want nothing to do with the union.

If upheld, the Washington State Supreme Court rulings in Davenport v. Washington Education Association (WEA) and Washington v. WEA—which Justice Richard B. Sanders’ three-member dissent said “turns the First Amendment on its head”—could open the door for union lawyers to try to attack America’s 22 state right-to-work laws, which make union affiliation and dues payment strictly voluntary.

If union officials have a constitutional right to spend non-union employees’ forced dues on politics, union attorneys could argue states also violate the First Amendment if they ban forced union dues altogether.

4,000 Teachers Affected

National Right to Work Foundation attorneys, working with Steve O’Ban of Ellis, Li, and McKinstry in Seattle, originally filed the Davenport class-action lawsuit in the Superior Court of the State of Washington in 2001, on behalf of more than 4,000 teachers who are not union members but are nonetheless forced to pay union dues or be fired.

The legal action came in response to WEA union officials’ seizure of $10 to $25 annually from the teachers in apparent violation of provisions of the state’s campaign finance law. A long-awaited ruling in Davenport by the Washington State Supreme Court in mid-March 2006 upheld an appellate court’s decision to overturn a trial court, thereby striking down the state’s last remaining “paycheck protection” provision.

Weak Law

Before Washington’s paycheck protection law left intact all forced unionism privileges, covered only a fraction of state and local electioneering expenditures, and didn’t touch other political and non-bargaining expenditures, the WEA union hierarchy was able to collect and spend more money on politics after the law took effect than before. The union simply changed its accounting practices and then increased forced union dues.

In an April 28, 1998 column titled “Piercing the Popular Myth of Paycheck Protection,” Michelle Malkin, then a columnist with the Seattle Times, called the statute “workaroundable” and reported that, in the first year after the “paycheck protection” law took effect, the WEA increased by 60 percent the amount it spent to influence politics.

Analysts at several free-market think tanks—including The Heritage Foundation, Public Service Research Council, Mackinac Center for Public Policy, and Capital Research Center—reported similar findings.

In its joint amicus brief to the U.S. Supreme Court, the Evergreen Freedom Foundation argued, “even if every non-member declined to opt-in to the use of dues for political purposes, the impact to the WEA would amount to less than ¼ of 1% of the WEA’s total expenditures … a minuscule drop in funds available for political purposes.”

The legal issues involved in the Davenport case allow NRTW attorneys to challenge a doctrine that flowed from a U.S. Supreme Court ruling handed down 45 years ago in Machinists v. Street—a doctrine that union bosses ever since have used to hamstring workers who do not want to pay for a union’s political activities.

Mischievous Consequences

The 1961 Street case was one of the earliest Supreme Court cases dealing with forced unionism. Street involved both dues-paying union members and non-members threatened with discharge for not joining the union.

Although the Court found the workers had a right to withhold forced dues for politics, it said “disent is not to be presumed.”

For decades, union bosses have used this phrase to justify setting up procedures that make non-members submit objections during narrow “window periods” every year, just to get forced dues refunds to which the workers are already entitled by law.

“‘If upheld, the Washington State Supreme Court rulings ... could open the door for union lawyers to try to attack America’s 22 state right-to-work laws, which make union affiliation and dues payment strictly voluntary.’”

Burden on Employees

If the U.S. Supreme Court agrees that an employee registers sufficient dissent through the act of leaving a union or not joining it in the first place, then every forced-dues-paying non-union member in America will automatically be entitled to a reduction in his or her forced dues, to exclude all union expenditures other than those spent on bargaining with employers.

The expenditures would include all costs attributable to politics, lobbying, and union public relations activity. Non-union employees could expect to receive dues refunds of between $200 and $300 every year.

The Court is expected to rule by June.

Gary Davenport is the lead plaintiff in the Davenport v. Washington Education Association paycheck protection suit.

Justin A. Hakes @jab@nrtw.org is director of legal information at the National Right to Work Legal Defense Foundation in Springfield, Virginia.

