Medicaid Spending Surges in 2007

By Dane G. Wendell

Medicaid spending is expected to grow more than 6 percent in 2007, according to the latest projections from the Congressional Budget Office and the U.S. Department of Health and Human Services, adding to the strain of what is already the largest spending commitment in most states.

Medicaid programs serve 53 million people across the nation. Spending is expected to reach $336 billion this year, accounting for 22 percent of state spending and eclipsing overall education spending. An estimated 14 million more people are currently eligible for Medicaid but are not enrolled.

As the Associated Press reported in late February, “The welfare state is bigger than ever despite a decade of policies designed to wean poor people from public aid.” Nearly one in six persons receives some form of public aid today, according to the AP analysis.

The National Center for Policy Analysis (NCPA) estimates one in three children and more than half of Medicaid p. 10

Smokes, Drinks Are Tax Targets in Michigan

By Steve Stanek

A proposal to raise taxes on “services” in Michigan appears unlikely to move forward, but proposals to raise taxes on liquor, cigarettes, and other tobacco products apparently are still under consideration.

Gov. Jennifer Granholm (D) has proposed a variety of excise tax hikes to Michigan p. 7

III. Governor Adds to Record Tax Hike Plan

By Steve Stanek

Illinois Gov. Rod Blagojevich (D) has tacked more than $1 billion onto the record tax hike proposal he announced during his State of the State address on March 7.

Three weeks after announcing a plan for a gross receipts tax on businesses to raise more than $6 billion, and a $1 billion payroll tax on employers who do not provide health insurance benefits.

IN THIS ISSUE

- Few Pay into Tax Me More Funds
- TX Gov. Seeks Medicaid Reform
- Grassroots Defeat Railroad Loan
- Open Letter on Tax Competition
- Interview with Alan Reynolds
- Review: Income and Wealth
- Public Pensions Unsustainable
- Benefits Debt Nearing Crisis

Chicago-Area School District Privatizes Student Bus Service

By John W. Skorburg

One of the largest public school districts in Illinois has decided to hire a private company to run the district’s student bus services.

Community Unit School District 300 serves nearly 19,000 K-12 students in 13 communities in northwest suburban Chicago.

School board members acknowledged problems with transportation management before voting 5-2 on March 11 to

BUS p. 18
A rainbow is far more than just two colors — and politics is far more than just left and right. That’s why millions of Americans say labels like “liberal” or “conservative” don’t accurately describe their political identity.

No wonder. A simple line from “left” to “right” just isn’t inclusive enough to contain every shade and hue of political belief.

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 7.7 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.
- Military service should be voluntary. There should be no draft.
- There should be no laws regarding sex between consenting adults.
- There should be no National ID card.
- End “corporate welfare.” No government handouts to business.
- Cut taxes and government spending by 50% or more.
- Repeal laws prohibiting adult possession and use of drugs.
- There should be no barriers to international free trade.
- There should be no laws regarding sex between consenting adults.
- There should be no National ID card.

**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.
- End government barriers to international free trade.
- Let people control their own retirement; privatize Social Security.
- Replace government welfare with private charity.
- Cut taxes and government spending by 50% or more.
- Military service should be voluntary. There should be no draft.
- There should be no National ID card.
- There should be no laws regarding sex between consenting adults.
- There should be no National ID card.
- End “corporate welfare.” No government handouts to business.

**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.

To learn more about the Quiz, visit: www.TheAdvocates.org

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

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

Eight years after MacDougal’s suggestions were implemented, Illinois now stands well ahead of California, New York, and other big-city states, with a spectacular 86 percent reduction in the welfare rolls since reform implementation in 1996, second only to Wyoming among all 50 states. The welfare rolls in Chicago’s Cook County have been reduced an amazing 85 percent, with studies showing that most who left the rolls are working, and at pay above minimum wage.

MacDougal’s extraordinary journey shows the way for the rest of the nation and proves there are ways we can all help provide a ladder of opportunity for those in poverty. We each can Make a Difference in the ongoing effort to end America’s poverty problem.
Schwarzenegger Makes Gray Look Good

California Gov. Arnold Schwarzenegger (left) has overseen a doubling of the state’s debt burden in just three years. Since Gov. Gray Davis (right) left office in 2003, spending has increased dramatically and the state now has the biggest budget deficit in its history.

By Tom McClintock

Three years after Arnold Schwarzenegger (R) was elected California’s governor on the promise to “cut up the credit cards,” the state’s debt burden has more than doubled.

When Gov. Gray Davis (D) left office in 2003, California state government spent $8.80 of every $100 of personal income. Today it spends $9.54.

“Three years after Arnold Schwarzenegger (R) was elected California’s governor on the promise to ‘cut up the credit cards,’ the state’s debt burden has more than doubled.”

Over the past three years, while general fund revenues have grown 23 percent, spending has grown 30 percent, significantly faster than it did under Davis.

Schwarzenegger’s spending spree has now produced the biggest budget deficit in California’s history—$8 billion, compared to Davis’s worst year of $6.6 billion.

Reserve Nearly Exhausted

California has been able to keep writing checks solely because of a budget reserve created by unprecedented borrowing in 2004 and an unforeseen revenue windfall in 2005. But that reserve will soon be exhausted.

And there’s more: The state also owes about $45 billion in pension obligations and between $40 billion and $70 billion in health care obligations to retired state employees. The health care obligation alone requires $6 billion to be set aside every year. The state has set aside precisely nothing.

The pressure for tax increases in a state that already bears one of the heaviest tax burdens in the country will grow as California approaches its fiscal day of reckoning. And it’s not likely that Schwarzenegger will stand up to that pressure very long.

Tax Promise Broken

Indeed, it took him just 72 hours after taking the oath of office this January to break his unequivocal campaign promise not to raise taxes. In order to fund a health plan that includes free health insurance for illegal aliens, Schwarzenegger has already proposed the second-biggest tax increase in California’s history. And by calling the tax a “fee,” it may be passed with a bare majority of the legislature.

In other words, hide the silver and bolt the door ... the tax collectors are coming.

There is one reform that could stop them: Require government to ask voters’ permission before it takes any more of our earnings. After all, asking is the polite thing to do.

It’s not exactly a radical idea. Ever since Proposition 218 passed in 1996, Californians have had the right to vote on local tax increases. A similar law has kept Switzerland’s taxes among the lowest in Europe.

Citizens Should Decide

It has been an accepted tenet of good government since the days of the Magna Carta that the power to tax should not be placed in the same hands as the power to spend. Unfortunately, the checks and balances within our own system are insufficient to prevent reckless spending, gaping budget deficits, and, ultimately, crushing tax increases.

SCA 5, now pending in the Senate, restores that political balance at its fundamental level: the voter. It brings back the common dictionary definition of a tax and requires that all taxes be approved by voters before they can be imposed.

“SCA 5, now pending in the Senate, ... brings back the common dictionary definition of a tax and requires that all taxes be approved by voters before they can be imposed.”

Sen. Tom McClintock (R) represents the 19th Senate District in the California Legislature and is a member of the Taxpayer Protection Caucus of Americans for Tax Reform. His Web site address is http://www.sen.ca.gov/mclintock, and he can be contacted there.

Author’s Note: The Taxpayer Protection Caucus is made up of lawmakers who firmly believe in the rights of the taxpayers and are committed to stop tax increases. Each member must sign the Taxpayer Protection Pledge of Americans for Tax Reform and keep it in order to belong to the caucus.

Correction

The headline over the Page 1 feature story in the May issue of Budget & Tax News should have read “Record Tax Cut Will Save Utah Taxpayers $220 Million.” We apologize for the error.
Chicago Secretly Plans to Sell Assets to Fund 2016 Summer Olympics

by Dennis Byrne

Months after Chicago Mayor Richard M. Daley began promising taxpayers they would not foot the bill for the 2016 Olympics, the city secretly drafted a plan to sell public assets to help fund the Games and pledged to cover $500 million in any losses.

City officials revealed the plans and pledge in March, after a visit from Olympic officials on April 14 to U.S. Olympic Committee selected Chicago, over two-time host city Los Angeles, to represent the U.S. in the bid for the 2016 Olympics and Paralympics. The final choice of host city will be made by the International Olympic Committee in October 2009.

Covering the losses and selling public air rights over near-downtown property were ideas developed behind the scenes in response to the United States Olympic Committee, which has demanded financial assurances that Chicago can pay for the multibillion-dollar event and any cost overruns if the city wins the bid to host the Games.

“We definitely want the government to have skin in this game,” said a committee spokesman, referring to financial backup from a city legendary for cost overruns on big projects, such as the ongoing expansion of O’Hare International Airport and the glitzy lakefront Millennium Park, which opened four years late and hundreds of millions of dollars over budget in 2004.

City Predicts Profit

Daley and his backers have confidently and steadfastly insisted the city would make a profit on the Games, even after recent news that the estimated cost of the 2012 London Olympics has tripled, to $18 billion. Chicago officials believe the city can stage the 2016 Games for about $5 billion.

The $500 million in financial guarantees—to be backed by the public purse and parties still not named—would carry yet overwhelming Chicago City Council approval in March ... despite concerns by a few aldermen about the workability of the financial plan and the lack of public discussion.

The Chicago Park District, on whose land many of the Games would be played, voted to reserve $15 million in revenue to help pay for an aquatic center for the Games.

The deal involves a complicated sale of air rights, designed by city, corporate, and civic leaders behind closed doors. At its heart are the air rights over property near the sprawling lakefront McCormick Place exposition center, owned by the Metropolitan Pier & Exposition Authority (McPier), a city/state agency that also owns the popular lakefront amusement park, Navy Pier.

“Months after Chicago Mayor Richard M. Daley began promising taxpayers they would not foot the bill for the 2016 Olympics, the city secretly drafted a plan to sell public assets to help fund the Games and pledged to cover $500 million in any losses.”

