Illinois Budget Approval Does Nothing to End Wild Ride

By Steve Stanek

Calls for impeachment; legislation introduced to allow voters to recall the governor and lawmakers; lawmakers calling the governor “a madman” and “insane”; $6,000 a day in air shuttle charges to take the governor from his home to the state capital; a budget approved by the state House and Senate; a governor who ignores the approved budget and insists lawmakers stay in session; and a House speaker who defies the governor and tells House members to go home.

These are some of the things Illinois citizens have witnessed since June 1, the start of an overtime budget session that had not ended as of August 10 when Illinois lawmakers approved a

ILLINOIS p. 4

Wisconsin Senate OKs $15.2 Billion Tax Increase for Health Mandate

By Jillian Melchior

A universal health insurance mandate that relies on a $15.2 billion payroll tax for funding has passed the Wisconsin Senate.

The estimated price tag totals $3 billion more than the state currently collects in all sales, personal, and corporate income taxes. If the bill becomes law, the tax hike would be the largest in any state in the nation’s history in percentage terms.

The 18-15 vote on June 26 came less than 24 hours after the mandate bill was introduced.

WISCONSIN p. 6

Fall Showdown Looms for U.S. Farm Bill

By John W. Skorburg

The U.S. Senate and House of Representatives are at odds over the outlines of a comprehensive farm bill, and an extension of the five-year-old law currently in effect may be necessary.

Earlier this year, the Democrat-con-

FARM BILL p. 18

Mo. Fire District Is Challenging Pension Law

By Mike Anthony

The Mehlville, Missouri Fire Protection District Board of Directors has filed a lawsuit challenging the constitutionality of legislation recently signed into law by Missouri Gov. Matt Blunt (R).

Blunt signed Senate Bill 406, which

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19 South Lasalle 903
The Heartland Institute
Chicago, IL 60603
**The Heartland Institute’s 23rd Anniversary Benefit Dinner**

**When:**
Thursday, October 25, 2007
5:00 pm - 9:30 pm

**Where:**
Hilton Chicago Hotel
720 South Michigan Avenue
Chicago, Illinois

**Register:**
online at www.heartland.org or call 312 377 4000.

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**Abraham Lincoln: Friend or Foe of Freedom?**

The Heartland Institute will debate the legacy of Illinois’ all-time favorite son, Abraham Lincoln, and celebrate the 23rd anniversary of its founding on Thursday, October 25, from 5:00 p.m. to 9:30 p.m., at the Hilton Chicago Hotel.

**Joseph A. Morris**, president of the Lincoln Legal Foundation, will debate **Thomas J. DiLorenzo**, author of *Lincoln Unmasked* and *The Real Lincoln*, on the topic, “Was Abraham Lincoln a friend or foe of American freedom?”

Reception starts at 5:00 p.m., dinner is served at 7:00 p.m., and the debate starts at 7:45 p.m. A dessert reception with open bar follows.

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**Earlier That Day: Emerging Issues Forum**

Please join us on Thursday, October 25, from 7:30 a.m. to 3:30 p.m., at Chicago’s Newberry Library, as we explore emerging issues in state public policies in the areas of health care, education, environmental protection, and more. The Emerging Issues Forum is a day-long opportunity for elected officials, policy analysts, and government affairs staffs to confer about the top public policy issues of the day.

**Economy, Education, Environment, Health Care, Technology, Welfare Reform**

Admission to both events is free for elected officials and their spouses. For more information or to reserve a place, please call 312 377 4000 or send an email to Nikki Comerford at nikki@heartland.org.

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**Open Bar · Comedian Tim Slagle · Lincoln Debate · Dessert Bar**

The Heartland Institute is a 23-year-old national nonprofit organization based in Chicago. Its mission is to discover, develop, and promote free-market solutions to social and economic problems. For more information, visit our Web site at www.heartland.org or call 312 377 4000.
Negotiation Documents Are Public Record, Judge Rules

By Michael Reitz

A Washington state judge has ruled that documents exchanged between the state and public employee unions during contract negotiations are public records and can be disclosed to taxpayers.

"A Washington state judge has ruled that documents exchanged between the state and public employee unions during contract negotiations are public records and can be disclosed to taxpayers."

A coalition of 10 unions, including the Service Employees International Union (SEIU) and the Washington Public Employees Association, immediately filed suit against the state to prevent disclosure.

"The information sought is of no legitimate concern to the public and not in the public interest," stated union attorneys in legal papers. They added, "The release of the proposals and negotiation notes will undermine collective bargain-

ing by inviting the public, the media, and other non-parties into the negotiation process."

Triumph of Transparency

Union lobbyists hedged their bets by prevailing upon state lawmakers to introduce legislation blocking release of the documents. Rep. Brendan Williams (D-Olympia) introduced House Bill 2326 prohibiting the release of documents related to state negotiations. This bill ultimately died after several newspapers blasted it for reducing transparency in government.

Negotiators for the union argued their free speech would be inhibited if the public subsequently found out what was said in closed negotiations.

"If I knew that my comments would be available for public review, I would not be comfortable speaking until I had carefully thought through all my comments. I might decide not to speak at all," said T.J. Janssen, a home health care worker, in papers he filed in support of the unions.

"We could not speak openly and honestly if we knew that anything we said could appear on the front page of the Seattle Times," said David Rolf, president of SEIU Local 775, in his court declaration.

Preference for Secrecy

Jay Ubelhart, a deckhand with the Washington State Ferry, was even more candid in his court declaration:

"As public employees in the ferry system we are in the public eye and have close daily contact with customers thousands of times each day," Ubelhart said. "If I, in the heat of negotiations, stated I didn't give a damn about those complaining customers and it was written down by a member of the management team, the Evergreen Freedom Foundation or a media outlet would print it on the front page of any communications organ of their choosing."

Ultimately, Judge Washington ruled collective bargaining documents are subject to disclosure under the state Public Disclosure Act.

"The proposals of the negotiating parties and the notes of the
Illinois

Continued from page 1

$59 billion budget.

Despite the approval of the budget, the session continued, as Illinois Gov. Rod Blagojevich (D) demanded lawmakers reconvene to pass a one-month budget and address his calls for billions of dollars in new spending for a universal health care program. He offered almost no details on what would be cut.

On August 14 the governor announced he would veto $500 million of spending and redirect the money into state health care programs. He offered almost no details on what would be cut.

House lawmakers responded by saying they believe the governor may be violating the state constitution by unilaterally shifting hundreds of millions of dollars of spending without legislative approval.

House Speaker Michael Madigan (D-Chicago) vowed to bring a veto override vote to the House floor. Senate President Emil Jones (D-Chicago) vowed to block any override attempt in the Senate.

Told to Stay, Lawmakers Go

“We’ve passed a 12-month budget,” House Speaker Michael Madigan (D) told lawmakers after the 98-8 vote. “I don’t see that there’s any need for consideration of a 30-day budget. My advice to all members would be, don’t come to Springfield. We’ve done our jobs.”

Madigan and a handful of lawmakers stayed, while the rest went home.

Spokesmen for Blagojevich responded by announcing they believe Madigan may have violated state law by telling lawmakers to ignore the governor’s order to stay in session. Madigan argued his presence means the House complied with Illinois law.

“This place is becoming the House of Horrors,” said an exasperated Rep. Bill Black (R-Danville) to fellow lawmakers as the budget session wound down August 10.

Democrats Attack Each Other

The legislative session was supposed to end May 31, with a budget that was to take effect July 1. Even though Democrats control the General Assembly and every statewide office including governor, they could not agree on a budget by deadline.

On July 1 lawmakers approved a temporary one-month budget. August opened with no budget, and a shutdown of state government was threatened.

The new budget raises state spending about $1.5 billion with the increase funded by projected natural growth in revenues. School funding receives the biggest boost, about $600 million.

The budget was approved after about $200 million of local pork-barrel projects were promised to various lawmakers.

Blagojevich slammed the budget, telling reporters, “It’s got so much pork in it that if you were to hold the budget document itself, you’d probably be unable to hold it because it’s so greasy.”

Governor Wants Billions More

Blagojevich continues to insist on the creation of a multibillion-dollar state universal health care plan. This spring he proposed to pay for the plan by levying a $7.3 billion tax on business gross receipts and another $1.3 billion payroll tax on employers who do not provide a certain level of health insurance.

The governor took out television ads and held rallies around the state in which he said his universal health plan and record tax hike to pay for it put him “on the side of the Lord.” His speeches also vilified state businesses for not paying their “fair share” of taxes.

Despite the governor’s rallies and advertisements, in May state representatives passed a resolution rejecting the tax plan by a 107-0 vote.