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- Health Care

Policy Guide for Washington State is available in hard copy for $15.00 or a free ed. version. For your copy contact Washington Policy Center at wpc@washingtonpolicy.org or call 1-888-WPC-9272.
Supercenter stores, which average 185,000 square feet and sell groceries. Mayor Jerry Sanders has threatened to veto the ban. The city council would need five votes to override a veto.

“Wal-Mart Stores Inc. may be banned from building Supercenter stores in San Diego, the result of a 5-3 vote of the city council ...”

‘Social Engineering’
“What the council did tonight was social engineering, not good public policy,” mayoral spokesman Fred Sainz told reporters after the vote.

Councilman Tony Young, who joined the 5-3 majority, told Associated Press reporter Elliot Spagat, “I have a vision for San Diego and that vision is about walkable, livable communities, not big mega-structures that inhibit people’s lives.”

“We are very disappointed that the San Diego City Council would rather curry favor with special interest groups than support consumers and their right to choose where to shop,” said Kelly Hobbs, a Wal-Mart spokesperson at the company’s headquarters in Bentonville, Arkansas.

“And at a time when San Diego is facing financial troubles, we think it is irresponsible for the council to consider an ordinance that would restrict businesses in the city,” Hobbs continued.

“What the council did tonight was social engineering, not good public policy.”

FRED SAINZ
SPOKESMAN
MAYOR JERRY SANDERS

Economic Harm
Hobbs said the decision could be especially harmful to lower-income consumers, citing a recent study by the Los Angeles Area Economic Development Corporation that found the addition of Wal-Mart Supercenters into a seven-county area of southern California would save consumers $3.76 billion a year and create more than 36,000 jobs.

“This type of ordinance limits consumer choice by preventing customers from benefiting from one-stop shopping,” Hobbs said. “Supercenters [including those established by Wal-Mart competitors such as Target] have been shown to save the average family over $2,300 annually.

“These restrictions aren’t about reducing negative impacts on communities. They’re about competition and consumer choice,” Hobbs said.

Hobbs said they’re also about jobs.

Wal-Mart “offers great benefits packages for both part- and full-time associates that include health care coverage for as little as $23, 401k, and profit sharing,” Hobbs said. “Our average hourly wage in San Diego is almost $11 an hour. In fact, a recent San Diego Magazine survey rated Wal-Mart as one of the top 10 employers in San Diego.”

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

Consumers in San Diego will be denied access to low prices at Wal-Mart Supercenters if the city council ordinance passed in late November is implemented.

STATE OF THE UNIONS

Unions Support Left-Wing Organizations, Politicians: Reports

By Ryan Bedford
A new report filed by the National Education Association (NEA) shows the organization’s far-left tilt.

The report shows the teachers’ union gave $4.7 million to the same extreme-left groups it did in 2005. These include the Gay and Lesbian Alliance Against Defamation ($5,000), Gay Lesbian and Straight Education Network ($5,000), Human Rights Campaign ($30,000), People for the American Way ($160,805), Rainbow/PUSH Coalition ($5,000), and WAND Education Fund ($12,000).

But these are just the tip of the iceberg. The NEA also sent tens of millions of dollars to its UniServs (a nationwide network that links the national organization with state and local affiliates) to engage in politicking and unreported in-kind support for these and other organizations.

The NEA’s 2006 LM-2 financial disclosure report, filed November 29 with the U.S. Department of Labor, reveals income and expenditures in detail.

Election Activism
Union activism in the 2006 election cycle was high, and labor leaders claimed their efforts were decisive in attaining the new Democratic majority.

Organized labor matched or exceeded its 2004 spending. The AFL-CIO reported it spent more than $40 million and recruited 205,000 union volunteers to knock on more than 8.25 million doors and make more than 30 million phone calls. The Service Employees International Union spent another $65 million.

The NEA says it deployed 87 staffers to 26 states, sent 188 different direct mail pieces to 3.6 million people, and, as of May 2006, had spent nearly $600,000 on ballot measures in support of tax increases.


Minimum Wage Resource
The Heritage Foundation introduces its Minimum Wage Resource Page by saying, “As Congress and policy makers resume the debate over raising the minimum wage, they should ground their arguments on solid facts and expert analysis. To assist policy makers in assessing the consequences of a higher minimum wage, The Heritage Foundation has compiled a list of economic studies that question the effectiveness of minimum wage increases.”