Daley Says Promise Kept

The Daley administration insists the pledge of $500 million in backup money does not betray the mayor’s promise that taxpayers won’t pay any of the tab. The mayor and spokespersons say he is sticking to his promise because there will be no deficit to fund.

“The deal involves a complicated sale of air rights, designed by city, corporate, and civic leaders behind closed doors. At its heart are the air rights over property near the sprawling lakefront McCormick Place exposition center, owned by the Metropolitan Pier & Exposition Authority (McPier), a city/state agency that also owns the popular lakefront amusement park, Navy Pier.

“Operationally, we’ll have a surplus in the hundreds of millions of dollars,” Patrick Ryan, a Chicago insurance executive and head of Navy 2016, said in a news conference.

Nor does the administration concede the sale of the publicly owned air rights amounts to putting the arm on taxpayers.

“This is not money out of taxpayers’ pockets because the Olympics creates the value of the air rights,” said Kate Sansone, the mayor’s assistant press secretary, in an e-mail to this writer. “We are essentially taking an intangible asset and putting it to public use to help revitalize [old railroad] marshalling yards that otherwise would just be sitting there. If it weren’t for the potential of the 2016 Olympic and Paralympic Games, the air rights would just be air.”

Sansone added, “Development of this area will create a new neighborhood on the lakefront that incorporates affordable housing, part of the city’s public goals. As this new neighborhood develops and prosper, taxpayers will ultimately benefit from the proceeds of an area of the city that today is not generating any tax. The creation of this new community on the lakefront will in fact further open up and develop the lakefront for the near South Side. One way that the North Side has been for years.”

It is a matter, Sansone said, of creating a “lasting legacy.”

Not All Costs Considered

However, some observers consider the city’s claims to be overly optimistic and based on incomplete information.

Among the doubters is University of Chicago sports economist Allan M. Sanderson, who said not all the financial cards are on the table.” For example, the cost of upgrading Chicago’s mass transit system to meet the expected surge in demand created by the Olympics is not included.

Sanderson also noted huge cost overruns for the Athens Games in 2004, the estimated $18 billion price tag for the London 2012 Games, and estimates that the Beijing 2008 Summer Olympics could end up costing three times as much as the London Games estimates. He said that all suggests Chicago is lowballing estimates. Some members of London’s legislative assembly are already challenging the $18 billion estimate for their Games, suggesting the final cost could be at least $29 billion.

Sanderson predicted a cost overrun in Chicago is nearly certain.

Air Rights Convolute Backing

The air rights proposal involves McPier selling the rights to a private developer, as yet unnamed, who would build a $1.1 billion Olympic village for the athletes. Air rights would allow the Olympic village to be built atop a deck that would be placed over a truck marshalling yard on the property. McPier would retain ownership of the truck yard.

After the Games, the developer would convert the village into private apartments. McPier would retain partial ownership of the development, which it would sell outright or lease to a managerial firm after the Games.

McPier would give the proceeds of the air rights sale—estimated to generate about $100 million to $125 million in cash—to the city.

Chicago would then give the money to Chicago 2016, the local non-governmental Olympic organizing committee consisting of corporate, civic, and city representatives. Chicago 2016, in turn, would use the money to help fund a $316 million temporary Olympic stadium in a large park near the University of Chicago on the city’s South Side.

Dennis Byrne (dennis@dennisbyrne.net) is a Chicago newspaper columnist and freelance writer.

Temporary Stadium Keys Chicago’s Olympic Bid

A plan for construction of a temporary stadium was central to Chicago’s winning bid to host 2016 Olympics. Chicago’s U.S. rival was Los Angeles. The winning U.S. city is in competition with cities in several other countries to host the 2016 Olympic Games.

Soldier Field Too Small

The need for a stadium able to seat 80,000 persons arose after Olympic officials told Chicago officials that Soldier Field, home of the National Football League Chicago Bears, was too small for the opening and closing Olympic ceremonies. Renovations of the lakefront stadium were completed in 2003 at a cost of almost $700 million.

“A plan for construction of a temporary stadium was central to Chicago’s winning bid to host the 2016 Olympics.”

The failure to build International Olympic Committee (IOC)-mandated facilities defeated New York’s plans for the 2012 Games and eliminated San Francisco for 2016.

The stadium has to be temporary because the IOC does not allow its revenues, which will help fund the stadium, to be used for permanent facilities. There is also a public relations reason for the stadium being presented as temporary: The proposed stadium’s site, Washington Park, is considered an historical and landscape treasure. To overcome public resistance, the city designed a temporary facility that would be torn down after the Games and replaced by a $50 million open-air amphitheater for concerts and cultural and sporting events, with seating for 5,000.

In just a few months, the publicly discussed cost of the package of stadiums rose from $366 million from the original $300 million estimate.

— Dennis Byrne

The Daley administration insists the temporary stadium “will meet the expected surge in demand created by the Olympics.”

The proposed stadium’s site, Washington Park, is considered an historical and landscape treasure. To overcome public resistance, the city designed a temporary facility that would be torn down after the Games and replaced by a $50 million open-air amphitheater for concerts and cultural and sporting events, with seating for 5,000.

In just a few months, the publicly discussed cost of the package of stadiums rose to $366 million from the original $300 million estimate.
Cost of Chicago Hiring Corruption: $12 Million

By Steve Stanek

The City of Chicago has announced a $12 million settlement to pay damages for illegal hiring practices that rewarded political insiders and workers who helped with the campaigns of Mayor Richard M. Daley and candidates he supported.

The settlement is in addition to $1.65 million already paid by the city to an attorney appointed by a federal court to monitor city hiring practices to correct years of corrupt hiring.

The attorney, Noelle Brennan, will also manage payouts from the $12 million settlement to claimants who can document they were denied a job or promotion or harmed in some other way as a result of the city’s corrupt practices. Individual payouts could go as high as $100,000.

Despite the settlement and last year’s convictions of several high-ranking city officials for hiring corruption, criminal charges continue.

New Charges Filed

One day after the March 21 announcement of the settlement, a former aide to Daley was charged with nine counts of perjury, for allegedly lying before a federal grand jury investigating Chavez for perjury, for allegedly lying before a federal grand jury investigating Chavez, allegedly spent more than a decade rigging city hiring for Daley. He quit Daley’s cabinet in 2005 after becoming HDO coordinator was also charged with political hiring, promotion, transfer, discipline and discharge,” according to the court order.

The court also ordered the monitor to propose a “mechanism for ensuring future employment actions [by the City] are in compliance with the Court’s previous Orders.”

Settlement Could End Case

Shakman said the settlement is a good one “because it gives the plaintiffs—including City employees and job applicants—as much [as] or more than could be expected if the civil contempt case against the City had been tried.”

Shakman added, “If the City is serious about ending patronage abuses, as Mayor Daley has said it is, then he and the City will have to prove to Judge Anderson that clout has been eliminated in City employment practices in order to end federal court supervision. Plaintiffs hope that day will come soon, since it will mean that the City has in fact complied with its obligations and has dismantled the illegal patronage system.”

In a news conference in response to the settlement, Shakman told reporters the settlement could end his quest to have Daley and the city held in contempt, as well as the rest of his decades-long legal fight against the city.

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

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In Other Words

“Over the past two years, the curtain that hides the City of Chicago’s government has been lifted by the U.S. attorney’s office. What it has revealed is a municipality where corruption continues to spread like cancer throughout the system.

“Phony contracts, fraudulent hiring on the basis of politics, a city clerk resigning in disgrace, 35 public corruption convictions and scores of current and former city officials cooperating with federal law enforcement officials are just some of the results of the federal investigations.”

House Editorial
Chicago Sun-Times
May 10, 2006

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Put your state in this STAMP collection

“The Beacon Hill Institute in Boston is the largest and most experienced non-partisan organization in the country for modeling tax reforms.”

Steve Forbes, Publisher and Author

First developed in 1994, STAMP is a computer program designed to provide the user with the ability to perform tax policy “simulations” — analyses of how hypothetical tax changes will affect a state’s economy.

“How will a change in the top state personal income tax rate affect employment in the state?”

“How will it affect employment in the construction sector?”

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

For more information about BHI’s models visit www.beaconhill.org today!
America’s Tax Bill Tops $26,738 Per Household

By Andrew Chamberlain and Gerald Prante

Americans paid about $3 trillion in taxes in 2004, totaling $26,738 per household, according to a new study released March 26 by the Tax Foundation.

“Which Taxes Weigh Most Heavily on Americans with Different Incomes?” released March 26 by the Tax Foundation’s Bureau of Economic Analysis.

To make the numbers easy to understand, we’ve presented them on a per-household basis. That is, we’ve divided total collections for each type of tax by the number of American households, which was about 113.5 million in 2004.

Payroll Taxes Huge

On average, federal payroll taxes per household actually outweighed personal income taxes in 2004—$7,069 per household compared to $7,062.

Perhaps more surprisingly, the total of all households’ property taxes, sales taxes, and state-local income taxes was $7,130 per household, actually outweighing the average federal income tax bill by $68 per household.

Some taxes, such as income and estate taxes, fall heavily on upper-income households, while others—such as cigarette, payroll, and sales taxes—fall more heavily on those with low incomes.

Burdens Vary

One way of showing how important different taxes are to different Americans is to group everyone into five equal groups known as “income quintiles” and show how much in taxes each pays.

Each one of those groups contains 20 percent of the U.S. population, or about 58 million Americans.

If a household earned less than $23,700 in 2004 it fell into the bottom 20 percent of incomes. A household that earned between $42,305 and $65,000 was in the middle 20 percent of incomes. And any household income above $99,502 was in the top 20 percent.

Using those five income groups, Figure 2 asks the following question: “Out of every dollar of tax paid by households, how many pennies go to each type of tax federal, state and local?” Federal income taxes are listed at the bottom of Figure 2. Above them are federal payroll taxes, federal corporate income taxes, and the other major types of taxes paid to federal, state, and local governments.

As is clear from the figure, the composition of Americans’ tax bills varies widely among those in the lowest, middle, and top income groups.

