Voters Send Strong Anti-Tax Message in November Elections

By Kristina Rasmussen

The November 6 election results show a clear tilt toward limited government, according to an analysis by the National Taxpayers Union (NTU).

Tax increases failed in all of the states where fiscal policy issues were considered, while proposals to limit taxes scored victories in places as diverse as Texas and Washington. “Whether they were asked to pay higher cigarette taxes for children’s health programs or higher sales taxes for mass transit, the resounding answer from voters this fall was ‘no,’” said Pete Sepp, NTU’s vice president for policy and communications. “Tax hikes are rarely popular at the

Some States Get Fat, Others Fleeced

By Nate Bailey

Some states feast at the expense of others when the federal government hands out money, according to the Tax Foundation’s latest annual analysis of federal taxing and spending patterns.

Using newly released Fiscal Year 2005 spending data from the Census Bureau’s annual Consolidated Federal Funds Report, the Tax Foundation compared the federal tax burden in each state with the amount of federal spending in each state. The result is a ranking of which states got the best deal in 2005 from Uncle Sam’s tax and spending policies. “All taxpayers know that the federal government uses tax and spending policies.

Washington, D.C.

Wash. Voters Want Discipline, Not Tax Increases

By Jason Mercier

Based on the results of the November election, 2007 may go down in history as a year of mini-tax revolt in Washington State. Not only were a majority of the local tax increases on the ballot rejected, voters...
**Has Your State Reduced Its Welfare Rolls by 86%?**

Available for purchase through The Heartland Institute’s online store at [www.heartland.org](http://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.

**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.

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**There’s more to directions than EAST and WEST. THERE’S MORE TO POLITICS THAN LEFT AND RIGHT.**

A compass doesn’t just point in two directions — and an accurate map of politics shouldn’t either. The fact is, millions of people say the labels left and right — or “liberal” and “conservative” — do not properly describe their politics.

No wonder. A simple line from “left” to “right” just isn’t detailed enough to include every possible twist and turn 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 an innovative “Diamond Chart” that includes conservative and liberal — and libertarian, statist, and centrist.

The World’s Smallest Political Quiz has been praised by 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?

<table>
<thead>
<tr>
<th>Statement</th>
<th>A</th>
<th>M</th>
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<tr>
<td>Government should not censor speech, press, media or Internet.</td>
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<td>Military service should be voluntary. There should be no draft.</td>
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<td>There should be no laws regarding sex between consenting adults.</td>
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<td>Repeal laws prohibiting adult possession and use of drugs.</td>
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<td>There should be no National ID card.</td>
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**PERSONAL SCORING:** take 20 for every A, 10 for every M, and 0 for every D: ________

### How do you stand on ECONOMIC issues?

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<th>Statement</th>
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<tr>
<td>End “corporate welfare.” No government handouts to business.</td>
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<td>End government barriers to international free trade.</td>
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<td>Let people control their own retirement: privatize Social Security.</td>
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<tr>
<td>Replace government welfare with private charity.</td>
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<td>Cut taxes and government spending by 50% or more.</td>
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**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](http://www.TheAdvocates.org)
Cook County Commissioners Consider New $4 Phone Tax

“[T]he average Cook County consumer has five phone lines. That would add up to $20 a month—or $240 a year—in extra taxes.”

By Steve Stanek

Cook County, Illinois households and businesses could be slapped with a $4 tax on all wireline and wireless phone lines, but local telephone service providers, consumer advocates, and a local utilities watchdog group are slamming back.

The Cook County Board of Commissioners floated the phone tax idea in mid-October and immediately faced a backlash from the Illinois Chamber of Commerce, the area’s Citizens Utility Board (CUB), Chicago’s Ministerial Alliance Against the Digital Divide, and telephone provider AT&T, marking a rare occasion where representatives of consumer, business, and industry interests found common ground.

Cook County includes Chicago and its inner ring of suburbs including Evanston, Wilmette, and Oak Park.

Counting conventional landline phones, cell phones, faxes, and Internet connections, both AT&T and CUB separately estimate the average Cook County consumer has five phone lines. That would add up to $20 a month—or $240 a year—in extra taxes.

The proposal also calls for indexing the tax to inflation, so the tax burden would grow. Over five years, the tax may cost average households as much as $1,240, according to NoPhoneTax.org, which cites more than 80 groups opposed to the tax.

‘Horribly Regressive’

“This is a horribly regressive tax that dents the pocketbook of every household in the county and hits low-income households the worst,” said Steven Titch, telecom policy analyst for the Reason Foundation and managing editor of IT&T News at The Heartland Institute.

“Cook County, Illinois households and businesses could be slapped with a $4 tax on all wireline and wireless phone lines, but local telephone service providers, consumer advocates, and a local utilities watchdog group are slamming back.”