Gambling, Transit Go Nowhere

A multibillion-dollar construction program tied to the creation of a gambling casino in Chicago also failed. Though Democrats hold comfortable majorities in the House and Senate, Senate President Emil Jones (D-Chicago) blamed Republicans for the plan’s failure.

The Chicago Transit Authority also received no additional dollars in the General Assembly-approved budget. The CTA is predicting fare hikes and service cutbacks unless it receives $110 million more in state subsidies.

An attempt by Rep. Julie Hamos (D-Evanston) to boost mass transit funding in the Chicago region by imposing a quarter-cent sales tax, on top of the existing quarter-cent sales tax for that purpose, went nowhere.

All of these proposals could come up again if the governor insists on continuing the special session. How far they might get is anyone’s guess.

Governor Becoming ‘Immaterial’

Blagojevich has become nearly irrelevant to the budget process, said Rep. Mike Tryon (R-Crystal Lake).

“Legislative leaders of the Governor’s own party have deemed the state’s absent chief completely immaterial,” Tryon said in a media statement.

The governor was roundly mocked by lawmakers and newspaper editorial writers when they learned in July that he was charging taxpayers nearly $6,000 a day for an air shuttle service between Chicago, where he lives, and the state capital of Springfield, where he refuses to live despite the existence of a taxpayer-funded governor’s mansion.

A few days later Blagojevich was further caricatured when news broke that he had charged the state $600 to pay a makeup artist to prep him for his State of the State speech earlier in the year. While on the House floor for reporters and other lawmakers to hear, Rep. Ron Stephens (R-Greenville) mockingly asked House Speaker Madigan when the “Governatorali Cosmetology Committee” would meet.

The governor said the charge to the state was a mistake and that the state had been reimbursed. The makeup artist instead has been paid out of the governor’s campaign funds.

Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News and a research fellow at The Heartland Institute.
County Commissioner Gives Illinois Lawmakers an Earful over TIF Abuse

By Steve Stanek

Rarely does a person get a two-hour, closed-door meeting with Illinois’ most powerful lawmakers. But Cook County Commissioner Mike Quigley (D-Chicago) was granted such a rare meeting to express his objections to the use of TIF, which he believes has had an impact on the state budget, said Quigley, who met with Gov. Rod Blagojevich (D) and top lawmakers in late June. “This is because of how the state education formula works. All these TIF districts have started to affect the state’s bottom line.”

In addition to Blagojevich, meeting participants included Illinois House Speaker Michael Madigan (D-Chicago), Illinois Senate President Emil Jones (D-Chicago), Minority House Leader Tom Cross (R-Oswego), Minority Senate Leader Frank Watson (R-Greenville), two top aides to Chicago Mayor Richard M. Daley, and four Chicago aldermen.

Standing Alone

Quigley has stood virtually alone among Illinois elected officials in forcefully challenging the use of TIF, which allows municipalities to earmark tax revenues from growth in property values in a designated area to finance development in that same area. He said many local and state politicians privately back him but are afraid to speak out because of politically powerful Daley, who has turned fully one-third of the city into TIF districts.

“Quigley’s “A Tale of Two Cities: Reinventing Tax Increment Financing,” a report issued in April of this year, has made it difficult for Daley and other local and state officials to ignore his complaints.

“In Cook County alone there were more than 370 TIF districts collecting more than $686 million in property tax revenue in 2005...”

The report notes the use of TIF by Illinois municipalities has exploded over the past two decades. In Cook County alone there were more than 370 TIF districts collecting more than $686 million in property tax revenue in 2005, according to the report.

“This adds to the incredible financial pressures facing almost every department of our local government,” Quigley said. “Health clinics have closed, schools are using textbooks held together by duct tape, and open space is not being preserved for the future.”

State Aid Shift

Because local public school districts take the largest property tax bite, they lose the most when TIF districts are created. To cover the TIF loss, school districts and other affected taxing bodies—fire districts, library districts, and county governments—shift more of their tax burdens onto properties outside TIF districts.

In the case of Chicago, according to Quigley’s report, the property tax shift exceeds 10 percent.

“Right now 10 cents of every property tax dollar collected in Chicago goes to TIF districts,” Quigley said. “That’s more than for streets and sanitation. That’s more than Cook County collects in Chicago.

“The tax shift is huge, but almost no one knows it,” Quigley continued. “There is almost no transparency and accountability for hundreds of millions of TIF dollars, dollars that don’t get run through the budget process. It’s the antithesis of transparent and accountable government.”

Chicago has almost 150 TIF districts, which include some of the highest-priced real estate in the city, such as the city’s famed business area known at the Loop.

“One-third of the city [of Chicago] is TIFs now,” Quigley said. “From a fiscal point of view, there are conservative [types] and tax-and-spend types [of people]. TIF is tax-and-spend. I would argue even a tax-and-spend person should be offended by this because almost nobody knows what’s happening.”

Legislation Coming

Quigley said he received no commitments from the assembled politicians to reform the state’s TIF law. In fact, the Chicago representatives defended the way the city has used TIF. He said he expected that reaction because Daley’s rule is almost untouchable.

But Quigley also said he will continue to press the issue, including presenting legislation this fall to address his recommendations.

“I say put TIF information on tax bills, run it through the budget process, tighten definitions of blight and how this game is played, and give other local governments some sort of break,” Quigley said.

Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News and a research fellow at The Heartland Institute.

In Other Words

“Surely it’s painful to be Rod Blagojevich. You accomplish next to nothing for half a year while those FBI busybodies investigate your administration. You float an unprecedented taxing-and-spending plan only to have the Illinois House reject it—by a less than ambiguous 107-0. You so spectacularly fail to broker a state budget with leaders of your own party that editorial writers—testy when appalled—start calling you the governor who can’t govern.

“You solution?

“Cast yourself in the role of bold hero! Call a special session of your General Assembly! Having wasted your legislature’s time and your taxpayers’ money for six months, demand that Springfield ... waste more time and money!”

House Editorial
Chicago Tribune
July 2, 2007

Cook County Commissioner Mike Quigley has waged a battle for years against the abuse of tax increment financing.

INFORMATION

“A Tale of Two Cities: Reinventing Tax Increment Financing”: http://www.heartland.org/article.cfm?artid=21830
Debate Over Public-Private Highway Partnerships Takes a New Turn

By Ken Orski

The latest chapter in the continuing debate about the role of public-private partnerships (PPPs) has featured uncharacteristically blunt congressional criticism and equally pointed rejoinders from the states. The argument is over why the states are looking to engage the private sector in the first place. I will tell you that the answer in Texas is that we could no longer wait for anyone else to solve our problems.

Fed Response ‘Unfocused’

Perry went on to question whether an increase in the federal gas tax would address his state’s needs.348

“The power of the legislature would be unaccountable board isn’t the same as letting citizens keep the money and choose whether to spend it on health care or something else, critics point out.

George Lightbourne, a senior fellow with the Wisconsin Policy Research Institute, said the board’s unbridled authority means it could independently raise taxes without requiring permission from the legislature or the governor.

Huge Power Grab

Vinehout said the board is an apolitical method of managing the money. Greg Scandlen, president of Consumers for Health Care Choices, disagreed vehemently, calling the bill “the biggest political power grab in American history.”

The legislature would determine the validity of providers, services, and cost, Scandlen noted, and special providers such as chiropractors and midwives would lobby lawmakers to include them in the state plans—thereby raising costs through more coverage mandates.

“Governors Association Weighs In

As a rule, the National Governors Association (NGA) does not take a public position on statements made by individual congressional lawmakers. But the NGA broke that tradition to respond to the May 10 Oberstar/DeFazio letter.

“We believe Congress must work with states to advance our national transportation needs in a way that respects federalism and the states’ role as the primary steward of our national transportation network,” the NGA stated in a June 15 letter to the two congressmen.

“I encourage you to examine the fundamental question of why the states are looking to engage the private sector in the first place. I will tell you that the answer in Texas is that we could no longer wait for anyone else to solve our problems.”

“Fiscal pressures confronting the nation’s transportation system have prompted governors to look beyond traditional funding mechanisms such as bonding and state tolling to help finance and deliver on transportation,” the letter continued. “Surging capacity needs and escalating operating and maintenance costs are driving states to pursue innovative financing options to complement traditional financing tools.”

Behind the governors’ decision to take the unusual step of responding collectively to the Oberstar/DeFazio letter was a sentiment that the challenge to the principles of federalism must be answered.
**Study: Spending Reforms Are Key to Property Tax Relief in Conn.**

By D. Dowd Muska

Spending reforms are essential to solving Connecticut’s property tax crisis, but legislators and Gov. M. Jodi Rell (R) will need political courage to adopt them, according to a new study by the Hartford-based Yankee Institute for Public Policy.