The page is available online in the labor section of its Web site, http://www.heritage.org.

‘Dance of the Lemons’
Those who are familiar with public education know it can take years to fire a bad teacher. The Heartland Institute reports in “California Law Changes the Rules for Bad Teachers” (http://heartland.org/Article.cfm?artId=20100) that, instead of trying to get rid of them, some administrators promise good performance evaluations to bad teachers who transfer to another school.

The resulting “dance of the lemons,” as the practice is called in certain education circles, circulates bad teachers throughout school districts without holding them accountable.

In California, Gov. Arnold Schwarzenegger (R) has stopped the dance for some schools by signing Senate Bill 1655, which gives struggling schools “the right to refuse bad teachers whose seniority otherwise might guarantee them a spot on the faculty.”

Union Bullying Averted
In “Union Front-Group CURE Earns California Golden Fleece Award” (http://www.pacificresearch.org/centers/cef/africa/cgfa-16.html), the Pacific Research Institute (PRI) explains how labor unions have threatened to oppose nearly every new power plant nationwide with “environmental red tape and legal fees” unless the developers sign Project Labor Agreements (PLAs) that promise to use union labor.

PRI reports two southern California developers forged ahead on their projects without PLAs but with a “watertight understanding of state and federal environmental laws.” The unions failed to stall the process, and in response to one allegation, authorities said the unions “failed to substantiate any of their assertions with credible, accurate, or reliable facts.”

Ultimately, the developers successfully mitigated union harassment, cut costs, and passed the savings on to consumers.

Ryan Bedford (rbedford@effwa.org) is a labor analyst with the Evergreen Freedom Foundation in Olympia, Washington.
Illinois Law Causes Beer Battle

By Mike Van Winkle

Rigid state franchise laws may be to blame for Bell’s Beer, a highly respected craft beer brewed in Kalamazoo, Michigan, disappearing from Illinois bar taps and stock shelves.

In Illinois, as in most states, brewers have little control over who distributes their beer, because wholesaler franchise regulations governing the brewer-wholesaler relationship prevent brewers from terminating a contract without “good cause.”

In October 2006, Larry Bell announced he would stop selling his beer in Illinois after a dispute with his distributor, Union Beverage Company, over plans to sell Bell’s Illinois franchise rights to Chicago Beverage (CBS).

Bell objected to the sale because he thought CBS would not effectively represent his brand in Illinois.

“They have a bad reputation nationally with regard to distributing craft beers,” Bell said, “and they admitted to knowing nothing about [Bell’s Beer].”

Little Distribution Control

According to Bell, operating in Illinois costs four times what it costs him in other markets. He said a big part of the cost is rampant corruption and the lack of competition among wholesalers.

“Ethically, legally, and financially,” said Bell, “I just couldn’t afford to stay in the [Illinois] market any longer.”

The franchise regulations were originally intended to protect wholesalers from abrupt termination of contracts with major brewers such as Anheuser-Busch, which controls nearly 50 percent of the U.S. domestic market.

It was thought that in a market dominated by a few large breweries, the wholesale industry would not be sufficiently independent or stable to attract investment.

“Rigid state franchise laws may be to blame for Bell’s Beer, a highly respected craft beer brewed in Kalamazoo, Michigan, disappearing from Illinois bar taps and stock shelves.”

Lower Service, Higher Prices

But aggressive regulation of wholesaler contracts reduces competition and leads to lower quality service and higher prices, according to critics.

In a letter to the Illinois Legislature in 1999, C. Steven Baker, then director of the Chicago Regional Office of the Federal Trade Commission, advised against strict franchise laws, noting they “likely intensify with market forces by increasing the supplier’s costs of adding or eliminating distributors or switching from one distributor to another.”

Big Brewers Favored

Franchise protection is particularly costly to small craft brewers, who are often forced to take a back seat to the needs of large breweries.