“I can’t remember when CUB and the phone company were ever on the same side of an issue,” Titch said. “This in itself should send a clear message to the county commissioners about the unpopularity of this egregious proposal. The proposed tax is anti-consumer, anti-business, anti-job, and anti-poor.”

Doug Kolata, executive director of CUB, did not respond to phone calls by press time, but a statement by CUB opposing the tax said it would negate the savings from a series of low-cost calling plans CUB negotiated last year to help seniors, low-income consumers, and others afford basic telephone service.

The new tax comes just as broadband service is beginning to make gains among minorities. In 2005 only 14 percent of African-Americans had a high-speed Internet connection, according to the Pew Internet and American Life Project. By July 2007, that rate jumped to 40 percent.

Raising the taxes would make broadband less affordable and slow progress in closing the digital divide, Titch said.

Tax Burden Already High

The new Cook County tax would be heaped on top of excise taxes and surcharges the state and city already collect. In a May 2007 study of telecom tax rates in 59 U.S. cities by The Heartland Institute, Chicago ranked fifth in linealine tax rate paid by average consumers—27.78 percent—and second in wireless tax rate—18.49 percent. The proposed $4 increase would push Chicago consumers to the top of the list, with the rest of the county residents not far behind.

William Beavers, the county commissioner sponsoring the new tax, told the Chicago Tribune the county does not get any money from phone taxes the state and city assess. The $4 tax aims to reduce the county’s projected 2008 budget deficit of $307 million, he said.

Slams Business, Too

In addition to hurting poor consumers, Titch said, the tax would drive small businesses—and the jobs they create—into neighboring counties.

“Small businesses, which could easily have up to 30 total phone lines, are going to be taxed an extra $1,500 a year,” Titch said. “Neighboring DuPage and Lake Counties suddenly look that much better as places to set up shop, especially for businesses that depend on worker mobility and e-commerce—two big employment and growth drivers for the coming years. Cook County can forget about luring another high-employment service or call center to the area, and will likely lose the ones it has.”

The proposed tax may be unconstitutional. The 1970 Illinois constitution prohibits home rule bodies, including Cook County, from imposing taxes on services without approval by the General Assembly. Illinois courts in the past have cited the provision when quashing attempts by Illinois cities to impose taxes independent of the state legislature.

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

INTERNET INFO

“Taxes and Fees on Communication Services,” Heartland Policy Study No. 113: http://www.heartland.org/Article.cfm?artId=21104
With the recent rise in home values and property tax bills around the country, the property tax debate has heated up in several states. According to a 2006 Tax Foundation poll, property taxes are the form of state and local taxation most loathed by the public. Current property tax discontent is reminiscent of the late 1970s and early 1980s, when property tax caps, including California’s Proposition 13 and similar measures, were debated and passed in many states.

Three States Take Lead
Three states—Florida, Georgia, and Indiana—are leading the current push for some version of property tax reform. Some lawmakers, including Indiana Gov. Mitch Daniels (R), are offering plans that would shift revenue collection from localities to state governments, thus moving the government entity that sets tax rates (and spending) farther from the people. Daniels and his Commission on State Tax and Financing Policy are looking at both short- and long-term fixes to the state’s property tax dilemma. Their plan, released in late October, would cap the residential property tax at 1 percent of assessed value and business properties at 3 percent by 2009. The plan also adds a homestead deduction of 35 percent in 2009, shifts some school costs to the state, and replaces elected township and county assessors with an appointed assessor in each county.

Although Daniels’ plan would limit growth in local spending in accordance with a county’s average personal income over a six-year period, it would also raise the state’s sales tax from 6 to 7 percent. House Speaker Pat Bauer (D-South Bend) worries an increase in the sales tax may hurt middle-income families and the poor. He told Indianapolis News 6 TV, “The big question whenever you increase a tax like sales tax is who wins and who loses.” Nonetheless, Democrats in the state appear cautiously supportive of Daniels’ plan.

Some Want Tax Abolished
Some policy advocates are going further than Daniels, calling for outright abolition of Indiana’s property tax. Daniels has said he will not support eliminating property taxes because doing so would necessitate a large increase in income taxes. Gerald Prante, an economist at the Tax Foundation, says eliminating the property tax would endanger the state’s fiscal health. “While abolishing the property tax may sound good, if you want to reduce taxes you have to reduce spending,” Prante said. “Unless spending is cut, eliminating the property tax will merely shift the tax burden onto some other tax, which may be worse than the property tax.”

Prante added, “Furthermore, eliminating the property tax, which is relied upon by local governments, will transfer power to the state government on the issue of taxation, thereby reducing or even eliminating tax competition within the state, as well as reducing the chances that one’s voice will be effective in changing tax policy.”