“Reform Spending, Relieve Taxpayers: Real Property-Tax Relief for Connecticut,” released in June, explores spending reform, an element of the property tax debate seldom discussed by the state’s mainstream media and political elites.

**Sharp Spending Hike**

In inflation-adjusted dollars, between 1991 and 2005 Connecticut’s property tax burden rose by more than 27 percent—far greater than the state’s meager population growth. Meanwhile, the state’s median household income declined, spurring the formation of dozens of taxpayer groups now active in Connecticut.

Recent years have seen citizens defeat budget referenda in several Nutmeg State towns that permit property owners to vote directly on municipal finance.

While politicians, bureaucrats, and left-leaning activists aggressively push revenue-increasing “solutions” to Connecticut’s high property taxes—including local-option taxes and greater state subsidies to localities—spending relief has been off the table. In response to the state’s failure to consider this side of the issue, the “Reform Spending, Relieve Taxpayers” report presents three broad categories of reforms for spending relief.

**700 State Mandates**

The first involves the immense burden that state mandates place on local governments. More than 700 such requirements affect everything from “collective bargaining” with employees to the type of loose-leaf binders used by town officials. No effort to achieve property tax relief will succeed without weeding out the many costly and unnecessary mandates placed on local governments.

The study also introduces the concept of “anti-mandates.” It points out that if the state can require municipalities to spend more tax dollars, it can also enact mandates that lower the cost of local government.

Personnel reforms are the most promising target for anti-mandates in Connecticut. Higher employee contributions for health care premiums, for example, would generate significant relief for taxpayers, as would a shift to defined-contribution pensions, according to the study.

**Open Collective Bargaining**

In addition, a requirement that municipal governments open the collective-bargaining process to public comment—and even public participation—would be effective, the study notes. As Flo Stahl, president of the Avon Taxpayers Association, recently wrote in the Hartford Courant, “Let municipalities bring [contract negotiations] out of the shadows, where they have languished for decades. It’s time for towns and cities to show respect for taxpayers, who fund these contracts.”

Another anti-mandate worth considering is the denial of state aid to “redevelopment” projects, which often become costly boondoggles for state and local taxpayers alike. The U.S. Supreme Court’s controversial 2005 Kelo decision, for example, resulted from a redevelopment project in New London, a city on Connecticut’s eastern shore.

**Mission creep**

Finally, the study recommends Connecticut’s towns and cities stop making fiscally unsound decisions all on their own. Wasteful education policies and “municipal mission creep”—such as “services” that are far from core obligations of the public sector—add significantly to property tax burdens and are not mandated by politicians in Hartford.

Local government officials need to make smaller, more accountable government a priority, the study notes.

By shifting attention away from “revenue enhancements” and toward the need for spending reforms, “Reform Spending, Relieve Taxpayers” seeks to broaden the debate over property taxes in Connecticut. With the property tax issue raging in many other parts of the nation, the study’s recommendations are applicable to many other states as well.

D. Dowd Muska ([dowd@yankeeinstitute.org](mailto:dowd@yankeeinstitute.org)) is the Philip Gressel Fellow for Tax and Budget Policy at the Yankee Institute for Public Policy, and author of “Reform Spending, Relieve Taxpayers: Real Property-Tax Relief for Connecticut.”

**INTERNET INFO**

“Reform Spending, Relieve Taxpayers: Real Property-Tax Relief for Connecticut”: [http://www.heartland.org/articles.cfm?artId=21831](http://www.heartland.org/articles.cfm?artId=21831)

**INTERNET INFO**

Full text of Texas Gov. Rick Perry’s letter regarding public-private partnerships: [http://www.heartland.org/Article.cfm?artId=21832](http://www.heartland.org/Article.cfm?artId=21832)

Full text of the Oberstar/DeFazio report: [http://www.heartland.org/Article.cfm?artId=21564](http://www.heartland.org/Article.cfm?artId=21564)

**“I am not sending my fellow citizens’ hard-earned money to Washington DC, to have it redistributed, earmarked, and locked into programs that do little to relieve congestion.”**

RICK PERRY
GOVERNOR - TEXAS

This suggests that behind all the lofty sentiments about “preserving the public interest” lies a congressional fear of losing control, influence, and leverage over the highway program, including the power to earmark funds for local pork-barrel projects.

If states, using public-private partnerships, assume a dominant role in funding new highway infrastructure, federal-aid funds and Oberstar’s committee will surely become less relevant and powerful.

Ken Orski ([korski@verizon.net](mailto:korski@verizon.net)) is editor and publisher of Innovation Briefs, a transportation newsletter in its 18th year of publication. This is a condensed version of an article from the July/August 2007 Innovation Briefs. The full article is available at [http://www.innобriefs.com](http://www.innобriefs.com).
Impact Fees Reduce Housing Affordability, New Study Maintains

By Al Heavens

Impact fees provide one of the most potent weapons for both sides in the battle over sprawl.

Many residential builders contend that the fees charged by municipalities to offset the costs of development are excessive and result in higher home prices that shut first-time and lower-income buyers out of the suburban market.

On the other side, opponents of sprawl don’t think that the fees are high enough, and that this, in effect, subsidizes sprawl by making home construction easier and more profitable.

A study by the University of Minnesota concluded that municipalities have been forced to resort to impact fees over the last 20 years for a variety of reasons.

Among them are a drop in federal and state funding, higher interest rates, changes in the tax-exempt-bond market, and the unwillingness of voters to pay higher taxes for services necessitated by development.

The fees began in the 1960s to pay the cost of water and sewer connections to new developments, but changes in municipal financing and suburban population growth have added substantially to the list.

“Impact fees are viewed as a way for growth to pay its way,” according to the report written by the staff of the university’s Center for Transportation Studies.

The issue of whether these impact fees are putting affordable housing out of the reach of a growing number of Americans is also the subject of intense debate. The housing industry maintains that they are, and a study in 2006 by the Center for Housing at Harvard concurred with that observation.

“Impact fees provide one of the most potent weapons for both sides in the battle over sprawl.”

“At the local level, land-use regulations often make it difficult for builders to develop affordable housing,” according to the Harvard study. “Large minimum-lot sizes, restrictions on land available for residential development, impact fees that place the marginal cost of infrastructure and public services on new-home buyers, and approval processes that add risk and delays all play a hand in rising house prices.”

Although many land-use rules address important concerns such as environmental protection and public health, “they nevertheless make housing more expensive,” the Harvard report said. “Indeed, the stricter the development regulations, the more intense the affordability problems in that community.”

A new study by the National Association of Home Builders (NAHB) seems to support the Harvard study’s conclusion.

Even as the housing market correction continues to exert downward pressure on new home prices, localities continue to push forward with new fees and regulations that will further erode housing affordability, the study said.

The report on the impact of government regulation on housing shows that each $1,000 increase in the cost of a new median-priced home forces 217,000 prospective buyers out of the marketplace.

Based on national mortgage underwriting standards and incorporating the latest data from the U.S. Census Bureau, the report contains detailed results for more than 300 metro areas.

The analysis found that every $819 rise in fees paid at the beginning of the construction process—such as an increase in the price of a construction permit, a tap fee, a proffer or an impact fee—adds an additional $1,000 to the final price of the home.

“The study shows that even modest impact fees can have a dramatic effect on housing affordability,” said Jerry Howard, executive vice president and CEO of NAHB. “Local governments need to understand that higher regulatory costs frequently push up the price of housing beyond the means of many teachers, firefighters, police officers and other moderate-income workers.”

The number of households that would no longer be eligible to qualify for a mortgage based on a $1,000 increase to a median-priced home ranges from a low of 10 in both the La Crosse, Wisconsin, and the Ocean City, New Jersey MSA, to a high of 4,193 in the Dallas-Fort Worth-Arlington, Texas area.

The numbers vary significantly in each marketplace, and are largely a function of local income distribution, house prices and population.

A few years back, for example, Professional Builder magazine and the Gainesville, Florida Builders Association hired two University of Florida economists to study fees in Alachua County, Florida.

The study determined that developers were paying $3,114 more than it cost for basic infrastructure and services for a typical 2,077-square-foot house.

Official impact-fee schedules dramatically underestimated the true costs imposed on developers by municipalities, according to a study by The Heartland Institute of Chicago.

Other costs include annexation fees, permit and application fees, connection fees, time spent in public hearings, interest paid on loans or capital investments pending approval of applications, and the cost of complying with many other kinds of regulations.