“We understand the need for franchise protection,” said Tom McCormick, former editor of BeerWEEK, a beer industry trade publication, and executive director of the California Small Brewers Association, “but the laws are too often written specifically for dealing with large brewers.”

According to McCormick, small brewers see wholesalers as credible partners who deserve to be compensated for investing in the brand.

“But nevertheless,” said McCormick, “most simply cannot afford to be locked into a wholesaler who isn’t meeting their needs.”

Other States Freer

Bell agrees wholesalers and brewers can work together, and points out that in some states they do.

In Wisconsin, for instance, a small brewer can transfer his franchise to another wholesaler for any cause. The wholesaler is obliged to sell the franchise at fair market value. If the two wholesalers cannot agree on a fair market price, they can enter into arbitration.

By contrast, some states—including Alaska, California, Colorado, Hawaii, New Jersey, and Oklahoma—have next to no franchise protections for craft brewers, though some offer protections for certain classes of beverage.

Mike Van Winkle (vanwinkle@heartland.org) is media relations manager for The Heartland Institute.

Election

Continued from page 1

Poll after poll has shown Democrat voters were more energetic and likelier to turn out this year than Republicans. One answer to why lies in the fiscal habits of candidates who were defeated.

Losers Deserted Taxpayers

The National Taxpayers Union’s 2005 Rating of Congress scored House members on 201 roll-call votes affecting federal taxes, spending, and economic issues.

Of the 29 Republican incumbents who lost their seats on November 7, just two of them earned a pro-taxpayer rating high enough to win a “Taxpayers’ Friend Award.” The remaining 18 lawmakers scored several points below the GOP average for the House as a whole.

The same pattern held true for the six Republican senators who were ousted.

“The upshot: When because wholesaler franchise regulations were often too strict, lawmakers deserted their fiscally conservative base, in the process boosting federal outlays 45 percent over the past five fiscal years, the base deserted them.

wanted Smaller Government

Those who aren’t among the party faithful didn’t seem too impressed either.

A CNN poll taken just before the election showed that by a 54 percent to 37 percent margin, a sample of Americans with all affluence thought government should be doing less, rather than more, to solve the problems confronting the country.

In addition, 72 percent of respondents believed the size of government had ballooned in the past four years.

Additional evidence of disapproval of big government emerged at the state and local level. Government seizures of private property for government use was protection from eminent domain abuse. In nine of 11 states, voters adopted measures largely prohibiting government seizures of private property for economic development to create more tax revenues, permitting such actions only for public uses such as roads and schools.

Clearly, the November 2006 election was not a public mandate for more government. “Pocketbook issues” made a major impact at the polls, and Americans firmly decided to keep their own pocketbooks closed.

“in their haste to view the Democrats’ takeover of the House and Senate as a consequence of the Iraq War and scandals in Congress, the pundits overlooked another important factor: tax and budget issues.”

Protecting Private Property

One of the biggest November 7 trends was protection from eminent domain abuse. In nine of 11 states, voters adopted measures largely prohibiting government seizures of private property for economic development to create more tax revenues, permitting such actions only for public uses such as roads and schools.

Pete Sepp (pressguy@ntu.org) is vice president for communications with the National Taxpayers Union.
Minimum

Continued from page 1

an hour in Colorado and Ohio, $6.75 in Arizona, $6.50 in Missouri, and $6.15 in Montana and Nevada. Illinois’ new minimum wage of $7.50 takes effect July 1 and would climb to $8.25 an hour by 2010. The current federal minimum wage is $5.15.

“Last summer, Congress considered a federal [minimum] wage increase from its current level to $7.25, but the bill foundered because Republicans in the House tied the wage hike to an estate tax reduction that killed the bill’s chances in the upper chamber,” said Vestal.

“In 1980, 15.1 percent of workers in the U.S. earned the minimum wage, according to the Department of Labor. In 2005, just 2.5 percent of the U.S. workforce was paid minimum wage.”

Polls Show Strong Support

“Traditionally, Democrats have backed minimum wage increases as a way to help poor families climb out of poverty, while Republicans have opposed them because they say government-mandated pay hikes hurt the local economy and jeopardize jobs. But recent national polls show that a large majority of Americans, across both political parties, favor raising workers’ pay” by law, said Vestal.