Georgia May Dismantle Tax
Georgia, too, is considering legislation to dismantle the property tax system in the state. Glenn Richardson (R-Hiram), speaker of the House, has proposed the GREAT (Georgia’s Repeal of Every Ad Valorem Tax) Plan, a constitutional amendment under which property taxes would be replaced by extending the current 4 percent sales tax to services and by eliminating all sales tax exemptions.

The plan is projected to generate the same amount of revenue as the property tax, but the revenue would be remitted to the state and not directly to local governments. Richardson notes on the GREAT Plan’s Web site, “It is not our intent to cut taxes, but rather, to reform the system of taxation in Georgia.”

“With the recent rise in home values and property tax bills around the country, the property tax debate has heated up in several states.”

Because the plan is proposed as a constitutional amendment, it requires a two-thirds vote of the General Assembly and approval by the state’s voters in a ballot measure. Local officials have opposed the plan. “Decisions should be made at home, not at the Dome,” Dr. Steve Smith, Lowndes County Schools superintendent, told the Valdosta Daily Times. “The state will be the financial winner and the local government will be the loser because the power will be given to Atlanta,” he warned.

Florida Voters Have Say
In late October, Florida lawmakers passed a reform plan that will be on the January ballot for voters to approve. The measure would double the $25,000 homestead exemption to $50,000, allow more portability of tax cap savings under the Save Our Homes initiative, and impose a 10 percent cap on assessments for non-homestead property. The plan is expected to save the average homeowner about $240 a year.

A proposal that would have eliminated property tax payments for lower-income senior citizens was dropped from the final plan by the Senate. Because Florida does not have an income tax, revenue at the state level may be made up by a sales tax increase, unless there is a decrease in spending.

Florida Tax Watch, a nonpartisan research group, said the plan does not cut taxes and therefore is not “true tax reform.” In a statement on its Web site, the group notes, “Heaping savings on homesteaders may naturally disincentive them from participating to try to keep local government spending under control.”

Policy analysts largely agree that when control of taxation and spending is shifted from localities to the state, localities have less influence. To cut property taxes effectively, spending must be curbed as well, they say. Otherwise, the revenue is likely to be recouped through another form of taxation, and likely one that is not as visible to voters.

Tonya Barr (tbarr@taxfoundation.org) is manager of state relations for the Tax Foundation, a nonpartisan tax research group based in Washington, DC.

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Property Taxes Stir New Revolt in Utah

By Ronald W. Mortensen

Utah legislators are facing a serious tax revolt at a time of huge taxpayer-funded surpluses.

Before a packed hearing room during a September 19 meeting of the Joint Revenue and Taxation Interim Committee, state Sen. Curtis Bramble (R-Provo) told county assessors, “This is the strongest public sentiment that I have seen, not only in chairing the Revenue and Taxation Committee but in practice for 25 to 30 years as a CPA.”

No one expected a tax revolt. During 2007’s 45-day legislative session, lawmakers had substantially increased state spending on popular programs for the third year in a row, cut the state’s income tax, and removed a portion of 2007’s 45-day legislative session, cut the state’s state spending on popular programs for the third year in a row, cut the state’s income tax, and removed a portion of the state’s sales tax on food.

Property Taxes Soar

During the spring of 2007, however, school districts, cities, counties, and other local taxing entities throughout the state approved large property tax increases. At the same time, assessors were increasing property valuations at an unprecedented rate. The combination of exploding valuations and property tax rate increases resulted in a statewide outcry from taxpayers.

When confronted by angry taxpayers, local officials justified higher taxes by arguing they were mandated by the state legislature or were needed to obtain state matching funds.

“Utah legislators are facing a serious tax revolt at a time of huge taxpayer-funded surpluses.”

In an August 15 op-ed in the Ogden Standard Examiner, CitizensForTaxFairness.org, a grassroots citizens group, observed state legislators had taken a “Pontius Pilate” approach to taxes by encouraging local taxing authorities to raise taxes and then washing their hands of responsibility when the increases were implemented.

State Officials Blamed

Anger at state officials continued through the fall. On November 2 the Deseret Morning News quoted Taylorsville Mayor Russ Wall as saying, “I still think that we as a county, as local governments, are being used by the state legislature to raise taxes on our citizens, and that in turn want to push the button on where those funds are spent.” It wasn’t long before what had originally started out as a tax revolt against local taxing entities moved to the halls of the state legislature. Citizens are now demanding their legislators take immediate action to fix what they see as a badly flawed property tax system, and local officials are pressuring legislators to stop shifting the responsibility for tax increases to them.