Many expenses are unique to each project and, therefore, cannot be averaged.

Al Heavens (rteditor@realtytimes.com) writes about real estate and home repair and improvement. He is the author of What No One Ever Tells You About Renovating Your Home: Real-Life Advice For Hassle-free, Cost-Effective Remodeling (Dearborn Press). This article is reprinted by permission from the August 2, 2007 issue of Realty Times.
More Freight Rail Could Reduce Road Congestion

By Steve Stanek

State and national policymakers are missing an important part of the solution to reducing traffic gridlock: putting more trucks on trains ...

Big Potential

Cox said there is considerable potential to maintain or improve the reliability of the nation’s freight system by using freight rail to move more truck trailers and containers. The rail and trucking industries have already teamed up to do this on what are called “intermodal” trains. Intermodal shipments represent the fastest-growing market in the rail industry. But there are signs the growth cannot continue with the nation’s current rail infrastructure. Freight train average operating speeds dropped from 24 miles per hour in 1990 to 21 miles per hour in 2000, reflecting at least in part constrained capacity, according to Cox. The problem is especially bad in the Chicago and Los Angeles areas and along the East and West Coasts.

“The trucking industry has done a great job,” Cox said. “They’re very productive, and the safety record is incredible when you consider they’re hauling double trailers and the average long-distance truck occupies the space of three-and-a-half cars. But this is the problem. Given our tight road capacity in urban areas, we cannot afford to see truck traffic double. In the long run, trucks are going to be a much bigger issue with traffic congestion.”

Passenger Train Priority

Much of the freight rail bottleneck problem can be linked to how passenger and freight rail systems are treated. Federal law requires freight lines to give priority to passenger trains, Cox noted. This slows the movement of goods by freight in favor of passenger trains, which account for less than 1 percent of passenger travel nationally.

“Rail and local transit do a good job of taking people to a few places like downtown Chicago,” Cox said, “carrying more than one-half of work trips. But if you look at Schaumburg (a suburb northwest of Chicago), that is the state’s second-largest employment area, and larger than downtown Portland or San Diego. Less than 0.5 percent of workers get to Schaumburg by rail.

“I’ve been concerned that the operation of passenger trains interferes so much with the efficiency of freight rail that it does more harm than good,” Cox said. “People must understand that it may sound good from a theoretical stance to force railroads to take more passenger trains, but the number of people who would be moved from cars to trains would be virtually nil, and the diminished competitiveness of the railroads would divert more freight to crowded the already crowded highways.”

Because freight rail lines linking cities hundreds of miles apart already exist, there is great potential to develop high-speed freight trains and increase freight rail capacity, according to Cox. Truck trailers could be loaded onto trains and hauled nearer their final destination, playing to the strength of freight rail to haul large volumes of material over long distances, and the strength of trucks to drive to wherever the final destination may be.

The result would be fewer highway miles occupied by tractor-trailer rigs and more room on the roads.

Priority Limits

Cox recommends minimizing traffic congestion by making it possible for railroads to concentrate their resources on freight movements. His recommendations include federal legislation to relieve the freight railroad industry of its burden to give priority to Amtrak passenger service, and to allow the railroads to charge Amtrak fully allocated costs for their use of infrastructure.

Any expansion of passenger rail service on freight rail infrastructure should be allowed only upon an administrative law finding that the additional passenger trains will have no detrimental effect on the competitiveness of the freight railroad system or the corridor involved, Cox said.

Investment tax credits, accelerated depreciation allowances, and tax-exempt bonds also could provide new resources for infrastructure development, Cox said.

“These measures would improve the competitive position of the railroads relative to the trucking industry without involving taxpayer subsidies or increased government interference in the investment decisions of railroads or in their operation,” Cox noted.

Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News and a research fellow at The Heartland Institute.
Billions in Tobacco Taxes to Fuel Expansion of Federal Health Program

By Steve Stanek

The big question over reauthorization of the federal government’s State Children’s Health Insurance Program (SCHIP) appears to be this: $35 billion, $50 billion, or something in between?

On August 1, the U.S. House of Representatives passed a bill that would expand the program by $50 billion over five years. The Senate followed a short time later with approval of a $35 billion increase. A conference committee is expected to reach a final figure before the program expires September 30.

Funding would come from a 61 cents increase in the 39 cents per pack federal cigarette tax, putting the federal tax at $1 a pack. Federal taxes on other tobacco products also would climb. (See sidebar.) President George W. Bush has vowed to veto the measure if eligibility controls and spending limits aren’t included. To emphasize the point, on August 17 Bush sent a letter to state officials detailing new restrictions on the current SCHIP program. The new rules require states to prove they cover at least 95 percent of eligible low-income children before expanding coverage to higher-income children. States will also be required to prove the number of privately insured children hasn’t dropped by more than 2 percent in the past five years.

Middle-Income Families Subsidized

The legislation would provide health insurance subsidies to families earning up to four times the poverty level—$83,000 a year for a family of four. The bill also makes major changes to the Medicare Advantage program, prescription drug benefit, and Medicaid.

Even though the program’s intent is to provide health insurance coverage to children, adults would be allowed to enroll as well. Some states already have more adults than children enrolled in SCHIP.

SCHIP was created in 1997 to provide financial assistance to families who need help paying for children’s health insurance but earn too much money to qualify for Medicaid. Since then the federal government has spent nearly $40 billion on the program, according to the Congressional Budget Office (CBO). About 6.6 million children and 670,000 adults are currently enrolled.

“The big question over reauthorization of the federal government’s State Children’s Health Insurance Program appears to be this: $35 billion, $50 billion, or something in between?”

‘A Welfare Program’

“Let’s be clear. SCHIP is a welfare program,” said Michael Tanner, director of health and welfare studies at the Cato Institute. “How far up the middle class do we want welfare to go?”

The CBO estimates 50 percent of new SCHIP funds would go to children in families who would otherwise have private insurance coverage, and some economists say that estimate is low. Tanner said this would crowd out private insurance and shift costs onto taxpayers.

Support is Wide

Though most Republican lawmakers oppose the legislation, SCHIP expansion does have a wide range of support, from liberal Sen. Ted Kennedy (D-MA) to conservative Sen. Orrin Hatch (R-UT). Kennedy and Hatch were the original SCHIP sponsors in 1997.

Critics say the expansion is a backdoor move to establish a national health system. They also say the tax scheme is especially harmful to lower- and middle-income families, who tend to use tobacco products more than higher-income families.

And, ironically, government budget forecasters say states could see billions of dollars less in tobacco revenue as a result of the federal tax hike.

The CBO and U.S. Treasury Department have estimated a revenue loss to the states of $1.07 billion to $1.2 billion a year, as the higher price for cigarettes cuts consumption and prompts smokers to choose low-cost off-brands or turn to black markets.

Revenue Losses

The predicted cut in tobacco consumption would result in lower payments to states by the major tobacco companies under the 1998 Master Settlement Agreement, which ended state lawsuits against the tobacco companies. It also would cause state cigarette excise tax revenues to fall. Supporters say the tax hike would have benefits.

“The public health benefits resulting from higher tobacco costs are well documented,” said the American Academy of Family Physicians in a June letter to members of Congress. The letter added, “By discouraging smoking through an increased tax on tobacco products, we are creating a win-win proposition in support of our children’s health.”

Ohio Gov. Ted Strickland (D) acknowledged states probably would lose tobacco revenue as the CBO and Treasury Department predict, but said he nonetheless supports SCHIP expansion and higher tobacco taxes.

“We certainly wouldn’t want lack of revenue from cigarette taxes to keep us from providing health care for our kids,” Strickland said during an August 8 appearance at Columbus Children’s Hospital to urge support for the SCHIP legislation.

Heavily Regressive Tax

A study released in July by the National Center for Policy Analysis said the SCHIP tax hikes would be heavily regressive because rates of tobacco use are highest among lower- and middle-income citizens.

“[P]olicymakers should also be concerned with the economic well-being of their lower-income constituents. One must question the fairness of hiking taxes that are known to disproportionately burden poor families,” the NCPA report states.

Other economists also question the fairness of taxing a narrow segment of the population—tobacco users—to fund a broadly available program such as SCHIP.

Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News and a research fellow at The Heartland Institute.

INTERNET INFO


— Steve Stanek

Tax Hike on Cigars, Other Tobacco Products Proposed

Cigar makers and distributors were stunned to learn legislation to fund an expansion of the federal State Children’s Health Insurance Program (SCHIP) included a potential 20,000 percent increase in the tax on cigars.