Twenty-nine states now have wage floors higher than the federal minimum. The remaining states follow the federal minimum wage rate.

Most economists are not happy with the wage increase trend.

“The scholarly research demonstrating the ways in which minimum wage hikes negatively affect the very people the minimum supposedly is helping has become quite robust,” said Greg Blankenship, director of the Illinois Policy Institute.

Blankenship noted, “since there is no such thing as a free lunch, a hike in Illinois’ minimum wage means businesses here will have to be more productive—whether it means more mechanization or more productivity demands placed on employees in the form of fewer breaks, greater responsibility, or foregoing new hires.”

The late Nobel Prize-winning economist Milton Friedman referred to the minimum wage as “the most anti-black law on the books,” referring to the increase in minority unemployment likely to result from minimum wage increases.

Working Poor Could Suffer

Blankenship said the working poor might be hurt by state increases in the minimum wage.

“Some workers, with a minimum wage so much higher than the federal minimum wage, may lose eligibility for transfer payment programs such as home heating assistance and access to student loans and grants,” Blankenship noted. “Some minimum wage workers may actually become poorer as a result of this legislation.”

Very Few Earn Minimum

In 1980, 15.1 percent of workers in the U.S. earned the minimum wage, according to the Department of Labor. In 2005, just 2.5 percent of the U.S. workforce was paid minimum wage.

According to the U.S. Department of Labor, the percentage of the workforce that earns the minimum varies from state to state.

The highest proportion is in Oklahoma and West Virginia, at 4 percent of the workforce. The lowest is in Alaska, California, and Washington, at about 1 percent.

Oregon and Vermont currently have the highest minimum wage in the nation at $7.80, followed by Connecticut at $7.65, Washington State at $7.63, California and Massachusetts at $7.50, Rhode Island at $7.40, and New York and New Jersey at $7.15 an hour.

John W. Skorburg (skorburg@heart land.org) is visiting lecturer in economics at the University of Illinois at Chicago and associate editor of Budget & Tax News.
Congress Being Pushed to Index Capital Gains Taxes for Inflation

An interview with tax policy analyst Daniel Clifton

By Sandra Fabry

Just weeks before the Congressional recess, momentum was building in Congress to change the method for calculating capital gains taxes, by adjusting investors’ gains for inflation. Indexing, as the process is called, ensures taxpayers pay taxes only on real gains, instead of on increases caused by inflation. Another push for indexing is expected this year.

Sandra Fabry of Americans for Tax Reform recently interviewed Daniel Clifton, executive director of the American Shareholders Association in Washington, DC, on the subject of capital gains tax indexing.

“The issue completely fell off the radar screen during the mid-1990s as the rapid stock market gains, combined with low inflation, minimized the need for indexing. But I saw inflation heating up again and started pushing the issue in June.”

Fabry: The notion of indexing the capital gains tax for inflation really caught fire in September. How did this come about?

Clifton: It’s an old idea that stems back to the late 1980s, early 1990s. The idea was conceived when research showed that over long periods of time inflation was eroding investor gains. A 1993 presentation by then-Federal Reserve Board governor Wayne Angell calculated that the average real tax rates on investments from 1972 to 1992 in NASDAQ stocks was 68 percent, 101 percent in the S&P 500, 123 percent in the New York Stock Exchange, and 233 percent in the Dow Jones Industrial.

So on three of the four major indexes, the average capital gains taxes were higher than the real return.

Inflation was eroding any of the real gains for shareholders, and indexing was the way to end that.

The issue completely fell off the radar screen during the mid-1990s as the rapid stock market gains, combined with low inflation, minimized the need for indexing. But I saw inflation heating up again and started pushing the issue in June.

Fortunately, Reps. Michael Pence (R-IN) and Eric Cantor (R-VA) noticed the same effect and introduced legislation, H.R. 6057, in late August to end this conversation. Not only did the conversation start, 85 members of Congress signed up to co-sponsor the legislation in two weeks. This was unprecedented, given the fact that the legislation had not been around in years and a totally new education process had to begin.