Among the reform proposals citizens have recommended:

- rollback of tax increases;
- redefining how property values are determined by using acquisition value instead of market value;
- requiring voter approval of property tax increases by a double majority (voter turnout by a majority of registered voters, with a majority of those voting approving the increase);
- shifting public education, which collects more than 60 percent of property taxes, to another funding source; and
- strengthening Utah’s Truth-in-Taxation program so it more effectively controls both taxes and spending.

Legislators who just months ago were looking forward to an uneventful legislative session and favorable reelection environment are now faced with the urgent need to enact legislation that responds to their constituents’ demands and pacifies angry local elected officials.

Taxpayer Groups Arise

New taxpayer groups have sprung up around the state and have formed a coalition to develop and promote taxpayer-friendly legislation. These groups are also making contingency plans for the 2008 elections in case incumbents fail to pass meaningful legislation.

If legislators fail to address the public’s concerns by the time the 2008 legislative session ends on March 5, the taxpayer groups promise to make it a difficult election year for incumbents.

Ronald W. Mortensen (rmortens@gmail.com) is a retired Foreign Service Officer and co-founder of Citizens ForTaxFairness.org.

“During the spring of 2007, ... school districts, cities, counties, and other local taxing entities throughout the state approved large property tax increases. ... The combination of exploding valuations and property tax rate increases resulted in a statewide outcry from taxpayers.”

Not all blacks are liberals (... and that’s a good thing)

Lee H. Walker is president of The New Coalition for Economic & Social Change and a senior fellow of The Heartland Institute. He is a former member of the Illinois State Board of Higher Education, commissioner with the Midwestern (10 States) Higher Education Commission, and National President of the National Guardsmiths. He currently serves on the editorial board of the Chicago Defender. Mr. Walker was recently appointed chairman of the Illinois Advisory Committee to the U.S. Commission on Civil Rights.

The New Coalition’s mission is to cultivate effective multi-ethnic spokespersons on ideas that empower people with free enterprise and self-reliance. It helps these spokespersons gain access to forums where the major public policy issues of the day are debated.

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Indianapolis Mayor Is Ousted by Voters

Tax hikes, city crime problems lead to an upset at Nov. polls

By S.T. Karnick

In one of the biggest political upsets in the state’s history, popular two-term Indianapolis Mayor Bart Peterson (D) lost to Republican candidate Greg Ballard, a political unknown, in the November 6 mayoral election.

After garnering 62 percent of the vote in his first re-election campaign four years ago, Peterson lost 51-47 in his bid for a third term, as voters sent a powerful message about the political dangers of tax hikes.

Voters also reversed control of the City-County Council from Democrats to Republicans, giving the GOP a solid 17-12 edge.

Peterson had been widely liked until this year, when property taxes in the city rose by an average of 34 percent, hitting some homeowners with increases as high as 200-300 percent, and the Democrat-controlled county board voted to adopt a local option income tax.

Peterson tried to blame the state for the tax increases and even attempted to claim credit for the swift action of Gov. Mitch Daniels (R) in cutting property tax rates by 35 percent soon after the increases were announced. But city residents clearly held the mayor responsible as “voters’ frustration built over the summer,” as the Indianapolis Star noted in a November 7 editorial.

“...in one of the biggest political upsets in the state’s history, popular two-term Indianapolis Mayor Bart Peterson lost to Republican candidate Greg Ballard, a political unknown, in the November 7 mayoral election.”

Uphill Battle

Peterson’s first two terms coincided with continued growth in the city’s downtown area and new arena and stadium deals to keep the city’s major-league sports teams, the NFL Colts and NBA Pacers, in town. Crime, however, had risen noticeably, and residents considered the city less safe than in prior years. City services such as street and sidewalk repairs also deteriorated.

Ballard was able to obtain the Republican nomination only because no prominent member of his party wanted to run against the popular Peterson and his large campaign war chest. The state party avoided openly backing Ballard and gave him very little money.

Deborah M. Hohlt, federal representative for the State of Indiana, noted Ballard previously had “no political experience. He is a retired military officer, a Republican who ran under the party banner but who received almost no support from the party.” Republican Party operatives, believing Peterson was unbeatable, decided to let Ballard sink or swim on his own, she said.

Crime Problems

The crime problems presented a difficult issue for Peterson because of his controversial decision to consolidate the city police and county sheriff’s departments starting January 1, 2007. The move was sold to taxpayers as a boon to efficiency, but both crime and taxes went up, and voters expressed intense anger toward the mayor in comments both before and after the election.

“There is too much local government and not enough accountability,” said Hohlt. “The vote in Indiana is a great example of what happens in this situation. People have had enough. The mayor of Indianapolis was ousted after spending millions on his campaign by a guy who spent only $300,000.”

S.T. Karnick (karnick@heartland.org) is director of research for The Heartland Institute and senior editor of Budget and Tax News.

Voters

Continued from page 1

pools, but the electorate often went one step further by telling politicians to put government on a stricter tax-diet in years to come.”