The House and Senate versions of the legislation now under consideration have scaled back the cigar tax hike, but it remains enormous, said Michael Gold, president of Arango Cigar Company in Northbrook, Illinois, one of the nation’s leading sellers of fine cigars and other tobacco products.

“Today the tax is 20.7 percent of the manufacturers’ price, with a cap of $48.75 per thousand, or about a nickel a cigar,” Gold said. “The House increases the percentage to 44.6 percent, with a cap of $1 per cigar. The Senate version is 53.1 percent and a cap of $3 a cigar. This is on large cigars. “On little cigars—typically sold in packs of 201, today the tax is $1.80 per thousand. The House bill goes to $42 per thousand. The Senate bill is $50 per thousand. They’re basically putting the small cigars out of business.”

Other tobacco products are also in for substantial tax hikes under the legislation. Roll-your-own tobacco currently is taxed at $1.10 a pound. The House bill would take the tax to $7.47 a pound. The Senate bill would take it to $8.90 a pound.

“This would also put roll-your-own (tobacco) out of business,” Gold said.
Professorial ‘Elite’ Blind to Problems in Gas Tax Proposal

By Jonathan Williams

The rise in world fuel prices since 2005 has made many motorists uneasy about proposals to increase gasoline taxes. But this has not stopped a handful of distinguished economists and pundits from calling for large gas tax hikes.

One is N. Gregory Mankiw, a Harvard University professor and former chairman of the Council of Economic Advisers, who recently wrote a piece for the Wall Street Journal outlining his reasons for imposing a $1 gasoline tax on American motorists, up from the current levy of 18.4 cents per gallon.

Depending on many factors—principally worldwide supply and demand—average gasoline prices fluctuate widely. Do we see traffic congestion magically disappear since gasoline prices have increased nearly $1 since last winter? Is America’s national security strengthened by paying nearly $1 since last winter? Is America’s consuming since gasoline prices have increased since last winter?

Pigouvian solution is anything but simple. In theory, using Pigouvian taxes is efficient, because it would tax a driver on a country road outside of Dodge City, Kansas at the same rate as a driver during rush hour in Washington, DC. Absent congestion-based pricing for road usage, Americans would still suffer high volumes of traffic during certain times on certain roads even if automobiles ran on water.

Improving National Security?

In his final Pigouvian justification for increasing gasoline taxes, Mankiw argues the gas tax is “an economic policy with positive spillovers to foreign affairs.” A common argument in support of this contention is that we should increase the gas tax to promote our “energy independence” from high-risk foreign sources of oil.

While well-intentioned, this argument neglects the important fact that the world market for oil is fully fungible. History has proven that even energy independent countries are harmed by worldwide supply disruptions. In addition, the latest report from the Energy Information Administration notes Canada and Mexico are the number one and three sources of U.S. oil imports, respectively, reducing any likelihood of major disruptions.

Disturbing the Economy

All told, raising gasoline taxes for Pigouvian purposes advances a dangerous view of tax policy, where government attempts to use the tax code as a tool for central planning of the economy. The fundamental purpose of taxes is to raise necessary revenue for government programs, not to micromanage a complex market economy by use of subsidies and penalties.

A central aim of the tax system should be to minimize distortions in the economy and to interfere as little as possible with the decisions of free people in the marketplace—not to disturb a mechanism that otherwise runs with impressive efficiency.

Jonathan Williams (jwilliams@alec.org) is director of the Tax and Fiscal Policy Task Force at the American Legislative Exchange Council (ALEC).

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Excise Taxes Impose Growing Burden on the Poor

By Michael L. Davis and Robert McTeer

See if this rule makes sense to you: If you want to help poor children, do not raise taxes on poor families.

Excise taxes on items such as cigarettes, alcohol, gasoline, and telephone service may be a minor nuisance to a wealthy person, but they take up a significant share of a low-income family’s income.

These taxes are notoriously regressive. First, the poor spend a much larger percentage of their income on consumer goods, so they pay a larger percentage of their income in taxes. Fifty dollars per week for gas is a much bigger deal to the day-care worker who brings home $300 per week than to the lawyer who brings home $300 per hour.

Second, politicians have decided to impose especially high taxes on products the poor are more likely to buy. In some cases the total dollar amounts paid by the poor are higher than the amounts paid by the rich.

Cigarettes, Liquor Hit Hard

Smoking rates differ greatly across the income and educational spectrums. One-third of lower-income U.S. adults smoke, versus one-fifth of middle- and high-income earners, according to the Centers for Disease Control and Prevention. High school dropouts who smoke spend three to four times as much of their income on tobacco products as professionals who smoke (4.47 percent and 1.27 percent, respectively).

Taxes on beer, wine, and liquor also burden the poor disproportionately. The portion of income spent on alcoholic beverages by the lowest fifth of earners is double that of middle earners and more than three times that of the highest earners, on average.

Some health policy advocates claim taxes on harmful behaviors—such as smoking and excessive drinking—are justified to recoup the costs those activities impose on others, such as secondhand smoke and drunk driving. Smoking does impose real costs on others, but almost all available evidence indicates taxes on tobacco already more than compensate for them.

Responsible drinking imposes few social costs and perhaps some substantial benefits. The real social cost of drinking comes from those who abuse alcohol, yet alcohol taxes punish moderate drinkers for the behavior of alcoholics.

Behavior Changes Doubtful

Advocates also claim these taxes encourage people to change their behaviors in socially desirable ways. This is questionable. A few consumers will quit, but many more will substitute lower-cost brands.

In any case, this paternalistic argument (“We’re going to raise taxes to force you to do what we know is best”) is really disingenuous—these taxes are designed to raise revenue, not encourage unhealthy behavior.

If legislators really believed raising taxes would discourage unhealthy behavior, they wouldn’t count on a declining revenue stream to fund a health program like the State Children’s Health Insurance Program, whose costs are certain to skyrocket.

Necessities Cost More

As if taxes on cigarettes and alcohol weren’t enough, poorer taxpayers are also disproportionately burdened by excise taxes imposed on modern-day necessities such as gasoline, utilities, and telephone services. Again, since lower-income households spend more of their incomes on these items, they pay a greater share of these taxes.

Statistically, people making $24,000 a year spend more than twice as much of their income on gasoline as those earning five times as much. People making less than $10,000 a year spend nearly one-fifth of their incomes (18.8 percent) on necessities subject to excise taxes, including utilities and public services. They pay almost six times as much of their incomes on these taxes as the highest earners.

The lowest fifth of income earners spend nearly one-third of their income on alcohol, tobacco, utilities, and gasoline, on average. The highest earners spend just 6 percent of their income on these items.

This new system of raising taxes on “sins” and necessities is actually punishing those who have the temerity to be poor. Adding insult to injury is that this money is being earmarked for entitlement programs to help people earning more in annual salary than those most affected by these taxes.

Michael L. Davis is project manager and lead lecturer at the Edwin L. Cox School of Business at Southern Methodist University and senior fellow at the National Center for Policy Analysis. Robert McTeer is distinguished fellow at the National Center for Policy Analysis. They may be contacted through media@ncpa.org. This essay is based on the conclusions of their study “Taxing the Poor,” released in June by the National Center for Policy Analysis.
The depth of the economic crisis in Michigan is greater than ever, and there is little evidence of a turnaround any time soon. Consider the following data from May and June of this year:

- Michigan’s per-person economic output fell from 96 percent of the national average in 2003 to 89 percent in 2006 (Dana Johnson, chief economist, Comerica Bank).
- The state’s gross domestic product (GDP)—the best measure of the output of the economy—declined by 0.5 percent, while the nation as a whole expanded by 3.4 percent. From 2003 to 2006, Michigan was the only state with a decline in GDP (Johnson).
- In the 12 months ending June 1, Michigan suffered a net decline in employment of 1.1 percent. During the same period, U.S. employment grew 1.2 percent (http://www.mackinac.org/article.aspx?ID=8532).
- In a recent poll by EPIC/MRA (formerly known as Michigan Researchers Associates), fully 3 percent of Michigan residents (a stunning 300,000) said they would “definitely” be moving out of the state because the economic or employment situation was so bad.

“The depth of the economic crisis in Michigan is greater than ever, and there is little evidence of a turnaround any time soon.”