The rapid support for the legislation is a very healthy sign that members of Congress understand middle-class families own shares of stock and smaller accounts are most affected by inflation.

Fabry: How would the legislation work?

Clifton: Let me start with a simple example. Under current rules, an investor who purchased a stock for $10 a share in 1952, and sold it for $20 a share in 2002, would be forced to pay capital gains taxes on the gain from $10 to $20. However, due to inflation, the real value of that investment is only $3.44 in 2002, a 66 percent loss.

The investor lost money and still had to pay $1.50 tax on the inflationary “gain.”

H.R. 6057 would change the basis for calculating the capital gains tax by adjusting the gain for inflation. In the investor example I just mentioned, the change from $10 to $20 would in real terms actually be a loss, so no capital gains taxes would be owed.

My research indicates about 18 to 20 percent of all increases in shareholder wealth are the result of inflation. This legislation would eliminate the tax on that 18 to 20 percent. This would allow shareholders to produce larger compound gains and create wealth.

Fabry: What effect would an 18 to 20 percent reduction have on economic growth and wealth creation?

Clifton: The large reduction would have a significant impact on growth. Take, for example, the 2003 capital gains tax reduction. That was a 25 percent reduction, and in three years $13 trillion of new household wealth was created. A similar effect occurred following the 1997 capital gains tax reduction.

While the change sought by Reps. Pence and Cantor does not constitute a change in tax rates, it would still amount to a 20 percent reduction in taxes owed and increase shareholder and household wealth substantially.

At the same time, uncertainty in long-term investment would become less risky. Currently, a venture capitalist has to factor in inflation on top of the tax rate when making long-term investment decisions. This holds back investment. By eliminating inflation as an investment risk, we reduce that uncertainty, which will spur investment and create jobs.

Fabry: What are the prospects for passage?

Clifton: I feel confident something will be done because it is a very simple message: Are you for tax inflation or not? Most policymakers on both sides of aisle see how ridiculous the current structure is and will work to end this unjust tax.

There are two roads that can be taken.

The first road is to build support in Congress. Although the Democrats have taken over and are less likely to move this legislation, if enough members sign up for the effort we can exert pressure legislatively.

The second road is related. Legal opinions suggest that President Bush could issue an executive order by changing the basis for inflation. In 1913, the Treasury Department factored nominal [i.e. non-inflation adjusted] gains. If they had the authority now, they have the authority now. A legal opinion by former Reagan Justice Department official Charles Cooper did in fact conclude this to be the case.

It is my hope that the president will issue the executive order to finally end this onerous inflation tax. If the president sees enough support in Congress, he may do so.

Either way, I am hopeful.

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

Public Interest Institute regularly publishes four items a month: three INSTITUTE BRIEFS and either IOWA ECONOMIC SCORECARD, FACTS & OPINIONS, or LIMITS. Along with these regular publications, the Institute produces POLICY STUDIES as needed which are longer, analytical articles on important public issues such as privatization, Social Security reform, welfare, state budgeting, education, and tax issues. PII also distributes THE IOWA CIVICS PROJECT, a twelve-unit curriculum on state and local government, free to government teachers across the state.

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Number of Federal Subsidy Programs Soars

By Chris Edwards

The federal government has added a net 271 new subsidy programs since 2000, the largest increase since the 1960s.

There are 1,696 subsidy programs in the federal budget, dispensing hundreds of billions of dollars annually to state governments, businesses, nonprofit groups, and individuals. The number of subsidy programs is rising rapidly, with a 44 percent increase since 1990.

Feds Control More Activities

Federal spending, exclusive of interest payments, has grown 47 percent since 2001—a huge increase that has been widely critiqued. A related but unexamined trend is the growth in the number of federal programs. In recent years, the scope of federal control over society has widened as politicians of both parties have favored nationalizing many formerly state, local, and private activities.

To measure the increase in the government’s scope, I examined current and prior editions of the Catalog of Federal Domestic Assistance. The 2,437-page CFDA provides an official listing of all federal aid (or subsidy) programs, including grants, loans, insurance, scholarships, and other types of cash and non-cash benefits.