“The November 6 election results show a clear tilt toward limited government, according to an analysis by the National Taxpayers Union.”

Numerous Proposals

Off-year elections tend to have fewer ballot proposals as well as fewer candidates, but NTU researchers identified 29 measures in seven states that could have an impact on taxpayers, including Louisiana’s October 20 election. With one exception (a defeated transit measure in Seattle), localities were not examined. Among the findings:

- Washingtonians opted to strengthen the state’s requirement of a two-thirds legislative “supermajority” or voter approval of higher taxes and called for the creation of a constitutional rainy day fund.

- “Tax hikes are rarely popular at the polls, but the electorate often went one step further by telling politicians to put government on a stricter tax-diet in years to come.”

Pete Sepp

VICE PRESIDENT FOR POLICY AND COMMUNICATIONS

NATIONAL TAXPAYERS UNION

- Texans approved four separate measures affecting property taxes, including a limit on homestead assessments and an exemption for vehicles used partly for business purposes.

- As is often the case, bond issues largely succeeded. Nine of 10 debt-related measures in three states passed. A stem-cell research plan in New Jersey was the lone failure.

- The high-profile loss in Utah of school vouchers, which could have generated education budget savings, stands in contrast to the loss for a measure in Washington State that would have made it easier to raise taxes for schools.

- Tobacco tax increases continue to have less appeal than pundits claim. This year’s defeat of a proposal to put a cigarette hike into the Oregon constitution marks the third instance in two years that citizens rejected higher tobacco levies. In 2006 increases failed in California and Missouri while succeeding in Arizona and South Dakota.

Greater Accountability

Government accountability issues fared well at the polls. Maine residents turned back a scheme to weaken term limits on legislators, while Texans passed a reform requiring many legislative votes to be recorded and posted on the Internet.

“Excluding bond issues, when given the chance to decide statewide fiscal measures, Americans approved tax limits or controls on government 75 percent of the time,” Sepp said. “Although the 2006 election had a much higher quantity of ballot proposals, the pro-taxpayer tilt among the results was stronger in 2007.

“Those who are focused only on 2008’s presidential and congressional races ought to keep an eye on tax and spending ballot measures next year, too,” Sepp noted.

“This year’s defeat of a proposal to put a cigarette hike into the Oregon constitution marks the third instance in two years that citizens rejected higher tobacco levies.”

Kristina Rasmussen (krasmussen@ntu.org) is director of government affairs for the National Taxpayers Union, a nonpartisan citizen group working for lower taxes and smaller government at all levels.

INTERNET INFO

1,750 Illinois State Programs, Zero Up for Consolidation

By Greg Blankenship

Much of what Illinois state government does remains a mystery to Illinois Auditor General William Holland, who on November 1 reported the state has no master list of programs. His office surveyed state agencies and found about 1,750 programs. But Holland said there are probably even more out there because some agencies did not give him a detailed list.

Holland took a closer look at 50 programs he thought could be consolidated. In almost every case, officials insisted their program was special and could not be combined with any others.

Three agencies did volunteer that maybe one of their programs could mix with a similar program offered elsewhere. But in each case, the other agency involved with the consolidation claimed it wouldn’t work.

‘Job Preservation’


The commission asked Holland to review programs because the state has no ongoing process for identifying duplication and consolidating services. The commission said tight budgets make it an important issue.

Reform Proposals

For years the Illinois Policy Institute has promoted the idea of smart spending, whereby the state takes a much more systematic approach to its budget process. Among the Institute’s proposals:

- Eliminate overlap of administration. Proposals in Illinois to consolidate the purchase of certain school supplies are a step in the right direction, but there is much more to do. The John Locke Foundation, for example, found North Carolina could save more than $60 million by doing away with duplicative programs and departments.
- Reform health care and other entitlements. Several states are experimenting with Medicaid reforms, such as turning more decision-making authority over to program beneficiaries. Doing so increases consumer satisfaction and could help reduce spending. Health savings accounts and “cash and carry” programs are examples.
- Make government workers compete for state jobs. Several years ago Indianapolis bid out more than 70 city services and saved an average of 20 percent on each. City workers, who knew the work, used their knowledge to propose cost-saving ways of doing their jobs and offered their own bids. As a result, they won about 40 percent of the contracts.
- Make greater use of incentive programs for government employees. This can include enhanced suggestion programs, merit pay, and performance-based contracts. State employees who find ways to save taxpayer dollars should receive a financial reward for their efforts. Program funding should be tied to a program’s success at meeting its intended needs. Programs that don’t measure up should be cut.
- Use Web-based technology. Doing so cuts costs by reducing the need for staff, detecting fraud, and saving money in supply management. Texas has saved more than $5 million on its procurement budget by purchasing online.
- Create a competition council. Competition councils look for ways to improve government performance. The Texas Performance Review has saved Texas more than $13 billion since its inception in 1991, according to state officials.