State of Decline
Unfortunately, the legislature has been slow to address the crisis. Consider the following:

- The state’s Single Business Tax (SBT), rated by the Tax Foundation as the worst business tax in the nation, was repealed last year. Instead of replacing it quickly with a smaller, simpler, more streamlined business tax, the legislature and governor negotiated, postured, and fiddled for six months. Finally in June, a new tax package was enacted that is bigger, just as complex, and just as likely to drive away jobs as the old plan.
- The governor submitted her 2007-2008 budget to the legislature in February. As of August 1, the budget was still working its way through the appropriations committees. Rather than act quickly to balance the budget to expected revenues of $8.5 billion, the House has been fiddling with a spending plan that may exceed $10 billion. There are at least three new tax plans on the table—an increase in the income tax, a new “luxury” tax on services, and a $1.35 monthly fee on every telephone line, including cell phones and the Internet.

None of these actions will foster the policy and spending priorities needed to downsize government and create an environment for job growth.

Jack Hoogendyk (jackhoogendyk@comcast.net) is a Republican state representative from Kalamazoo, Michigan.
Congress to Impose Collective Bargaining

By David Y. Denholm

Congress is considering imposing unionism and collective bargaining on state and local public safety departments in states that have not given public-sector unions monopoly bargaining powers.

H.R. 980, the “Public Safety Employer-Employee Cooperation Act,” would apply to police, fire, and rescue departments. Analysts believe the bill would give unions at the state and local government level far greater powers than Congress has given to federal employee unions.

In June 5 testimony during a Congressional hearing, bill author Rep. Dale Kildee (D-MI) said the bill’s purpose is to “enable public safety employees to discuss work conditions with their employers.” That ignores the vast difference between being able to discuss something and negotiating a legally binding contract.

Mandates Union Power

The bill says the interests of employees “may be furthered” through collective bargaining and that the federal government is in a position to “encourage” conciliation. Those words are the velvet glove covering the iron fist of the bill’s provisions, which are entirely mandatory.

Proponents claim the bill exempts political subdivisions with less than 5,000 population or fewer than 25 full-time employees, but the bill doesn’t contain such an exemption. It does contain an exemption for state laws that contain such an exemption.

In short, the federal regulations would apply to these subdivisions, and the only way a state could escape federal regulation would be to enact a law that “substantially provides” the powers given to unions by the federal law.

At least 14 states (Table 1)—those without laws mandating public-sector collective bargaining and granting government unions monopoly bargaining powers—would feel an immediate, substantial impact from the legislation. Several other states (Table 2) have public-sector bargaining laws that probably would not qualify for an exemption from federal regulation.

“Congress is considering imposing unionism and collective bargaining on state and local public safety departments in states that have not given public-sector unions monopoly bargaining powers.”

Expansive Definition Likely

On June 5, R. Theodore Clark Jr., a prominent labor lawyer testifying against the bill on behalf of the National Public Employer Labor Relations Association (NPELRA), pointed out that even though the National Labor Relations Act provides for ceding authority to state laws not “inconsistent” with the provisions of the NLRA, “the NLRB has repeatedly refused to cede jurisdiction to the state boards.”

On that basis, Clark speculated, “One could take virtually any of the 38 state statutory provisions providing collective bargaining rights for police officers and/or firefighters and come to the conclusion that there is something in each law that likewise does not meet the ‘substantially provides’ test.”

H.R. 980 was approved by the U.S. House of Representatives on July 17 by a vote of 314 to 97. When it reached the Senate it was expeditiously put on the General Calendar, from which it can be brought up at any time.

Constitutionality Questioned

Since passage of the Wagner Act in 1935, Congress has treated relationships between state and local government and employees as properly the prerogative of the states.

The new measure’s constitutionality was an issue on both sides of congressional testimony. Testifying in favor of the bill on June 5, Syracuse University law professor William Banks concluded it would not violate the Tenth Amendment because it does not “commandeer” state or local regulatory processes.

But his own testimony contradicted his conclusion: “The bill does not require state or local governments to enact or implement a federal regulatory program. Instead H.R. 980 places the onus on federal implementation through the Federal Labor Relations Authority (FLRA). If a state chooses not to enact a program that meets federal requirements, the FLRA steps in.”

Commerce Clause Issues Raised

Clark, on the other hand, said, “There is absolutely no doubt in my mind that the Supreme Court today would hold Congress does not have the constitutional authority under the Commerce Clause to enact H.R. 980 vis-à-vis states and thereby abrogate their Eleventh Amendment immunity.”

In discussing the Fourteenth Amendment implications of the bill, Clark noted, “The right of public employees to be represented for the purpose of bargaining collectively with their public employers, however, has never been recognized as a constitutional right. To the contrary, the courts have uniformly held that it is not a violation of the constitutional rights of public employees for public employers to refuse to engage in collective bargaining.”

Mark Mix, president of the National Right to Work Committee, said, “As has been seen in places where Big Labor has control over public employees, union bosses routinely demand more government spending, push for outrageous featherbedding that no union representing employees in a competitive private business would dare to seek, and block service improvements for taxpayers.

“Simply put, the Police and Firefighter Monopoly Bargaining Bill is yet another payback to Big Labor from their allies in Congress,” Mix concluded.

David Y. Denholm (david@psrf.org) is president of the Public Service Research Foundation, an independent not-for-profit organization that studies labor unions and union influence on public policy.

Table 1: States that Do Not Grant Collective Bargaining Powers to Public-Sector Unions

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Table 2: States that Probably Would Not Qualify for an Exemption from H.R. 980

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In Other Words

“The [Washington Legislative] building underwent a $118 million remodeling this decade. ... It’s been less than three years since that remodeling, and already lawmakers are having marble walls ripped down. The Legislature will spend $170,000 to convert two legislators-only lounges into legislative offices.

“The thing about taxpayers’ money is there’s so darn much of it. Democrats and Republicans never tire of spending it on themselves. The members-only lounges and members-only cafeterias only add to their sense of entitlement.”

House Editorial
Olympian
July 20, 2007
Big Labor’s Decline Explained

By Ryan Bedford

Is the National Labor Relations Act (NLRA), the 1935 law designed to protect and invigorate the labor movement, responsible for the past 50 years of the movement’s decline? Michael Wachter, the William B. Johnson Professor of Law and Economics and co-director of the Institute for Law and Economics at the University of Pennsylvania Law School, believes the answer is yes. He also says the decline of unions has gone hand-in-hand with the rise of the free economy.

Can’t Stand Competition

Wachter says unions depend on a corporatist economy in which competition and free markets are restricted. In a corporatist economy, price controls dictate the cost of commodities, eliminating corporate competition. Union wages eliminate wage competition and ensure corporations don’t obtain a cost advantage over one another and earn more profit. Antitrust laws are suspended to immunize those actions from lawsuits.

That very arrangement was implemented in 1933 by the National Industrial Recovery Act (NIRA). Soon afterward, though, the U.S. Supreme Court struck down the law as unconstitutional. Congress tried to salvage some of the policies by passing the National Labor Relations Act (NLRA) in 1935, but the NLRA implemented only one aspect of corporatism—labor protections.

“Is the National Labor Relations Act, the 1935 law designed to protect and invigorate the labor movement, responsible for the past 50 years of the movement’s decline?”

Depending on Government

Without price controls to artificially increase prices and antitrust laws to protect the inflated prices, the free market gradually took over. Soon, business executives were caught between the above-market wage demands of unions, shareholders demanding a profit, and competing businesses, some of which did not pay union wages.

Over the past 50 years, in the private sector, shareholders and competition have won more often than not, gradually reducing union influence.

The public sector, by contrast, is the only noncompetitive sector in the U.S. economy and closely resembles the corporatist economies in which unions used to thrive. Accordingly, unions have become a powerful force in the public sector.

The only way the labor movement will reclaim its former glory in the private sector, according to Wachter, is through the passage of another unconstitutional NIRA-type law.

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

WA State Government Workers Get Record Raises

By Ryan Bedford

The current collective bargaining agreements between Washington State and its employee unions give state employees the largest raises some have ever seen. The minimum increase union-represented employees will receive is 12.1 percent, and some will receive raises of 43.6 percent.

In all, increases in salaries and benefits for 111,000 state workers will cost nearly $2.1 billion in state, federal, and other funds over the next two years.

Unions will get their cut, and union officials likely will put some of this into campaign contributions for policymakers supportive of union-favorable laws and generous concessions at the bargaining table.

Thriving on Secrecy

Many states allow public employees to negotiate collectively for their employment contracts. Although these negotiations significantly affect state and local budgets, they are often hidden from the public.

A report released in July by the Evergreen Freedom Foundation examines which states allow taxpayer-voter access to public-sector collective bargaining.

Eleven states allow the public some form of access to public-sector collective bargaining sessions. They range in openness from allowing complete access to merely providing summarized minutes.