CONTINUED on right

Figure 1. About One-Fourth of the Nation’s Tax Bill Goes to Federal Individual Income Taxes (Figures are per household, 2004)

Figure 2. Some Taxes Are More Burdensome to Lower-Income Americans, and Some Fall Heavily on Upper Incomes


INTERNET INFO

Quintiles of Household Cash Money Income with Equal Numbers of Individuals, 2004
Heavy Sales, Receipts Burdens

Overall, sales and gross receipts taxes, property taxes, excise taxes, and the federal payroll tax consume the vast majority of each tax dollar from lower-income households. Federal income taxes and federal payroll taxes dominate the tax bills of Americans in upper-income groups.

“Americans paid about $3 trillion in taxes in 2004, totaling $26,738 per household, according to a new study released March 26 by the Tax Foundation.”

For households in the bottom fifth of income, the single most burdensome tax is the type that falls on purchases: state and local sales and gross receipts taxes. Those make up 32 cents of their tax bill.

Property taxes are next (22 cents), followed by federal payroll taxes (21 cents). These three non-income taxes together make up 75 cents of every tax dollar paid by the bottom income group, while federal income taxes account for just 4 pennies.

Payroll Taxes Burden Middle

For households in the often-discussed middle fifth of the income scale, by far the most burdensome tax is the federal payroll tax.

Payroll taxes withdraw 15.3 percent of workers’ pay below $97,500 (the limit was $87,900 in 2004), and those dollars are used to fund federal government transfer payments to today’s senior citizens through Social Security and Medicare. (Legally, half of payroll taxes are paid by employers and half by employees. However, economists agree the full burden is shifted onto workers in the form of lower compensation.)

For those in the middle fifth of incomes, 32 cents of every tax dollar goes to federal payroll taxes—more than any other income group. That compares to 18 cents for federal income taxes, 15 cents for sales and gross receipts taxes, and 12 cents for property taxes.

By a wide margin, the Americans most heavily burdened by the federal income tax are those in the top income group. Thirty-six cents of every tax dollar paid by households earning more than $99,502 in money income went to federal income taxes in 2004. That’s compared to 23 cents for payroll taxes, 9 cents for state and local income taxes, and 9 cents for property taxes.

Andrew Chamberlain (chamberlain@taxfoundation.org) and Gerald Prante (prante@taxfoundation.org) are staff economists at the Tax Foundation in Washington, DC.

Michigan

Continued from page 1

boost state revenues. On March 22 the Republican-led Senate rejected her proposal to impose a 2 percent sales tax on services, but at press time Granholm was still pushing a variety of other tax hikes. These include:

• raising the state cigarette tax from $2 to $2.05 a pack;
• doubling the tax on smokeless tobacco and other tobacco products (Michigan’s current tax on smokeless and other tobacco products is 32 percent of the wholesale price); and
• raising the state tax on liquor from $10.53 to $14.40 a gallon. Some fees for liquor licenses at restaurants and bars also would increase.

“The governor’s tax on distilled spirits will devastate Michigan’s hospitality industry,” said Cathy Pavick, executive director of the Michigan Licensed Beverage Association. “This will affect every- one from bartenders to busboys—not to mention the small business owners who will have to watch more and more customers travel across state lines to get their alcohol.”

“A proposal to raise taxes on ‘services’ in Michigan appears unlikely to move forward, but proposals to raise taxes on liquor, ciga-
rettes, and other tobacco products apparently are still under consideration.”

Region’s Highest Liquor Tax

A study of liquor taxes by the Distilled Spirits Council of the United States (DISCUS) shows Michigan’s current $10.53 a gallon tax is by far the highest in the region and the sixth-highest in the nation.

Ohio has the next-highest liquor tax in the region at $8.40 a gallon. The neighboring states of Indiana and Wisconsin have taxes of $2.68 and $3.23 a gal-

lorn, respectively, according to DISCUS spokesman Ben Jenkins.

“Michigan’s spirits taxes are already nearly four times as much as those in Indiana,” said David Wojnar, DISCUS vice president. “If Michigan raises its tax even higher, [more] consumers will cross the border to shop and dine, which would drain Michigan’s tax revenues even more.”

Wojnar noted that half the price of a typical bottle of spirits in Michigan already goes to taxes and fees.

“Oh, the one hand, the governor has made boosting tourism a top priority for Michigan,” Wojnar said. “On the other hand, she slaps a tax on tourism-related businesses and their workers. That just doesn’t make good business sense.”

David Wojnar

Vice President

Distilled Spirits Council of the United States

McHugh said there is no way to know if these or other proposals will advance, but he added there is strong sentiment among the public against raising taxes.

At the same time, there appears to be little stomach among lawmakers for cuts in spending. McHugh observed, a sentiment driven by government unions that want to protect their members’ pay and perks.

“It all boils down to a political establish-

ment, with elements on the Repub-
lican side who are friendly to this, that wants to protect government workers from the impact of the economic realities that have affected everyone else,” McHugh said.

Michigan Gov. Jennifer Granholm has proposed tax hikes on cigarettes, tobacco, and liquor.

Constituent Complaints

Jack McHugh, legislative analyst at the Michigan-based Mackinac Center for Public Policy, said lawmakers rejected the governor’s proposed 2 percent ser-

vices tax “because they heard complaints from constituents, big-time.”

“Since the defeat of the 2 percent services tax, the governor has not proposed a new tax,” McHugh said. However, he noted, “A bill has been introduced to increase the income tax from 3.9 to 4.6 percent. And there’s lots of talk about a ballot initiative to repeal the prohibition [in the state constitution] on a graduated income tax.”

“On the one hand, the governor has made boosting tourism a top priority for Michigan. On the other hand, she slaps a tax on tourism-related businesses and their workers. That just doesn’t make good business sense.”

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Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News.
Tax Hike Proponents Refuse to Pay More Themselves

‘Tax Me More’ options call their bluff

By Elizabeth Karasmeighan

Tax Me More accounts, also known as voluntary contribution accounts, have brought in precious little revenue to date, vividly demonstrating the hypocrisy behind many calls for higher taxes. “Setting up a Tax Me More fund is like putting bacteria under a microscope to see how it really behaves,” said Grover Norquist, president of Americans for Tax Reform. “Whenever a tax hike is on the table or a tax cut is being considered, the big spenders inevitably fall back on the argument that taxes are not high enough or that taxpayers are willing to pay more in taxes. One glance through the microscope at how much taxpayers voluntarily fork over to government shows that big spenders are tossing around a diseased argument.”

Arkansas, Kansas, Massachusetts, Minnesota, Montana, New Hampshire, Oklahoma, and Virginia have Tax Me More accounts, which allow taxpayers to pay extra if they think their tax bill should be higher. Lawmakers in Kentucky, Maine, and Utah this year have laid groundwork for similar accounts.

Arkansas, Massachusetts Lead

Arkansas became the first state with a Tax Me More fund after then-governor Mike Huckabee (R) created an account by executive order in December 2001. In 2000-2001, Massachusetts’s Citizens for Limited Taxation (CLT) led the charge to repeal the state’s “temporary” income tax rate increase in a 2000 referendum. To address those who argued they don’t mind paying more, the legislature added a checkbox on the 2001 income tax forms allowing taxpayers to decide whether to pay the old 5.85 percent rate or the new 5.3 percent rate.

“Tax Me More accounts, also known as voluntary contribution accounts, have brought in precious little revenue to date, vividly demonstrating the hypocrisy behind many calls for higher taxes.”

Chip Ford, CLT’s director of operations, spearheaded the effort. “Those of us who campaigned and voted to ‘keep the promise’ on the 2000 ballot, to make the 1989 ‘temporary’ state income tax hike finally temporary by ending it ourselves, now pay lower taxes,” he said. “Our opponents, who throughout the ballot campaign insisted they ‘don’t need or want’ a tax cut, now don’t need to take it.”

Funds Stay Dry

The Massachusetts Tax Me More fund, like those in the other states and for the federal government, has been virtually dry, revealing the unwillingness of taxpayers to voluntarily pay more in taxes.

In Maine earlier this year, state Rep. Scott Lansley (R-Sabattus) offered “An Act to Create a Voluntary Tax Account,” which was tabled.

On February 1, Lansley testified before the state House’s Joint Standing Committee on Taxation. “[T]hose that feel we do not allocate enough money to worthwhile causes such as Land for Maine’s Future, welfare for the needy, or health care can now designate whatever amount they wish. Also, this is a designated account and not money just dumped into the general fund as is currently done.”

More States Considering Bills

Kentucky state Rep. David Floyd (R-Bardstown) introduced a bill to create a voluntary contribution account allowing donations from taxpayers and requiring the state’s Department of Revenue to enable taxpayers to make contributions with their income tax payments. Floyd said his bill is a call to all those who do not support tax cuts to walk the walk.

In Utah, state Rep. Greg Hughes (R-Draper) began the 2007 legislative session with a Tax Me More bill. The measure passed the state House by a vote of 43-31.

“In addressing tax policy, we have given the vocal minority an opportunity to reject tax relief. Now we can gauge the resistance to tax cuts in real dollars!” Hughes said.

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

Liberty for All

Reclaiming Individual Privacy in a New Era of Public Morality

Elizabeth Price Foley

“Path-breaking . . . A must read for everyone interested in how the Constitution is supposed to protect individual liberties.”

—Randy Barnett

“[Foley] proves her point that ‘instead of a land of individual liberty and . . . tolerance, America has become a land of public morality and intolerance.’ [Her] book provides indispensable guiding principles for limited government and personal sovereignty we can only wish America’s leaders would (and may again one day) embrace.”

—Michael Anthony Lawrence

“Provocative . . . The most engaging book on constitutional law I’ve read in quite a while.”—Glenn Harlan Reynolds

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Pressure Is Building for States to Reveal Spending

By Sandra Fabry

A movement to bring transparency into government spending is gaining steam across the country.