Figure 1 shows the number of programs listed in the CFDA since 1970. Note most of the programs that existed in 1970 were added during the 1980s. The number of programs increased during the late 1970s but was cut in the early 1980s under President Ronald Reagan, who tried to eliminate programs or consolidate them into block grants.

Surged in Early ’90s

The number of subsidy programs increased rapidly during the early 1990s, was fairly stable during the late 1990s, but then soared again in recent years. A net 271 new programs have been added since 2000, which is the largest increase in programs since the 1960s.

The CFDA does not provide a perfect measure of the number of subsidy programs. The program count may be affected by factors such as changing judgments about what constitutes a distinct “program.”

However, data from other sources confirm the general trends evident in Figure 1, including the large program increase since 1990.

Farm Subsidies Skyrocket

The number of federal subsidy programs has grown by 520, or 44 percent, since 1990. Table 1 shows the largest recent increases have been in the Departments of Agriculture, Health and Human Services, Homeland Security, Interior, and Justice.

The number of farm programs has soared, partly due to the bloated 2002 farm bill. Many Homeland Security programs have been added since 9/11. That may have made political sense, but it hasn’t made much economic or security sense.

The number of programs has been reduced in two areas: energy and education. Interestingly, at the same time there has been a large increase in the number of subsidies or “incentives” in the tax code in those two areas.

For example, the number of energy incentives in the income tax code increased from nine in 1990 to 26 by 2006. Also, spending on those energy and education programs has increased substantially despite the static number of programs. Department of Education outlays have tripled since 1990.

The data in Table 1 provide a rough guide to which government agencies are most in violation of federalism—the constitutional principle that the federal government ought not to encroach on what are properly state, local, and private activities. As time has passed, more farm crops are receiving federal subsidies, more local police services are being paid for with federal grants, and more cradle-to-grave health services are being created by Congress.

Subsidies Spawn Interest Groups

Table 2 provides a sampling of 10 new programs added to the CFDA in the past year. The programs are relatively modest in size but are illustrative of the broad advance of the welfare state under the most recent Congress and Bush administration.

Each new subsidy program comes with complex rules regarding eligibility, funding formulas, reporting requirements, auditing, and other types of paperwork. And each new program spawns interest groups that favor program expansion and politicians who battle to keep the subsidies flowing.

Most proposals for federal budget reform focus on cutting the growth in overall spending. But reformers also need to focus on eliminating subsidy programs and preventing the creation of new ones—even small programs, because they often become big programs over time.

The CFDA provides hundreds of good targets for policymakers to include in plans to downsize the government and reverse the subsidy explosion of recent years.

Chris Edwards (cedwards@cato.org) is director of tax policy studies at the Cato Institute. A version of this report appeared in Cato’s Tax & Budget Bulletin No. 41. Used by permission.