The remaining states restrict access to public-sector collective bargaining sessions. Several even restrict public access to “strategy sessions” held by the government’s negotiating team.

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

INTERNET INFO

To find out your state’s policy on transparency of negotiations of public contracts: http://www.effwa.org/main/article.php?article_id=2113&number=56

Retailer Misses Job Targets Again

By Amber Gunn

For the second year in a row, outdoor retailer Cabela’s missed job targets set by its performance contracts with the state of Texas.

When a Cabela’s store opened in Buda, Texas, in 2005, it was touted as a job generator and economic boon to the region and received tax incentives from local and state governments.

Rather than rely on ambiguous and unenforceable verbal agreements, Texas drew up performance contracts outlining the expected number of jobs to be created in exchange for the incentive payments.

Too Few Jobs

Per the contract agreement, Cabela’s will have to pay the city of Buda, Hays County, and the state about $129,000 for again failing to hit its jobs target. The money will be distributed proportionally based on how much each entity contributed to the incentive package.

The state’s job creation fund, known as the Texas Enterprise Fund, will get about $42,000.

Last year Cabela’s had to return $29,000 to the Texas Enterprise Fund and forfeit another $200,000 after falling short of the 400 promised jobs by more than half.

A spokeswoman for the Texas governor’s office told the Austin American-Statesman Cabela’s will be penalized again if it has fewer than 400 employees at the end of this year.

Tax Break History

The retailer has a history of seeking tax breaks and other subsidies wherever it opens a new store.

“We’ve never built a store anywhere without some kind of incentive,” Cabela’s spokesman Joe Arterburn told the Seattle Times in May.

David Ewald, president of Ewald Consulting in St. Paul, Minnesota, has been working with rival outdoor retailer Gander Mountain to oppose targeted tax incentives for retail operations. Gander Mountain is the nation’s third-largest outdoor retailer, behind Cabela’s and Bass Pro Shops, and does not seek such incentives.

Ewald said he is not surprised Cabela’s again missed its job-creation numbers.

“This is more evidence of how Cabela’s lofty, and usually self-reported, projections are not being met,” Ewald said.

Cabela’s did not respond to requests for comment.

Amber Gunn (agunn@effwa.org) is a policy analyst for the Evergreen Freedom Foundation’s Economic Policy Center.
The suit, which names Attorney General Jay Nixon as the defendant, was filed in Cole County. State statute and court rules require the attorney general be named as the defendant and allowed to be heard in any action where it is alleged that a statute is unconstitutional.

Specifically, the suit challenges the constitutionality of the pension-board provision, Section 321.800 of the Missouri Revised Statutes, contending, “The state is in error with the passage of Section 321.800 RSMo., which is contrary to existing law.”

“The Mehlville, Missouri Fire Protection District Board of Directors has filed a lawsuit challenging the constitutionality of legislation recently signed into law by Missouri Gov. Matt Blunt.”

Board Has ‘All Powers’
The lawsuit notes fire protection districts are created and guided by Section 321.00 of the Missouri Revised Statutes, which states, “The board, acting as a board, shall exercise all powers of the board, without delegation thereof to any other body or entity or association, and without delegation thereof to less than a quorum of the board.”

Section 321.800 of SB 406 states the pension board of trustees will “administer” a fire protection district’s pension plan.

“The term ‘administer’ is not clear within the meaning of the proposed legislation and extensively contradicts other portions of 321.00 of the Missouri Revised Statutes,” the district’s suit will contend.

Furthermore, Mehlville’s suit asserts that under state law, residents can elect a five-member board of directors for a fire protection district, “which is inconsistent with the proposed law, which will create a separate five-member board of trustees, consisting of two employee members, to administer the pension plan for every fire protection district within the state.”

Local Control Halted
Asked what prompted the board to challenge the constitutionality of the pension-board provision, Hilmer said, “This is another example of legislators trying to take away local control from residents and we want to ask the court to see if this is constitutional—to delegate authority away from elected people to non-elected employees of the districts if they can make decisions regarding a pension that the taxpayers are 100 percent funding.”

Hilmer noted, “I think this shows what an impact the reform movement has had that we started here in south county after we exposed the $750,000 retirement checks. We exposed the $430,000 disability payments to a former employee who’s working in another district that suddenly the firefighter unions across the state are afraid of their scam being up....

“So what do they do? They scurry to lawmakers in Jeff City,” Hilmer said. “This reminds south county voters of how their lawmakers voted on this. ... [They] stood for a special-interest group and against homeowners being buried by 30 percent reassessments.

“What’s next?” Hilmer asked. “When the teachers’ union decides that a 6 percent raise isn’t enough, will this group pass a law that puts unelected teachers on a board to decide salaries? And these actions prove once again that the vast majority of elected officials in south county are for higher property taxes and no amount of words, public forums, or cups of coffee will change that,” Hilmer said.

Mike Anthony (news1@callnewspapers.com) is executive editor of Call Newspapers in St. Louis, Mo. An earlier version of this article, reprinted by permission, appeared in the August 1 edition of Call Newspapers.
July 2, 2007

Dear Governor:

We write to urge you to emulate and go beyond the advances in bringing more openness to governmental expenditures put forth by several governors including Governor Mitch Daniels of Indiana.

While the undersigned do disagree on many other issues, we share the strong belief that taxpayers should be able to easily access clear and concise information on how their tax dollars are being spent by governments at all levels.

Early in 2005, Governor Daniels issued an executive order which enables Hoosiers to find on the Internet the total number of state contracts entered into each year, the total amount of dollars awarded under state contracts each year, and the number and percentage of Indiana businesses and out-of-state businesses to whom state contracts are awarded each year. In addition the entire text of most contracts covered by the executive order is available online.

At the federal level, the Federal Funding Accountability and Transparency Act will create a free, publicly searchable website for all federal contracts and grants. Signed into law by President Bush on September 26, 2006, the law states that OMB has to ensure the existence of a searchable website is available no later than January 1, 2008. This is only the first step, since the actual contract language will not be made available. Lawmakers from both sides of the aisle came together and joined forces to move in the right direction.

When he was Director of the Office of Management and Budget in the federal government, Mitch Daniels expressed his support for putting all federal contracts and grants online above a minimum amount and invited public comment. Included in his proposal were defense contracts, prudently redacted, which, of course, embrace a large area of governmental spending historically off limits to public scrutiny.

We urge you to work expeditiously to make the full text of all your written state expenditures and contracts, ranging from procurement of goods and services to grants, leaseholds and labor contracts, available to the public on the Internet in a clear and searchable format.

We encourage you to require not only state agencies to disclose their expenditures and contracts, but also to extend this requirement to all subdivisions of government, including school districts, counties, cities, special districts and public authorities.

We come from different policy and programmatic backgrounds, but here we arrive at the same conclusion: Transparency is one of the core principles of representative democracy. Another way of putting it is that “information is the currency of democracy.”

We look forward to your positive response and stand ready to assist you in this spreading movement for the public’s right to know.

Sincerely,

Grover Norquist

Ralph Nader
Farm Bill

Continued from page 1

trolled House passed a $284 billion, five-year farm bill on a largely party-line vote, 231-191. More than half the funding would go toward food stamps and other nutrition programs, with 25 percent going toward price supports for crops grown by U.S. farmers.

President George W. Bush has threatened to veto the bill, which at press time was pending in the Senate.

The last farm bill was passed in 2002 and expires September 30.

‘Benefits All Sectors’
The July House vote followed closely the mark-up by the House Agriculture Committee. That mark-up was quickly supported by the largest farm lobby in Washington, DC.

“The American Farm Bureau Federation commends the House Agriculture Committee for passing Chairman Collin Peterson’s [D-MN] farm bill proposal,” said Farm Bureau President Bob Stallman, a rice producer from Texas. “The committee bill is a balanced proposal that addresses the needs of a broader core of U.S. farmers, expanding benefits to literally all sectors of agriculture.”

Upon passage, House Speaker Nancy Pelosi (D-CA) said on the House floor the farm bill “will create a rural renaissance and jobs in small towns across America.”

Pelosi added, “To aid in this effort, the farm bill, which is also a food bill, strengthens nutrition assistance that helps low-income families. For the first time in 30 years, this bill increases the minimum food stamp benefit and indexes it to inflation, so rising food costs do not erode a family’s purchasing power.”

New $3.2 Billion Tax
To pay for the expanded food stamp program, the bill imposes a $3.2 billion tax on international companies with U.S. subsidiaries. Most Republicans opposed this provision, and Bush quickly threatened to veto the bill.