Guided by the idea that accountability is one of the cornerstones of representative democracy, politicians across the country are following the lead of Governors Mitch Daniels (R) of Indiana and Rick Perry (R) of Texas, both of whom have made big strides in shedding light on government expenditures.

One of the first executive orders Daniels signed in 2005 was a directive to the state’s Department of Administration to log written state contracts on the Internet. Today, Hoosiers may access on the Internet relevant information pertaining to the state’s contracts.

Governor Leads Way

Perry made spending transparency reform one of the key planks of his budget reform plan unveiled in January of this year. His proposal includes requiring all state agencies to publish expenditures online.

“Hiding wasteful expenditures behind worthwhile expenditures is a budgetary sham that makes government more bloated, less accountable, and less transparent,” Perry said in an interview for this article. “We should demand that state government publish expenditures online in a clear, concise, and consistent format for all Texans for see.”

Texas state Rep. Brian Hughes (R-Mineola) has introduced legislation that would require every state agency to list all expenditures online in a readily accessible format.

To set a good example, the governor’s office has already embraced this level of expenditure reporting and has placed all office expenditures online (http://www.governor.state.tx.us/divisions/press/files/2007Q1_expenditure.pdf).

State Comptroller Susan Combs (R) followed suit and has not only posted her office’s expenditure information online, but also the information for eight other agencies (http://www.cpa.state.tx.us).

Transparency Keys Reform

State Rep. Ken Paxton (R-McKinney) has introduced legislation that would make all state contracts available for review on the Internet.

Michael Sullivan, president of Texans for Fiscal Responsibility, is excited about these efforts.

“TFR was formed with the overarching purpose to actively promote public policies that empower Texans, most notably by reducing the drag government exerts on our economy,” Sullivan said.

“Nothing empowers people quite like transparency,” Sullivan continued. “By making government expenditures more accessible, by giving individual Texans more knowledge about the operation of government and a greater voice with which to act on that knowledge, we will pave the way for lasting reforms that reduce taxes and improve the quality of government.”

CoBurn Sparks Effort

State legislative efforts aimed at bringing transparency and accountability into government spending are largely mod-(

Bipartisan Support Rising

The spending transparency effort across the country enjoys bipartisan support, with Republicans and Democrats listed as sponsors on many bills.

“I believe that policymakers and interest groups from across the ideological spectrum are genuinely supportive of the goals of SB 1 [one of two Senate bills introduced on the issue] in Oklahoma,” said David Blatt, director of public policy for the Community Action Project in Oklahoma. “The challenge will be in actually finding practical mechanisms to launch a functioning, user-friendly Web site.”

Taxpayer activists believe just knowing these sites are being set up in a state will have a tremendous impact on spending patterns. Sullivan used an example from physics to explain why.

“Quantum physics tells us that we cannot directly observe subatomic activity, because the simple act of observation changes the behavior of the particles being observed. Governance is no different,” Sullivan said.

“A movement to bring transparency into government spending is gaining steam across the country.”

“When lawmakers and bureaucrats from the federal government down to the smallest village know they are being observed, they will behave differently,” Sullivan explained. “The simple act of making expenditures and contracts available will overnight change for the better the way they behave with our money and resources.”

Taxpayer Savings Predicted

Grover Norquist, president of Americans for Tax Reform, said he believes the move toward spending transparency “is a tremendously important effort, which has the potential of bringing immense cost savings for taxpayers simply because lawmakers will think twice about certain expenditures.”

Because of its importance, Norquist said he believes all levels of government should embrace it.

“Taxpayers will be best served when all levels of government are required to disclose their expenditures in a clear and searchable public format,” Norquist said. “Ultimately, government labor contracts should also be made publicly accessible, so that taxpayers get full disclosure as to how their hard-earned tax dollars are spent.”

Perry summed it up as follows: “I have a simple philosophy about transparency in government: If the taxpayers are picking up the bill, they ought to be able to look at every item on the receipt.”

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

Other States Take Up Transparency Measures

Among the states in which legislation creating searchable Web sites for government expenditures has been introduced are Connecticut, Hawaii, Illinois, Kentucky, Maryland, Minnesota, New Mexico, Oklahoma, and Tennessee.

Others exploring the issue are Alabama, Missouri, Nebraska, North Carolina, and Utah. More are likely to follow soon.

A Kansas bill that would create a Web site detailing state and local revenue and expenditure information passed the House of Representatives on February 22. Information would include disbursements by state agencies from funds in the state treasury, salaries and wages—including compensation paid to individual state employees—contractual services, and capital outlays and commodities.

That several bills to this effect have been introduced in Oklahoma does not surprise Brandon Dutcher, vice president for policy at the Oklahoma Council on Public Affairs.

“It’s only logical that Oklahoma would take the lead on this, since it is our own Senator Tom Coburn (R) who has been such a leader on this issue at the federal level,” Dutcher said.

“Transparency is important in Oklahoma,” Dutcher noted, “because if we ever hope to eliminate our state income tax, we are going to have to get a handle on spending. And one of the best ways to get a handle on spending is to locate and then shine a spotlight on the many ‘Bridge to Nowhere’-type projects that are marbled throughout the state budget.”

— Sandra Fabry

(from left) U.S. Sen Tom Coburn is greeted by Sen. John McCain at a hearing to discuss the Federal Funding and Accountability and Transparency Act, which Coburn spearheaded. The measure became law in September 2006.
Texas Governor Wants Medicaid Reforms, More Private Insurance

State lottery sale would fund program

By Devon Herrick

Texas Gov. Rick Perry (R) is proposing several bold steps to reform the state Medicaid program and help the uninsured purchase health insurance, including subsidies to help people buy private insurance and fund Health Savings Accounts.

Texas’s Medicaid program has doubled in cost during the past decade. The program now serves 2.7 million people and consumes about 26 percent of the state’s budget—more than $17 billion in 2005. That included $6.73 billion in state funds and $10.54 in federal funds.

Perry’s reforms aim to hold down costs and give Medicaid-eligible residents more control over their health care.

Alternative to Medicaid

Perry’s plan to assist the uninsured, called Healthier Texas and announced in February of this year, would cover an estimated two million residents. Rather than expand traditional Medicaid, the state would provide subsidies for the purchase of health insurance for families earning up to 200 percent of the poverty level.

The funds also could be used to subsidize workers with access to employer-sponsored health insurance. Premiums would be charged on a sliding scale based on recipients’ income. All participants would be required to pay low deductibles and co-payments for health care services.

Low-income recipients also would be allowed to use the subsidy to fund Health Savings Accounts (HSAs), which they could use to pay deductibles and co-payments.

Medicaid Waiver

Perry also proposes to reform the traditional Medicaid program. The state would request a waiver from the federal government allowing Texas to offer customized benefits packages to meet the different needs of diverse populations.

“Washington’s ‘one-size-fits-all’ approach to Medicaid is bankrupting our state,” said a spokesman for Perry. “Innovative reform measures, such as tailored benefit packages and premium assistance, will help Texas meet the needs of our population—without any additional cost burden to the state.”

According to the governor’s office, recipients who have access to employer-sponsored health plans could opt out of Medicaid and use the subsidy to purchase private coverage through work. Texas Medicaid also would allow HSAs and consumer-directed health care services.

Three-Share Program

Another part of the governor’s proposal is the Texas Three-Share Program named for a feature that includes cost-sharing among the state, employers, and employees with employer-provided health insurance.

In late 2005 Texas submitted a waiver request to the federal Centers for Medicare and Medicaid Services for a Three-Share Program in Galveston County. The waiver approval is still in process, but it is expected to be approved. Perry would like to expand the program statewide.

The Three-Share plans have less-generous benefit packages than traditional health insurance, focusing coverage on primary care, specialty care, drugs, and limited inpatient services. Three-Share Program participants would include small employers with fewer than 25 or 50 employees.

Health care premiums would be split among the state, the employer, and the employee, with each paying roughly one-third. State officials estimate the cost of premiums would average $150 to $180 per month.

State Lottery Sale

Perry proposes to fund the program by selling the Texas lottery to a private venture. An estimated $2.7 billion from the sale of the lottery would be used for health insurance for the uninsured, with additional funds for cancer research.

Some health care experts say more needs to be done to improve the Texas Medicaid situation. For instance, Texas should broaden eligibility.

CONTINUED on right

Medicaid

Continued from page 1

all nursing home residents in the U.S. are on Medicaid.

Eligibility Expanding

Medicaid is a partnership between the federal government and the states to provide health insurance to low-income children and seniors. But in many states eligibility has been expanded to include persons and families with incomes more than triple the poverty level ($61,332 for a family of four). Growth in state spending has been linked to the swelling number of Medicaid recipients.

The federal government matches spending by the states, at a rate based on the general income of the individual state. High-income states receive equal matching of federal dollars, while lower-income states may receive as much as 83 cents for every $1 spent.

Overall, the federal government matches approximately 57 percent of state spending on Medicaid, according to the National Association of State Budget Officers. There is no cap on federal spending because Medicaid is considered an entitlement program.

Sustaining Medicaid

Despite the surging Medicaid rolls and spending, future growth in government revenues should be sufficient to sustain Medicaid spending growth, according to a study released in February by the Kaiser Family Foundation’s Commission on Medicaid and the Uninsured (KCMU). The report was written by Richard Kronick of the University of California-San Diego and David Rousseau of KCMU.

“Even under pessimistic assumptions, the study provides a new perspective on Medicaid’s future financing,” said Kronick in a press statement accompanying the report. “While a substantial component of last government spending, Medicaid is not likely to be the financial burden squeezing out other public priorities that some policymakers fear.”

However, Merrill Matthews, a resident scholar for the Institute for Policy Innovation, said the aging of the U.S. population will bring tremendous challenges to future health care projections.

Reaching Frightening Levels

In contrast to the Kaiser Family Foundation study, the United States Government Accountability Office (GAO) warns in “Fiscal Stewardship: A Critical Challenge Facing Our Nation,” January 31, 2007, that “overall federal spending on entitlement programs will reach frightening financial levels if spending is not curbed.”