Greg Blankenship (greg@illinoispolicyinstitute.org) is president of the Illinois Policy Institute in Springfield, Illinois.

Illegal Smokes Burn a Hole in Georgia Budget

By Steve Stanek

The Georgia state government could be losing $20 million a year in cigarette tax revenue, according to experts who testified before a Georgia Senate committee on cigarette tax evasion.

Officials with the federal Bureau of Alcohol, Tobacco, Firearms, and Explosives, the state Department of Revenue, and other government and private organizations testified before the Senate Study Committee on Cigarette Tax Evasion on October 4.

The committee is studying how to fight cigarette tax evasion. Suggestions range from hiring more Department of Revenue investigators to buying digital tax stamp technology.

Rising Tax Burdens

Rising cigarette tax burdens and differences in burdens among states are major factors in the smuggling, experts said.

“Although Georgia’s $.37 per pack tax is among the lowest in the country, every neighboring state has an even lower tax,” said Committee Chairman Sen. David Shafer (R-Duluth) in a posting on his blog the following day. “South Carolina’s tax, at seven cents per pack, is the lowest in the nation. A tractor trailer of cigarettes bought in South Carolina is worth $60,000 more when it crosses the Georgia line.”

Greg Martin, executive director of the Southern Association of Wholesale Distributors, a trade group of cigarette wholesalers, said the distributors likewise oppose being forced to pay for such technology.

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

In Other Words

“Illinois is struggling to find ways to live within its means, and one of the obvious ways to do that is to consolidate programs. The big government model may still work for the bureaucrats, but the taxpayers deserve a more business-like approach to government.

“We need more political leaders who insist on it.”

House Editorial
Belleville News-Democrat
November 5, 2007
Fleeced
Continued from page 1

icy to redistribute income from citizens with high incomes to those who make little,” said study author Curtis Dubay, a Tax Foundation economist. “Citizens are less aware of geographically based income redistribution.”

Dubay added, “High-income states cannot hope to receive back from the federal government more than they send in federal taxes because of the progressive nature of the federal income tax. Since the tax structure is unlikely to change, and federal spending is largely on auto-pilot, donor states are almost certain to keep sending more to Washington than they get in return.”

Various Causes
Some states’ high ratios have a clear spending-related cause, the report, released in October, noted. The large number of retirees collecting Social Security in Florida increases the flow of federal funds. An even bigger difference is created by the disproportionately large federal grants funneled to Alaska and the District of Columbia.

Virginia and Maryland benefit greatly from their proximity to the nation’s capital in salaried federal employment. Alaska, Hawaii, and New Mexico also receive disproportionately large sums in this category.

During fiscal 2005, taxpayers in New Mexico benefited most from the give-and-take with Uncle Sam, receiving $2.03 in federal outlays for every $1 the state’s taxpayers sent to Washington. This first-place finish is nothing new in New Mexico, which has perched atop the list for many years. Other big winners in 2005 were Mississippi ($2.02), Alaska ($1.84), Louisiana ($1.78), and West Virginia ($1.76).

Some states feast at the expense of others when the federal government hands out money, according to the Tax Foundation’s latest annual analysis of federal taxing and spending patterns.”

New Jersey’s Biggest Loser
2005’s biggest loser was New Jersey, which received 61 cents in outlays per tax dollar. Other low-ranking states included Nevada (65 cents), Connecticut (69 cents), New Hampshire (71 cents), and Minnesota (72 cents).

The tax collection data released by the Department of the Treasury show only where the taxes are collected, not where the burden is ultimately borne. For example, alcohol and tobacco tax data show high tax collections in the states where the alcohol is distilled and the tobacco grown. And all the corporations registered in Delaware show up as paying their corporate income taxes from Delaware.

The Tax Foundation’s tax incidence model corrects these lopsided collections, apportioning them to the states where the residents actually bore the burden of the tax.

Nate Bailey (bailey@taxfoundation.org) is manager of media relations at the Tax Foundation in Washington, DC.

Dueling Tax Packages Proposed in Congress
By Steve Stanek

Two tax reform plans with sharply different views of where federal income tax policy should head have been introduced in Congress ...

Political analysts say neither plan has a chance of becoming law any time soon, but both plans, introduced in October, could spark debate about how the country should approach income taxation.

Rangel dubbed his proposal (called the Tax Reduction and Reform Act of 2007) “the mother of all tax reforms.” He proposes to pay for an $800 billion (over 10 years) repeal of the Alternative Minimum Tax by imposing a 4 percent tax surcharge on adjusted gross incomes over $200,000 for married couples. The surcharge would climb to 4.6 percent for those with income of more than $500,000.