Table 1. Number of Subsidy Programs by Agency

<table>
<thead>
<tr>
<th>Department or Agency</th>
<th>1990</th>
<th>2000</th>
<th>2006</th>
<th>Change 1990 to 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>120</td>
<td>133</td>
<td>198</td>
<td>78</td>
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<tr>
<td>Commerce</td>
<td>53</td>
<td>91</td>
<td>86</td>
<td>33</td>
</tr>
<tr>
<td>Defense</td>
<td>23</td>
<td>40</td>
<td>40</td>
<td>17</td>
</tr>
<tr>
<td>Education</td>
<td>152</td>
<td>151</td>
<td>146</td>
<td>-6</td>
</tr>
<tr>
<td>Energy</td>
<td>38</td>
<td>28</td>
<td>27</td>
<td>-11</td>
</tr>
<tr>
<td>Health and Human Svs.</td>
<td>257</td>
<td>308</td>
<td>334</td>
<td>77</td>
</tr>
<tr>
<td>Homeland Security</td>
<td>33</td>
<td>36</td>
<td>88</td>
<td>55</td>
</tr>
<tr>
<td>Housing and Urban Dev.</td>
<td>81</td>
<td>104</td>
<td>109</td>
<td>28</td>
</tr>
<tr>
<td>Interior</td>
<td>46</td>
<td>98</td>
<td>134</td>
<td>88</td>
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<tr>
<td>Justice</td>
<td>41</td>
<td>88</td>
<td>104</td>
<td>63</td>
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<tr>
<td>Labor</td>
<td>37</td>
<td>45</td>
<td>48</td>
<td>11</td>
</tr>
<tr>
<td>State</td>
<td>4</td>
<td>26</td>
<td>25</td>
<td>21</td>
</tr>
<tr>
<td>Transportation</td>
<td>34</td>
<td>45</td>
<td>64</td>
<td>30</td>
</tr>
<tr>
<td>Treasury</td>
<td>5</td>
<td>8</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Veterans Affairs</td>
<td>38</td>
<td>41</td>
<td>39</td>
<td>1</td>
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<tr>
<td>EPA</td>
<td>40</td>
<td>49</td>
<td>94</td>
<td>54</td>
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<tr>
<td>Small Business Admin.</td>
<td>20</td>
<td>16</td>
<td>22</td>
<td>2</td>
</tr>
<tr>
<td>All other agencies</td>
<td>154</td>
<td>118</td>
<td>132</td>
<td>-22</td>
</tr>
<tr>
<td>Total subsidy programs</td>
<td>1,176</td>
<td>1,425</td>
<td>1,696</td>
<td>520</td>
</tr>
</tbody>
</table>

Source: Author’s analysis of the CFDA, 1990 to 2006.

Table 2. A Sampling of New Federal Subsidy Programs

<table>
<thead>
<tr>
<th>Program Description</th>
<th>CFDA Code</th>
<th>Year of Introduction</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Healthy marriage promotion (93.086)</td>
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<td></td>
<td>$150,000,000</td>
</tr>
<tr>
<td>2. Safety belt performance grants (20.609)</td>
<td></td>
<td></td>
<td>$124,500,000</td>
</tr>
<tr>
<td>3. Incentive fund to raise teachers’ pay (84.374)</td>
<td></td>
<td></td>
<td>$99,000,000</td>
</tr>
<tr>
<td>4. Prisoner reentry job search help (17.270)</td>
<td></td>
<td></td>
<td>$21,000,000</td>
</tr>
<tr>
<td>5. Clean fuels program for city buses (20.529)</td>
<td></td>
<td></td>
<td>$17,600,000</td>
</tr>
<tr>
<td>6. Specialty crop block grant (10.169)</td>
<td></td>
<td></td>
<td>$7,000,000</td>
</tr>
<tr>
<td>7. Motorcycle safety education grants (20.612)</td>
<td></td>
<td></td>
<td>$6,000,000</td>
</tr>
<tr>
<td>8. Environmental justice training grants (66.307)</td>
<td></td>
<td></td>
<td>$1,000,000</td>
</tr>
<tr>
<td>9. Museum professionals training grants (45.307)</td>
<td></td>
<td></td>
<td>$982,000</td>
</tr>
<tr>
<td>10. Steps to healthier girls (93.014)</td>
<td></td>
<td></td>
<td>$60,000</td>
</tr>
</tbody>
</table>


Chris Edwards (cedwards@cato.org) is director of tax policy studies at the Cato Institute. A version of this report appeared in Cato’s Tax & Budget Bulletin No. 41. Used by permission.

INTERNET INFO


January 29, 2007 is Milton Friedman Day! Ask your local PBS station to air the new biography of this great economist’s life. Milton Friedman passed away on November 16, 2006 at the age of 94.

"Few people actually change the course of history; fewer still change it in positive ways, ways that benefit the lives of millions and even billions of people. Milton Friedman was such a person.“

JOSEPH L. BAST
THE HEARTLAND INSTITUTE

Go to http://www.heartland.org for a collection of tributes and links to Friedman’s contributions on school reform, health care, and many other topics.

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.

Wesbury is available through The Heartland Institute for a limited number of speaking engagements across the country.

Contact Nikki Comerford at 312/377-4000, or by email at nikki@heartland.org, to schedule Brian Wesbury to keynote your next event! We predict he’ll get rave reviews.