According to GAO, “[O]ne would need approximately $39 trillion invested today to deliver on the currently promised benefits for the next 75 years.” The report notes the sum of all government income was only $2.44 trillion this year.

“Based on various measures,” the GAO concludes, “the federal government’s current fiscal policy is unsustainable.”

According to “Health Care Spending: What the Future Will Look Like,” issued in June 2006 by the NCPA, “by 2025 government spending on health care will have risen to 13.8 percent of GDP—growing to 32.7 percent by 2050.”

According to NCPA Senior Fellow Devon Herrick, government spending on health care in 2002 was 6 percent of U.S. GDP.

“Clearly both Medicaid and Medicare are unsustainable at current rates of growth,” Herrick said.

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its asset recovery program, according to Stephen Moses, president of the Center for Long-Term Care Reform in Seattle, Washington and author of a recent study on reforming the Texas long-term care (LTC) program. Texas was slow to start an asset recovery program, doing so in 2005. “Texas’s important, though belated implementation of a Medicaid estate recovery program will help recoup some of the wealth sheltered by Medicaid from LTC costs in the past, but structured as it currently is, it is likely to in only a fraction of the non-tax revenue that it should,” according to Moses’s report.

“Texas Gov. Rick Perry (R) is proposing several bold steps to reform the state Medicaid program and help the uninsured purchase health insurance ...”

Market-Oriented Reforms

Michael Bond, a senior fellow with the National Center for Policy Analysis and advisor to several state reform efforts, said, “Texas should empower the poor of its state to buy their health care competing from providers. By offering enrollees Medicaid credits based on their health status, they will become valued customers to the providers. Providers, seeking to enroll beneficiaries, will compete vigorously for their business. “This real marketplace will produce better quality care and lower Medicaid’s long run inflation rate,” Bond continued.

Mary Katherine Stout, vice president of policy for the Texas Public Policy Foundation, said Texas really needs to ask the federal government to block-grant all federal funds. “The Texas legislature is right to be looking for program reforms, but unfortunately the real problem here is the financing,” she said. “The matching arrangement without any limitation on federal funds simply rewards big-spending states with big federal money,” Stout continued. “Instead, Texas should make a trade with Washington, getting program flexibility for the state in exchange for budget certainty in Washington.”

Devon M. Herrick, Ph.D. (devon.herrick@nepa.org) is a health economist and senior fellow at the National Center for Policy Analysis in Texas.

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Experts Discuss Medicaid Reform

The need for Medicaid reform was the subject of a session in March at the 23rd Annual Washington Economic Policy Conference sponsored by the National Association for Business Economics. Panelists included senior fellows Devon Herrick of the National Center for Policy Analysis and Judy Solomon of the Center for Budget and Policy Priorities. Session moderator was Robert Graboyes, senior fellow at the National Center for Policy Analysis and University of Richmond visiting lecturer. “This was a great event where various sides of the Medicaid debate were considered,” said Herrick.

By Steve Stanek

There was little dispute among panelists at the 23rd Annual Washington Economic Policy Conference over the following statements regarding Medicaid: • Some 50 million people are enrolled in Medicaid or the State Children’s Health Insurance Program (SCHIP), which, like Medicaid, uses federal and state funds to provide eligible persons health care services. • More than one-quarter of all children in the United States receive coverage through Medicaid or SCHIP. • The cost of delivering half of all babies in the United States is paid for by Medicaid. In addition, about half of all nursing home residents receive Medicaid benefits. • The proportion of state budgets spent on Medicaid is about equal to state spending on K-12 education. In addition, annual Medicaid spending ($329 billion in 2005) is nearly as much as the $389 billion spent on Medicare.

“The need for Medicaid reform was the subject of a session in March at the 13th Annual Washington Economic Policy Conference sponsored by the National Association for Business Economics.”

Disagree on Remedies

How to respond, though, drew decidedly different answers from the panelists and moderator.

Devon Herrick said Medicaid experiences fundamental delivery problems, including a limited choice of doctors, excess waiting and rationing of services, and a phenomenon known as crowd-out. He cited research by MIT economist Jonathan Gruber showing 50 to 75 cents of every dollar of new Medicaid spending actually goes for people who have dropped private coverage, crowding out private insurance. Thus, he observed, it is entirely possible to expand public health coverage without a corresponding drop in the uninsured.

Medicaid Incentives Criticized

Moderator Robert Graboyes said in some ways Medicaid combines the worst features of both American and Canadian health care. “Americans have incentives to bounce between public and private insurance, and some get caught with neither,” Graboyes said. “Canadians endure limited choice, rationing, and long waits. Medicaid delivers both problems in one package.”

Because two-thirds of Medicaid spending falls into the category of optional spending, conventional Medicaid reform proposals often recommend reducing optional services and services to optional populations. Yet cutting optional services is not feasible, according to Graboyes, because “much optional spending is on populations, such as the disabled and the elderly, who have nowhere else to turn.”

Though Herrick argued for dramatic reform while Judy Solomon was more disposed to accept smaller changes, they largely agreed on a variety of reforms designed to discourage waste.

‘Cost Plus’ Waste Identified

One wasteful practice the panelists identified is “Cost Plus” reimbursement. Under Cost Plus, the government agrees to reimburse a health care provider’s service costs plus a small profit. This not only guarantees a profit to poorly run operations, but it also means some providers receive more payment than others for the same service.

As a result, no matter how mismanaged a hospital or other Medicaid service provider is, it makes as much profit as a well-run operation ... and sometimes more.

One proposed solution is selective contracting, in which business is steered only to efficient providers (ones that will perform the service for a lower cost), panelists said. They also said another solution is for states to substitute low-cost services (such as office visits) for high-cost services (such as hospital emergency room visits) whenever they can.

However, Herrick and Solomon said such improvements would have only a small impact on Medicaid costs.

Waivers Draw Debate

Herrick supported and Solomon opposed a proposal for all states to request waivers from the federal government to block-grant all Medicaid funds. A block grant would allow greater state flexibility in designing Medicaid plans, such as using federal funds to subsidize employer coverage and tailoring benefits to meet the diverse needs of Medicaid enrollees.

Florida has already received federal permission to offer tailored benefits in several counties. South Carolina is preparing a similar waiver application. Massachusetts has received permission to subsidize private coverage using federal funds that had been subsidizing indigent-

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(from top) Devon Herrick, Judy Solomon, and Robert Graboyes participated in the NABE Medicaid reform panel.

BUDGET & TAX NEWS JUNE 2007
Bills to Restrict Tax Competition Draw Ire

By Steve Stanek

Two U.S. lawmakers have presented legislation attacking tax competition among nations, causing worry the legislation, if it becomes law, would damage the U.S. economy and hurt developing nations.

More than 40 representatives of leading tax and policy organizations have contacted U.S. Treasury Secretary Henry Paulson to warn of the harm they say would be caused by S. 396, proposed by Sen. Byron Dorgan (D) of North Dakota, and S. 681, proposed by Sen. Carl Levin (D) of Michigan.

S. 396 would penalize American companies operating in certain low-tax countries by subjecting them to a second layer of tax on their overseas income. S. 681 would impose numerous taxes, regulations, and penalties on Americans who earn income in selected low-tax jurisdictions.

Destroying Competition

"This is all about demagoguery against low-tax jurisdictions and the evil taxpayers in America who would have the guilt to do business in these low-tax countries," said Dan Mitchell, senior fellow at the Cato Institute. "Dorgan and Levin are total class-warfare Bolsheviks. They don’t understand or care that this is something that will cause U.S. companies to become less competitive."

Mitchell said the bills would hurt growing economies in poor nations and pointed out relatively wealthy European countries with “tax haven” policies are not targeted in the legislation.

In introducing his bill to the Senate on January 25, Dorgan said every American “has a right to be angry when they hear repeated press accounts of corporate taxpayers that are shirking their tax obligations by actively shifting their profits to foreign tax havens or using other inappropriate tax avoidance techniques.”

Dorgan said his bill is virtually identical to one that was introduced in the previous, 109th Congress, except the current bill grants companies an extra year to comply with its provisions.

"Using Offshore Havens"

“We have known for many years that some very profitable U.S. multinational businesses are using offshore tax havens to avoid paying their fair share of U.S. taxes," Dorgan said in his Senate floor statement. "But in the face of these reports, the Congress and the administration have shown little interest in stopping this hemorrhaging of tax revenues."

Andrew Quinlan, president of the Center for Freedom and Prosperity Foundation, said he and others worry the bills now have a better chance of passage because of the shift in power in Congress that occurred as a result of the November elections.

“I have heard from people all over the world who are worried about this,” Quinlan said. “When you start having blacklists of countries like this, and you penalize U.S. companies that operate in countries that have pro-growth policies, you make it more expensive for us to compete, and you hurt those countries.”

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

Grassroots Help Defeat Multibillion-Dollar Rail Loan

By Tom Schatz

In a huge win for taxpayers, the Federal Railroad Administration (FRA) has denied a $2.3 billion federal loan to the Dakota, Minnesota, and Eastern Railroad (DM&E).

A classic case of Washington influence-peddling, the story shows how grassroots activism helped stop one backroom deal in its tracks. The denial of the loan was announced February 26.

The DM&E loan coasted under the radar until taxpayer activists caught wind of it late last year and rose up against it.

Letters Flooded Congress

Between February 7 and February 14, Council for Citizens Against Government Waste (CCAGW) members and supporters sent 10,258 letters to their representatives in Congress in opposition to the loan.

DM&E and Sen. John Thune (R-SD), a former lobbyist for the railroad who pushed the loan, became lightning rods for criticism from taxpayer watchdogs and groups that would be adversely affected by the new rail line.

The deal made no sense from a fiscal, economic, or security standpoint, according to opponents. The loan would have been used to expand and improve a rail line used primarily to transport coal from Wyoming to Minnesota—a route already served by two railroads.