Surcharges, Corporate Cuts
Households with income of more than $200,000 would also have to pay rates as high as 19.6 percent on capital gains and dividends, instead of the current rate of 15 percent, under Rangel’s plan. Rangel proposes cutting the corporate income tax rate to 30.5 percent from 35 percent but would eliminate some business credits and reductions.

The object, according to Rangel, is to eliminate the alternative minimum tax (AMT) with a new mix of taxes that would be “revenue-neutral” to the federal government.

Ryan, likewise proposes eliminating the AMT, but without replacing potential AMT revenue with new taxes. Rep. Jeb Hensarling (R-TX) and Rep. John Campbell (R-CA) joined Ryan in proposing the AMT fix (called the Taxpayer Choice Act). Highlights include establishing a highly simplified alternative to the current individual income tax and offering taxpayer choice.

Simplified System
Under Ryan’s proposal, taxpayers could choose either to pay their taxes under the simplified tax or to continue under the existing code. The simplified system would have two income tax rates: 10 percent on taxable income up to $100,000 for joint filers, and $50,000 for single filers; and 25 percent on taxable income above these amounts.

“The Democrats believe in doing what they call a ‘revenue-neutral’ fix to the AMT,” Ryan said. “That means staying with whatever law is on the books, which means status quo. This assumes massive tax increases will come in” as a result of Rangel’s proposed tax hikes and the expiration of tax cuts that were implemented early in the Bush administration. They are set to expire in 2010.

Ryan points out most small business owners pay taxes as individuals.

“We’d be taxing small businesses at 44.2 percent tax rates” under Rangel’s plan, Ryan said. “Rangel is cranking up taxes on the most effective job-producers in our country. He almost declares war on jobs. It’s more redistribution of income that ends up smacking the middle class.”

Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News and a research fellow at The Heartland Institute.
Researchers, Washington State Treasurer Slam Subsidies for Sports Facilities

By Amber Gunn

State and local governments are stepping up efforts to attract and retain professional sports teams, but economists and public policy experts question that spending. 

Stadium construction costs climbed nearly 60 percent in inflation-adjusted dollars between 1990 and 2004, according to “Stadiums and Subsidies: Home Run for Wealthy Team Owners, Strike-out for Taxpayers,” a study released October 30 by the nonpartisan research arm of the National Taxpayers Union. 

“Publicly funded stadiums are, at best, an inefficient investment of taxpayer dollars for the meager benefits produced and, at worst, massive payments to rich team owners and players at the expense of ordinary taxpayers,” said NTU Government Affairs Manager Andrew Moylan, who wrote the study.

$18.5 Billion Since 1990

Another recent criticism of public spending on sports stadiums comes from Harvard University professor Judith Grant Long, who estimates public funding for private sports facilities totaled about $12 billion between 1990 and 2006. When the cost is adjusted to include subsidies for land, infrastructure, capital improvements, and foregone property taxes, the true cost is actually closer to $18.5 billion, said Long in October testimony before the U.S. House of Representatives’ Domestic Policy Subcommittee.

In recent years subsidy proponents have tried to package new facilities as multi-use venues for concerts, conventions, and corporate meetings, to garner more public support. Washington state Sen. Margarita Prentice (D-Renton) used that argument in a February 2007 op-ed in the Seattle Times, claiming taxpayers would “reap the economic benefit of a nearby world-class venue” if funding were approved for a new $500 million basketball arena near Seattle for the SuperSonics, of the National Basketball Association.

Her op-ed apparently did little to sway citizens, as Seattle residents and local newspaper editorial writers overwhelmingly opposed attempts by lawmakers and local officials to provide taxpayer subsidies for a new basketball arena and NASCAR race track. Legislation for the subsidies did not advance during the 2007 legislative session.

Team Leaving Town

Area residents also sent a strong message in November 2006 when they overwhelmingly supported Initiative 91, which blocked Seattle from providing taxpayer subsidies by requiring any subsidy have a return on investment on par with a 30-year U.S. Treasury bond, which at the time was about 4.75 percent. Neither the city nor the team’s management could ensure such a return.

The opposition may stem from prior experience with taxpayer subsidies to sports facilities. Qwest Field, Safeco Field, and Key Arena, all in Washington State, have benefited from multimillion-dollar public subsidies.

Because of the opposition, in early November 2007 the SuperSonics’ owners announced they plan to move the team to Oklahoma City if they can get out of their lease of Key Arena in Seattle, which expires in 2010.

‘Skewed Benefits’

State Treasurer Mike Murphy thinks voters made the right choice in opposing subsidies for a new basketball arena for the SuperSonics.