“The House bill would invite possible retaliation by trading partners, jeopardizing $78 billion in U.S. agriculture exports,” Agriculture Secretary Mike Johanns said in a speech shortly before the House vote. “This tax measure has polarized the entire debate.”

“We urge the Senate to take a different course,” Johanns told an audience at the National Press Club in Washington after the vote. “This administration doesn’t intend to pull the rug out from under farmers who depend on the world market.”

President George W. Bush has threatened to veto the $284 billion five-year farm bill that passed the U.S. House of Representatives and, at press time, was pending in the Senate.

Possible Extension
Sen. Tom Harkin (D-IA) said he plans to draft a six-year farm bill. “The Senate can do a better job,” he said shortly after the House vote.

“It’s likely Congress will temporarily extend the current farm bill,” said Mark McMinimy, an analyst with the Stanford Group in Washington, in a note to investors in late July. “A short-term continuation appears highly likely, and the possibility of a longer extension cannot be ruled out.”

While farmers maintain they need crop programs to assure the nation’s food security, many public policy groups argue such subsidies are out of date and wasteful.

Little Sense Today
“Most farm programs originated in the Great Depression of the 1930s, but they make little sense in today’s more prosperous and dynamic economy,” said Chris Edwards, director of tax policy at the Cato Institute. “Congress should end subsidies for well-off farmers, remove agricultural trade barriers to cut food costs for families, and reduce the debt load being imposed on young Americans.”

“I didn’t think we could find a farm program worse than the traditional subsidies, but now we have,” said Dennis Avery, senior fellow of the Hudson Institute and director of its Center for Global Food Issues.

“Payments are being made on the basis of what farm land was producing in 1932,” Avery said. “Net incomes of farm families are higher than those of non-farm families. It’s purely and simply an effort to buy the farm vote, and it’s being done by both parties simultaneously. Neither party dares to try cutting subsidies because the Iowa caucuses could bring retribution.”

Avery said the billions of dollars of food program spending in the farm bill “is how they get the urban votes to pass it. The new thing in this bill is we’re going to hand out the same subsidies to fruit and vegetable producers and organic farmers [that have been handed out to corn, soybean, and other producers], so everyone will have a stake in it.”

John W. Skorburg (skorburg@heartland.org) is a visiting lecturer in economics and finance at the University of Illinois at Chicago and associate editor of Budget & Tax News. He was formerly a senior economist with the American Farm Bureau.

House Leadership Breaks Rules to Pass Subsidies for Illegal Aliens in Farm Bill

The politics behind the farm bill came into full view August 2, when the electronic scoreboard in the House showed a vote of 215-213 and the word FINAL in favor of a motion to deny illegal aliens benefits in the agriculture bill.

The presiding officer, Rep. Mike McNulty (D-NY), interrupted the clerk to announce the result. Chaos ensued, and as time went on several members changed their vote and the measure lost 212-216. Infuriated Republicans stormed off the floor in protest.

The House leadership the next day announced that electronic records of the first vote had disappeared, adding fuel to the fire.

“The American people have the right to be outraged over the conduct that they saw—to use their hard-earned taxpayer money that they need for the health care of their family, that they need for the housing of their family, that instead is being given to illegal immigrants,” said Rep. Jeb Hensarling (R-TX). “And to reverse a vote on the House floor after it had been concluded is unprecedented in the entire history of America.”

JEB HENSARLING
U.S. REPRESENTATIVE
TEXAS

“[T]o reverse a vote on the House floor after it had been concluded is unprecedented in the entire history of America.”

— John W. Skorburg
Review by Benjamin Zycher

I’m an economist, and believe me, during my single days women were not impressed. Here I am 30-plus years later, and suddenly it’s the in thing: Seemingly everyone is an “economist” these days. Politicians. Pundits. Preachers. Even some actual economists are “economists.”

Now, by “economists,” I refer to the growing class of sophisticates producing semi-clever and half-baked analyses of various everyday phenomena using the tools of economic analysis—alas, poorly. In particular, a certain purveyor of theories comes immediately to mind.

The dominant theme among such writings is the ubiquitous, inescapable, depressingly constant presence of “market failure”—alleged flaws in the outcomes yielded by market forces driven by the choices made by myriad buyers and sellers every day. That theme almost always is accompanied by a prescription for government action—make that coercion—as an antidote.

“Freedomnomics is well written, rigorous, and utterly destructive of the ‘market failure’ rationale for endless expansion of government power.”

Government Failures Exposed

This must change, and now there are grounds for hope. Leading the way is John R. Lott, whose new book, Freedomnomics, is well written, rigorous, and utterly destructive of the “market failure” rationale for endless expansion of government power.

Anyone not slumbering knows Big Government is a monstrosity barely capable of delivering mail, operating schools, and guaranteeing that public facilities such as bridges will not kill. And let us not forget the utter incompetence that was the government effort—federal, state, and local—to organize timely aid for residents of New Orleans in the wake of Hurricane Katrina.

Government by its very nature has only weak incentives to pursue such activities effectively, because government policies must be driven by the politics of wealth redistribution, as resources must be acquired by taxing and distributed by spending. Those bearing the tax burden and those enjoying the largesse cannot be one and the same; what would be the point?

“The old argument that government systematically will act to correct market failures is just silly, and no one thinking seriously about economic policy believes it.”

And so the old argument that government systematically will act to correct market failures is just silly, and no one thinking seriously about economic policy believes it.

Market Solutions Explained

Freedomnomics does far more than merely illustrate the government failure that the “economists” tend to sweep under the rug. It cuts the Gordian knot of choosing between market and government failures by showing that competitive markets have powerful incentives to find solutions to the alleged failures to which the “economists” are so addicted.

A good example is the way many sellers of used autos put their business reputations on the line by inspecting and then guaranteeing the quality of used cars, a market response to the information problem faced by buyers. Another is the reputation constraint faced by real estate agents who otherwise might be more interested in a quick commission than the best price for their clients.

A third is the use of advertising revenues to pay for goods such as broadcast entertainment from which it is difficult to exclude those who do not pay. That may seem trivial now, but it was not when the market for radio broadcasts was in its infancy.

Myths Debunked

While describing these phenomena, Lott—who relies substantially upon his own careful work published in peer-reviewed journals—illustrates the surprising power of economic analysis by explaining phenomena that appear anomalous at first glance.

An example is the price difference between full- and self-serve gasoline. Why is that difference smaller for premium fuel than for regular? The answer is simple but intriguing: Autos that run on premium usually require bigger fills, so the smaller price difference per gallon covers the cost of providing full service.

In this way Lott debunks several myths that have come to enjoy the status of conventional wisdom in no small part because of the writings of the “economists” and the accompanying applause of journalists devoid of any rigorous training.

Political Change Explained

It is in the analysis of government growth and crime that Lott’s scholarly work really shines, a fact reflected in this book. Many of us for years have been befuddled at the growth of government; Lott shows that the extension of the voting franchise to women—who have stronger demands for income security provided collectively—yielded an increase in the political demand for government spending.

That is consistent with my own view that the political system offers the right to vote to new groups only when current majorities see themselves as endangered. But the new voters have to be bought off. Why else would the current majority offer to share the spoils among a larger group while at the same time finding itself with a smaller minority from which to steal?

With respect to crime, Lott debunks the poor analysis and weak statistical approach of that freaky “economist,” who has made a reputation for himself by arguing the legalization of abortion yielded fewer unwanted children but more children born out of wedlock, with the latter effect outweighing the former. As a result, he shows, the actual outcome of legalized abortion was an increase in crime.

“It is in the analysis of government growth and crime that Lott’s scholarly work really shines, a fact reflected in this book.”

Full disclosure: Lott and I overlapped in graduate school, and we have been friends for 30 years. But it simply is incontestible that this well-written book, reflecting a body of rigorous research over many years, is important and extremely useful, particularly at a time when innumerable “economists” peddle silliness that various publishers are only too happy to endorse. Now, that is a market failure.

Benjamin Zycher (benzycher@zycher economics.com) is a senior fellow at the Manhattan Institute for Policy Research.
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 fifty states. The welfare rolls in Chicago’s Cook County have been reduced an amazing 85 percent, with studies showing that most who left the rolls are working, and at pay above minimum wage.

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

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

A limited number of COMPLIMENTARY COPIES are also available to elected officials and their staff. Send your request by fax on office stationery to 312/377-5000.

HAS YOUR STATE REDUCED ITS WELFARE ROLLS BY 86%?

The Washington Post: “The Quiz has gained respect as a valid measure of a person’s political leanings.”

The Washington Post, and more than 9.4 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?

20 10 0

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

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

How do you stand on ECONOMIC issues?

20 10 0

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

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 you 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