“In a huge win for taxpayers, the Federal Railroad Administration (FRA) has denied a $2.3 billion federal loan to the Dakota, Minnesota, and Eastern Railroad (DM&E).”

Credit Risk Was Bad

In the FRA statement announcing its denial of the loan, Administrator Joseph H. Boardman concluded there was an “unacceptably high risk to taxpayers.”

Boardman found “there remained too high a risk concerning the railroad’s ability to repay the loan even with an appropriate combination of credit risk premiums and collateral.”

Boardman said he was concerned by “DM&E’s current highly leveraged financial position; the size of the loan relative to the limited scale of existing DM&E operations; and the possibility the railroad may not be able to ship the projected amounts of coal needed to generate enough revenue to pay back the loan.”

Boardman also questioned how DM&E would handle potential cost overruns and schedule delays.

The statement mirrors the points raised by CCAGW, indicating the FRA heard the public’s concerns.

Repayments Exceeded Revenue

It is not surprising DM&E went to Congress rather than private sources for financing. According to BearingPoint (a strategic consulting firm), the loan would have required an annual payment from DM&E of $246 million in addition to $15 million from another loan. The railroad’s total current annual revenue is just $290 million.

Even if the rail upgrade increased DM&E’s annual revenue, the loan presented a poor credit risk.

If the government had approved the loan, taxpayers would have been forced to foot the bill in the event of a default.

The proposed loan had other problems. According to the FRA’s Railroad Safety Statistics Annual Report 2004, DM&E ranked last in safety among the nation’s 43 largest railroads. Its main track accident rate has escalated to eight times the national rate since its last FRA loan of $234 million.

Likened to Chrysler Bailout

Supporters of the proposed loan, including farm groups, likened it to the $1.5 billion Chrysler bailout in 1980—but unlike the Chrysler deal, the DM&E loan was not the subject of intense public and congressional debate. It was able to move quietly through Congress thanks to behind-the-scenes lobbying and legislative maneuvers by Thune.

DM&E paid Thune $220,000 in 2003 and 2004 to lobby for the loan. After his election to the Senate in 2004, he was instrumental in increasing the FRA’s loan guarantee authority from $3.5 billion to $35 billion in the 2005 Safe, Accountable, Flexible, and Efficient Transportation Equity Act, in apparent anticipation of the DM&E loan.

CCAGW named Thune its Porker of the Month in November 2006 for his support of the loan.

Showing obfuscation worthy of a George Orwell novel, Thune claimed the loan’s denial was a case of “special interests beating the little guy.”

Tom Schatz (media@cagw.org) is president of Citizens Against Government Waste in Washington, DC.
Open Letter Opposing S. 396 and S. 681

March 19, 2007

The Honorable Henry M. Paulson, Jr.
Secretary
Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

Dear Secretary Paulson:

We are writing to express our concern about two Senate proposals that would undermine American competitiveness, discriminate against developing nations, and compromise the U.S. commitment to free trade in financial services. Senator Byron Dorgan of North Dakota has proposed S. 396, a bill which targets American companies operating in selected low-tax jurisdictions and strips away their ability to postpone the imposition of a second layer of tax on their foreign-source income. Senator Carl Levin of Michigan has proposed S. 681, a bill which imposes a wide range of taxes, regulations, and penalties on American taxpayers operating in selected low-tax jurisdictions.

Both of these pieces of legislation are deeply flawed. They share a common premise that the U.S. government should adopt an adversarial position against jurisdictions with pro-growth tax policies. Specific flaws include:

- Both bills would impose discriminatory barriers against American companies operating in low-tax jurisdictions where they have already invested. While Germany, France, and Japan have proposed tax havens policies, Senator Levin’s bill omits Luxembourg and Switzerland.
- Both bills violate America’s trade obligations. The United States wisely supports free trade in services, a policy which unambiguously promotes the national interest. Unfortunately, S. 396 and S. 681 both would impose protectionist barriers and almost surely put America in violation of its World Trade Organization obligations.

We urge you to reject these bills. They are bad for the United States. They share a common premise that the U.S. government should adopt an adversarial position against jurisdictions with pro-growth tax policies. Only U.S. taxpayers seeking to operate in low-tax jurisdictions will be penalized by these proposals.

We look forward to working with you and hope that you will resist anti-competitive, discriminatory, and protectionist proposals that are contrary to good economic policy.

Sincerely,

[Signatures of various organizations and individuals]
Illinois
Continued from page 1

Blagojevich announced plans to increase tax rates over his original proposal to take an additional $1.3 billion in revenue.

Blagojevich said he wants to use the additional $1.3 billion to reduce local property taxes. The new Blagojevich proposal would raise an estimated $8.6 billion more in tax revenue over the current fiscal year’s take, a 30 percent increase in the state government’s annual operating revenues of $28.4 billion.

“Illinois Gov. Rod Blagojevich has tacked more than $1 billion onto the record tax hike proposal he announced during his State of the State address on March 7.”

The Blagojevich tax hike would be the largest in Illinois history and more than three times larger than the next-largest tax hike imposed anywhere in the nation in the past decade, according to the Washington, DC-based Tax Foundation. If passed by the legislature and signed, it would go into effect January 1, 2008.

Fellow Democrats Slam Proposal
The plan has faced withering criticism from fellow Democrats, including the state comptroller, lieutenant governor, numerous lawmakers, and Chicago Mayor Richard M. Daley.

Illinois’ powerful Democratic House Speaker, Michael Madigan (D-Chicago), has remained silent, which many political observers take as a signal of opposition. Madigan and Blagojevich have butted heads on several matters over the years.

Republican lawmakers also have united against the plan, but Blagojevich remains undeterred, making stump speeches across the state in which he claims to be “on the side of the Lord” in proposing the massive tax hike to send more money to public schools and fund universal health care.

Boasts of Record Spending
Blagojevich, who has dubbed his plan “Investing in Families,” in early April did a bus tour of cities across the state to promote it. He boasts the plan would provide subsidized medical insurance to 1.4 million persons who lack coverage and to anyone earning up to four times the poverty level—an individual earning $40,000 or a family of four with an income of $82,000.

In addition, notes the governor’s press office, the plan includes a “record new investment of $10 billion in schools over the next four years—three times bigger than any increase in state history.”

Unions, Educators Back Proposal
The plan has supporters, including some black church leaders and businesspeople, labor unions, and public school officials.

“Business Groups Condemn Plan
Most business organizations strongly oppose the proposal.

Greg Baise, president of the Illinois Manufacturers’ Association, said the governor’s plan is “madness.”

“A [gross receipts tax] will devastate the business community, particularly manufacturers, and place a new, regressive tax on goods and services,” Baise said.

Gregg Durham, spokesman for the Illinois Coalition for Jobs, Growth, and Prosperity, a group made up of various business organizations, called the plan “maybe the best jobs program Wisconsin, Indiana, and Iowa [which border Illinois] have ever had.”

Durham added, “Since the year 2000 Illinois has lost more than 300,000 jobs that paid health care benefits. I won’t say every one of them was lost because we’re not a competitive state, but a lot of them were lost for that reason. This proposal of the governor’s will make us even less competitive and drive out more jobs. We’re talking about the largest state tax increase, we believe, in the history of the nation.”

Jonathan Williams, staff economist at the Tax Foundation, said, “Gross receipts taxes are one of the most economically damaging ways for states to extract revenue, and economists from all ends of the political spectrum are nearly unanimous in their opposition to them.”

Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News.
Often Wrong, Never in Doubt

The Great Risk Shift
By Jacob S. Hacker
Oxford University Press, 2006
256 pages, $26 hardcover, ISBN 0195179501

Review by John Dale Dunn

Jacob Hacker is a young and prolific professor of political science at Yale University whose latest book, The Great Risk Shift, is being touted by the left-leaning “Campaign for America’s Future” as the policy book with all the answers.

The subtitle of the book—“The assault on American jobs, families, health care, and retirement, and how you can fight back”—explains Hacker’s premises. He criticizes the free market for creating economic insecurities, and he spices up his commentary with anecdotes of American workers and families who have come on hard times.

Hacker explains he wrote the book to “show how more and more economic risk has been offloaded by government and corporations onto the increasingly fragile balance sheets of workers and their families.”

The book outlines the problems of job market volatility and insecurity; outlines family troubles; discusses retirement insecurity, and insecurity over their family’s financial survival.

“Hacker argues for the return of a paternalistic, but in his view not too intrusive, comprehensive social insurance system, covering all sources of anxiety and insecurity.”

Argues for Paternalism

Hacker argues for the return of a paternalistic, but in his view not too intrusive, comprehensive social insurance system, covering all sources of anxiety and insecurity.

The book outlines the problems of job insecurity and income disparity; dissects the personal responsibility movement, which Hacker says is destructive to the social fabric; documents concerns about job market volatility and insecurity; outlines family troubles; discusses retirement and Social Security; and considers the problems of health care insurance and costs.

In the book’s conclusion, Hacker proposes personal, family, and public strategies to reduce insecurity and its accompanying anxiety. He advises Americans to “get wise, get mad and get even.”

Get wise, he says, means to be prudent in financial planning. Make good financial decisions, don’t overextend, have a rainy day fund, buy insurance wisely, and spend wisely. Don’t overextend in buying a house, and think about the future needs of the family. Pretty good.

By “get mad” he means Americans should demand the government and big business provide security and remove anxiety. “Economic security is a cornerstone of economic opportunity.”

Hacker argues for the return of a paternalistic, but in his view not too intrusive, comprehensive social insurance system covering all sources of anxiety and insecurity.

Economic security and insurance from risk are Hacker’s presumed prerequisites for personal and entrepreneurial risk taking. But he fails to explain why anyone in their right mind would take risks to start a new business and grow the economy when (1) their personal income is already guaranteed and (2) the government imposes confiscatory taxes and stifling regulations on business.

Welfare for All

The last advice is “get even,” based on Hacker’s theory that any social policy changes should be tested by the question, “Do they substantially increase the risk on Americans’ already burdened shoulders?”

He goes on to condemn the tendency of social welfare programs to focus on the helpless and old, pointing out that everyone needs security and should be protected. He argues, “we should not let massive social risks be borne by institutions incapable of effectively carrying them.”

Hacker argues expanded leave policies and unlimited disability and unemployment insurance are essential to the grand solution, along with fine-tuning programs such as a “right to request,” which allows changes in work schedules for personal and family needs. He points to Britain as an example of success in this area.

Hacker also favors a single Universal Savings Account like a 401K to be supplemented as needed by the government through capital gains taxes, a more confiscatory estate tax, and an expansion of Social Security funding.

These 401Ks would retain the look of work-based investment retirement funds, with more “encouragement to employers” to contribute and rules to prevent too much investment in the employee’s company.

Lifetime Annuity

The result would be a lifetime annuity (like Social Security?), guaranteed by the government, that would avoid the harsh climate of the investment market or any risk. But how the value of such accounts could truly increase without investing in the real economy is left unexplained.

Similarly, health care would be handled in this new system by an expanded and improved Medicare system that somehow avoids the mediocrity and outlandish costliness of government-paid health care.

According to Hacker, expanding Medicare to all age groups would, in a single stroke, solve the three problems of Medicare: quality control, unequal commitments to various age groups, and “frightening” future costs. Why that hasn’t worked in any other country is left unexplained.

Hacker provides a breathtaking example of the old Texas saying, “Often wrong, but never in doubt.”

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Often Right: Economist Exposes Distortions, Misunderstandings about Income and Wealth

An interview with Alan Reynolds
By John Dale Dunn, M.D., J.D.

"There is an endless flood of gloomy books and newspaper articles creating an absurdly false impression that the 1970s were the good old days while the period from 1983 to 2006 has only been good for the top 1 percent," says Alan Reynolds, author of Income and Wealth, released late last year. "After 35 years of reading such nonsense, I decided not to let it go unanswered."

His answer came out in Income and Wealth and continues to emerge in weekly columns that can be found under Reynolds' bio on the Cato Institute Web site (http://www.cato.org/people/reynolds.html).

Reynolds interrupted his formal economics education in 1971 when William F. Buckley asked him to become economics editor and writer for National Review. Since then Reynolds has worked in the public and private sectors, including for Wall Street investment advisors Argus Research, the First National Bank of Chicago, Hudson Institute, Office of Management and Budget, and National Commission on Tax Reform and Economic Growth.

Reynolds has written for most major newspapers and magazines and produced a book about the Microsoft antitrust case.

"A rising tide still lifts all boats, but you have to be willing to get in a boat and grab an oar."

*ALAN REYNOLDS  
ECONOMIST AND AUTHOR  
INCOME AND WEALTH*

Dunn: Do you think the income numbers commonly reported are fair and accurately portray the economic status of Americans?

Reynolds: Well, the word "fair" is not important; accuracy is the goal. If income is not adjusted to include transfer payments and exclude taxes, for example, disparity arguments are not properly framed. My book explains how nearly all data about relative income and living standards can be misleading if not fully understood.

Dunn: What do you think of the concept of analyzing income differences on the basis of consumption?

Reynolds: I deal with that issue in Chapter 8 of the book. Annual income is a snapshot, but life is a motion picture. What people are able to buy is clearly the most reasonable way to measure economic well-being over time.

Welfare services and transfer payments, including the earned income tax credit, are not accounted for in the data used by those who assert the income disparities keep getting wider. Consumer spending among the poorest fifth of households, for example, is obviously twice as large as their yearly income, as income is usually measured.

Dunn: How would you say Income and Wealth differs from other books about the issue of income disparities in America?

Reynolds: This is a serious look at the numbers. I tried to carefully show, with well-explained sources, that what some people say about income disparities is not true. It is a textbook-level book, but I tried to make it fun to read, with plenty of links, footnotes, graphs, and tables.

I made sure that my facts are easy to check, which is another reason the book can be distinguished from many sources that are long on opinion and short on credible information. I let the facts be the important content, allowing readers to form their own opinions.

My book contains many quotes from the press and academics and then uses statistics to show why many frequently repeated assertions are simply not true, such as the claims that wages have stagnated for decades, the middle class has been shrinking, mobility between income groups has diminished, or the top 1 percent collect 16 percent of all income.

Dunn: Has the term “working poor” become an anachronism?

Reynolds: Not quite, but a majority of the poor do not work at all (including the retired and disabled), and very few work full time all year. The “working poor” are extremely rare, making the phrase almost fraudulent.

Many political proposals to deal with poverty start from the false premise that low incomes are usually due to low wages, rather than no wages.

Dunn: A decade or more ago Robert Rec- tor of The Heritage Foundation did extensive work showing the poor in America have a good quality of life. How does your book deal with that phenomenon, the relative prosperity of the poor in America?

Reynolds: The table in Chapter 4 shows the economic status of the poor in 2001 was the equivalent of the average household in 1971, or better.

For example, 71 percent of the poor had air conditioning in 2001, compared with just 32 percent of all households in 1971.

Dunn: Do you have a position on transfer payments and social policies and intent on redistributing wealth and guaranteeing everyone a certain economic status?

Reynolds: I try in my book to show no preference or judgment on such issues. I try to give people information that will help them decide. I arm the reader with information, and I hope that they don’t give a hoot about my opinion.

Of course there is something in the books about incentives, since taking money from Smith to give to Jones will discourage both.

Dunn: What is the most important issue discussed in your book?

Reynolds: I think the most important issue discussed in my book is the hysteria about the rich getting richer and the poor getting poorer. That’s not true. Since about 1988, credible measures of the inequality of income, wealth, or consumption have not changed significantly.

"[The American economy is not becoming more inequitable and the American citizen is generally prospering and benefiting."

The pie is getting bigger for nearly everyone who works and also for many who don’t (such as retired people relying on investments).

My book deals with numerous assertions of increasing disparities or wage stagnation, and answers the arguments with facts. The facts support my position that the American economy is not becoming more inequitable and the American citizen is generally prospering and benefiting.

I rely on the Census Bureau, Federal Reserve Board, and other objective sources to show that most of these statements about the unfairness and oppressiveness of the American economy are simply not true.

Dunn: What about economic opportunity and mobility?

Reynolds: I wrote the section of Chapter 8 on upward mobility partly because of a 1995 New York Times series and book, Class Matters, which used dubious sources to insinuate that “mobility seems to have stagnated.”

Those who read those articles would never guess that the main source cited in the lead article, Gary Solon of the University of Michigan, disagrees there is any evidence that it is any harder than it ever was to rise from a low income to a higher income. A rising tide still lifts all boats, but you have to be willing to get in a boat and grab an oar.

When we use annual income data to describe people as rich or poor, we are often talking about the same people at different stages of life. Young people fresh out of school do not earn nearly as much as they will have after gaining experience, raises, and promotions. Retired people who have paid off their mortgages may not earn (or need) nearly as much as they did while they were at their peak earning years and putting children through college.

It takes many years to accumulate
CONTINUED from left

financial assets, so wealth as it is commonly measured is heavily concentrated among the old. But “the wealthy” is a different group of old people each generation, because the young don’t stay young forever.

The introduction to my book questions zero-sum reasoning, such as Paul Krugman saying, “If the rich get more, that leaves less for everyone else.” The founders of Google did not become billionaires at anyone else’s expense. If they had not created Google, the income and wealth from that creation would not exist.

Likewise, Steve Jobs, CEO of Apple, did not become wealthy because of his $1 a year salary, but because he reinvigorated that company so well that its stock rose from about $15 to $80, benefiting Mr. Jobs and all other shareholders. His gains did not come at the expense of workers or consumers, but from other shareholders in his company (who gained too).

“The ‘working poor’ are extremely rare, making the phrase almost fraudulent.”

Dunn: What do you see as the most innovative parts of the book?

Reynolds: The end of Chapter 4 is probably the most novel and important contribution. Estimates ostensibly showing a rising share of income going to the top 1 percent are taken from tax returns, but what is reported as income on tax returns depends heavily on tax rates and tax rules, which have changed dramatically since 1986.

The most widely cited statistics also leave out a third of personal income, which alone raises the top 1 percent’s share by 50 percent. Aside from that fatally flawed data, there is no evidence of a significant and sustained increase in inequality since 1988.

Second place goes to the second chapter, “Work Matters.” It discusses the often-ignored but undeniable truth that work in the way to prosperity. There are nearly six times as many full-time workers in the top fifth of households, for example, as there are in the bottom fifth.

The chapter also shows that a big share of income differences are because young singles earn less than mature couples, college grads earn more than high school dropouts, and two-earner families earn more than one-earner families. Because wages tend to rise faster than inflation while transfer payments do not, the median income of two-earner families has grown much more rapidly than the median income of one-earner families who mainly rely on transfer payments such as SSI, Medicaid, food stamps, etc.

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U.S. Income Inequality Is Not Increasing

**Income and Wealth**

By Alan Reynolds

Westport, CT: Greenwood Press, 2006

231 pages, $55.00, ISBN 0-313-33688-1

Review by S.T. Karnick

The past decade has brought a tsunami of complaints about increasing economic inequality in the United States, a “vanishing middle class,” and a rising and increasing concentration of wealth among the top 1 percent of wage earners.

As Alan Reynolds points out in his superb new book *Income and Wealth*, those claims are false. Every one of them.

Reynolds, a senior fellow at the Cato Institute, has written for all the major newspapers and is a syndicated columnist. He observes that the amount of inequality one sees in the United States depends on how you define terms such as “average,” “working,” “family,” and “real,” and on what dates are used.

The definitions used by activists for bigger government grossly overstate the income of those at the top of the scale and similarly understate figures for those at the bottom.

“The definitions used by activists for bigger government grossly overstate the income of those at the top of the scale and similarly understate figures for those at the bottom.”

Manipulating Income Figures

*New York Times* columnist Paul Krugman, for example, continuously declares real incomes in the United States have stagnated since 1973 for all but the top 10 percent.

But as Reynolds notes, “studies that use income tax data to estimate income distribution usually exclude transfer payments,” which have risen substantially since 1973. The data also exclude employee benefits, which skyrocketed during that period, and include a huge amount of income “that used to be reported under the corporation income tax” and that happens to have been rising in recent years.

By artificially deflating incomes in the lower brackets and inflating those in the upper brackets, Krugman and his cronies make income inequality appear much larger than it really is.

Middle-Income Families Doing Fine

Reynolds also takes on the numerous reports about a “vanishing middle class,” which suggest once-prosperous individuals are plummeting into the lower income brackets.

As Reynolds points out, these reports use a fixed definition of middle income, which “ensures that the proportion of households in that middle group must decline with a rise in general prosperity, because prosperity causes a rising percentage of families to earn more than $50,000.”

And general prosperity has indeed risen. Reynolds notes, “In constant 2000 dollars, U.S. consumers spent $25,816 per person in 2004—nearly double the $13,371 figure for real per capita consumption in 1973.” Similarly, “median household net worth (assets minus debts) has increased steadily and substantially.”

More than 75 percent of poor households had air conditioning in 2001, whereas in 1971 less than 32 percent of all U.S. households did.

The same is true of other items such as microwave ovens and color TVs. Whereas nobody had a home VCR or DVD player in 1971, 98 percent of poor households did in 2001, and around a quarter had personal computers and cell phones.

Middle-income households have enjoyed similar improvements in living standards. For example, the average size of new homes rose from 1,500 square feet in 1970 to 2,349 square feet in 2004, while the home ownership rate rose by several percentage points. Obviously, incomes for lower and middle-income households have risen nicely in recent decades.

“The activists’ trick of turning good news into bad would not matter much if these debates were purely for intellectual sport, but they are in fact the driver for much of our public spending at all levels of government.”

“Work Matters”

The most important factor in household income is simply the number of workers in the home. Reynolds notes: “There are nearly six times as many full-time year-round workers in the top quintile as there are in the bottom quintile, according to the Census Bureau.”

Contrary to the activists’ fevered assertions of a continuously rising number of “working poor,” Reynolds writes, “The poverty rate among full-time workers is negligible.” Reynolds aptly summarizes the situation as follows: “Work matters.”

And, Reynolds notes, if we ignore transfer payments we get a distorted picture of conditions in the lower income quintiles. Reynolds suggests individual and household spending and wealth are better indicators than income figures, which have been so skillfully manipulated.

“[An] objective reader of *Income and Wealth* must conclude many journalists and activists are knowingly manipulating statistics to further an agenda for more government control over the economy and to undermine support for free markets.”

Policy Follows Falsehoods

The activists’ trick of turning good news into bad would not matter much if these debates were purely for intellectual sport, but they are in fact the driver for much of our public spending at all levels of government.

Huge increases in government spending on Medicaid and Medicare, other health insurance, and other transfer programs intended to alleviate economic inequality are destroying state budgets. And the federal budget groans under the weight of transfer programs and other entitlements.

Certainly all of these mistakes could be honest ones, but they’re falsehoods nonetheless, and an objective reader of *Income and Wealth* must conclude many journalists and activists are knowingly manipulating statistics to further an agenda for more government control over the economy and to undermine support for free markets.

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END
Public Pensions, Benefits Are Unsustainable: Reports

By Ryan Bedford

In a new report on the benefits of public and private employment, “Public vs. Private Compensation,” the Alabama Policy Institute writes, “over the years, public sector compensation rapidly outpaced that of the private sector.” Not only that, “State employees work an average of 189 hours less than private sector employees per year—[or] four and a half weeks less than private sector employees.”

The excessive compensation costs Alabama taxpayers an extra $259 million to $360 million a year, or $169 to $209 per household, according to the report.

“The IOUs state and local governments around the U.S. are passing on to their successors stand at $3.5 trillion,” according to the report.

Meanwhile, the Wisconsin Policy Research Institute writes in “The Mounting Cost of Deferred Responsibility in Government,” “the business side of government has been handed a towering stack of IOUs. State and local governments throughout the U.S. have made promises that they cannot afford and have financed their decisions by passing IOUs along to future generations.

“The philosophy of government is best described as deferred responsibility: Spend today and worry about the accounts payable tomorrow,” the report continues. “Now those IOUs are coming due and the amount is staggering.”

Reform Teacher Union Contracts

Two recent studies call for reforms in teacher negotiations and contracts.

“Teacher Contracts: Restoring the Balance,” by the Education Partnership, raised transportation costs.


“Employee Free Choice Act” The Public Service Research Foundation, Center for Union Facts, and Heritage Foundation have debunked false and misleading statistics union officials have used to justify their demand for the “Employee Free Choice Act” (HB 800), proving “figures don’t lie but liars figure.”

Union officials claim HB 800 is necessary because a worker is fired every 17 minutes for trying to form a union (31,358 fired workers a year). This claim is a misuse of the only occurrence of “31,558” in the National Labor Relations Board’s 2005 Annual Report.

“The figure actually represents the number of employees who were entitled to back pay, which has nothing to do with being fired for supporting a union. When the data are correctly analyzed, the termination rate for employees trying to organize a union is less than 2 percent.”

Union officials also claim “more than half of workers who don’t already have a union say they’d join one tomorrow if given the chance.” Yet they have refused to release the poll to prove its authenticity and accuracy. Numerous polls already publicly available prove the opposite is true. (See “Internet Info” box on this page.)

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Bus

Continued from page 1

accept a bid for a three-year $7.5 million contract with Durham School Services beginning in the 2007-2008 school year.

School officials say the contract will save the district about $2 million over the three years.

The action came as a result of a multimillion-dollar transportation budget deficit and evidence of over-billing from the private cab companies for transporting special-needs students.

Durham School Services provides student transportation services across the United States. The company is headquartered in Downers Grove, Illinois, west of Chicago.

$2 Million in Red

“Currently, the District 300 transportation fund is about $2 million in the red—a number that has doubled over the previous three-year bus driver contract,” said the district’s financial officer, Cheryl Crates, shortly after the vote.

“The district currently does not have the expertise to solve the transportation problems itself,” board member Mary Warren told the Courier News newspaper the night of the vote. “Three years ago, the [current] contract was planned to erase the deficit.”


Drivers in Hiring Process

Durham School Services Vice President David Duke said the company may hire many of the school district’s current drivers.

“People who are in the school bus business are usually people who care for kids,” Duke said, adding they also know the children, the community, and the roads. “And it is important for us to retain that knowledge and skill set. Well before school is out we’ll have met with [all] those folks and taken them through a hiring process.”

$5,000 Cab Rides

District 300 also is investigating questionable billing for transporting special-needs students who do not ride buses.

According to a report on CourierNewsOnline.com, District 300 has used “cab companies to transport special-needs students to facilities outside the district,” and the cost for those services has reached “nearly $1 million a year.”

The current cab company billed District 300 for 965 rides last December, totaling $81,506—a cost of $84.46 per ride. There were just 16 school days in December, so the district was billed $5,094 per day for those rides.

State Post-Employment Benefits Debts Heading Toward Crisis

By David Denholm

While early estimates suggested state and local governments have accumulated hundreds of billions of dollars in debt in unfunded “other post-employment benefits” (OPEBs), revised estimates now indicate those early numbers may have been much too low.

Assuming the rate of return on funds set aside to pay OPEBs will average 20 percent a year over the next 30 years—even though the historical return on equities is about 9 percent—also makes the liabilities appear to be less.

“While early estimates suggested state and local governments have accumulated hundreds of billions of dollars in debt in unfunded ‘other post-employment benefits,’ revised estimates now indicate those early numbers may have been much too low.”

Pay As You Go

Until now, most state and local governments have been funding retiree health care on a pay-as-you-go basis. In February, the state pegged its liability at closer to $78 billion.

In February 2006, economists working for the Center for Medicare and Medicaid Services released a report saying the cost of health care nationally would continue to increase at greater than the rate of inflation for at least the next decade and will approach 20 percent of national gross domestic product by 2016.

Some Choose to Ignore, Deny Problem

The amounts of money involved and the potential reaction to the tax consequences of having to fund government retiree health care and other post-employment benefits in addition to pensions are so great that some government officials are looking for ways to avoid dealing with them.

Texas state Sen. Robert Duncan (R-Lubbock) has introduced legislation saying Texas will not conform to GASB 45. A March 20 story in the Austin American-Statesman quotes Duncan as saying, “What I don’t want to see is...is our state or local governments having to drastically change or eliminate post-employment benefits such as health insurance.”

California Gov. Arnold Schwarzenegger (R) last December created a Public Employee Post-Employment Benefits Commission to study the issue and make recommendations. Battle lines were staked out at the commission’s meeting in March.

Marcia Fritz, representing the California Foundation for Fiscal Responsibility, told the commission, “This is a crisis. We have a liability and we need to stop it from getting worse.”

Willie Pelote, representing the American Federation of State, County, and Municipal Employees, disagreed. “There is no crisis,” he said.

“If we are to prevent a future where most government revenues are dedicated to paying the liabilities incurred by previous generations...”

David Denholm (david@psrf.org) is president of the Public Service Research Foundation, an independent, nonprofit organization that establishes accounting and financial reporting standards for state and local governments.

INTERNET INFO

“The preliminary estimate of New Jersey’s health care benefits liability was $20 billion. In February the state pegged its liability at closer to $78 billion.”

That lack of concern is what prompted the GASB’s Statement 45 rules to report on the future liabilities of OPEBs. Those concerns must reach state and local government officials if we are to prevent a future where most government revenues are dedicated to paying the liabilities incurred by previous generations.

“The GASB is a private, nonprofit organization that establishes accounting and financial reporting standards for state and local governments.”

Notes

[1] The preliminary estimate of New Jersey’s health care benefits liability was $20 billion. In February the state pegged its liability at closer to $78 billion.
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