“My objection to alleged public-private partnerships is that they are seldom a true ‘partnership,’” Murphy said. “More often than not they are skewed to the benefit of the private side and the detriment of the public. The private side earns the profit, and the public side pays the bills. Simply stated: Public debt should only be for public purposes.”

Wrong Priorities

Bob Williams, president of the Evergreen Freedom Foundation, says governments are getting priorities wrong when they subsidize private sports facilities.

“Families must set priorities and live within their means. So should government,” Williams said. “Subsidizing a private sports franchise is not a core function of government. Spending outside core functions is harmful because we must inevitably give up something vital in order to finance the nonessential service or project.”

Federal Reserve economist Adam Zaretsky agrees, noting financing sports facilities brings minimal returns to the public.

“The weight of economic evidence ... shows that taxpayers spend a lot of money and ultimately don’t get much back. And when this paltry return is compared with other potential uses of the funds, the investment, almost always, seems unwise,” Zaretsky wrote in “Should Cities Pay for Sports Facilities,” an April 2001 report for the St. Louis Federal Reserve Bank.

Amber Gunn (agunn@effwa.org) is a policy analyst at the Evergreen Freedom Foundation in Olympia, Washington.

INTERNET INFO


Why are taxes on communication services so high?

Taxes and fees imposed on cable TV and telephone subscribers are twice as high as the average sales tax on other products. Consumers pay more than $37 billion a year—$250 per household—for the “privilege” of using a telephone or watching cable TV.

A new study produced by The Heartland Institute and Beacon Hill Institute documents communication taxes and fees in 59 cities, how they vary from state to state, from one communication service to another, and depending on the technology used to deliver otherwise-similar services. A limited number of complimentary copies of the 46-page report are available to elected officials and their staff. Send your request by fax on office stationery to 312/377-5000 or call 312/377-4000.

Get your complimentary copy today!
Michigan’s High Taxes Drag Down State’s Economy

By Robert Genetski

Defenders of Michigan’s recent tax increases argued additional revenue is necessary to provide much-needed government services. (See “Michigan Legislature Approves Income Tax Hike, New Sales Tax,” Budget & Tax News, December 2007.)

This same argument was used when the state established its Single Business Tax in 1965. Two years later, the argument was used again when Michigan established the state’s income tax.

Higher Taxes, Slower Growth

Do new taxes aid the state’s economy, as proponents suggest? Looking at history, the answer is obvious.

From 1940 to the mid-1960s, Michigan’s economy consistently produced between 4.5 and 5 percent of the nation’s personal income.

Since then, Michigan’s economy has lost jobs and income relative to the rest of the nation. The state now produces about 3 percent of the nation’s personal income.

Michigan is not alone in this. A substantial body of economic research shows states that raise the tax burden on their citizens tend to lose income and jobs to states that reduce tax burdens.

Tax Cuts, Sustained Growth

Since 1965, the only period of significant tax relief for Michigan citizens occurred from 1984 to 1994. During these years the state income tax was cut from 6.35 to 4.4 percent.

As the accompanying figure shows, these are the only years since the mid-1960s in which Michigan did not experience a major decline in income relative to the rest of the country. This period is also the only time in the past 30 years the state experienced a sustained growth in new jobs.

Unfortunately, Michigan’s politicians fail to understand that raising taxes begins a vicious cycle. As individuals and businesses leave the state, the economic climate deteriorates. With the loss of business and jobs, tax receipts suffer and government services have to be curtailed. Raising taxes to make up for the shortfall accelerates the loss in jobs and income. This in turn accelerates both a loss in tax receipts and cuts in state services.

Worst Performance in Nation

Michigan is now in this vicious cycle. Over the past year U.S. personal income increased by 6.3 percent. In some states income grew faster. In others, it grew slower. Michigan has the dubious distinction of having the worst economic performance of all 50 states.

Michigan now has the slowest growth in income and the highest rate of unemployment. And this was the case before Gov. Jennifer Granholm (D) insisted on and won a major new increase in taxes, which promises only to make things worse.

While Michigan tax receipts should increase in response to the latest tax hikes, the increase will be temporary. It takes time for businesses to relocate.

As they relocate, Michigan will lose jobs and income to other states. Before long, Michigan’s politicians will again be forced to cut government services and jobs.

“From 1940 to the mid-1960s, Michigan’s economy consistently produced between 4.5 and 5 percent of the nation’s personal income. Since then, Michigan’s economy has lost jobs and income relative to the rest of the nation.”

To reverse this vicious cycle, Michigan must do what other states have done to attract jobs and businesses. Lawmakers must significantly reduce the tax burden on citizens. Doing so will help reverse the economic deterioration of the past 40 years.

Robert Genetski (rgenetski@classicalprinciples.com) is one of the nation’s leading economists and financial advisors and a Michigan resident.

In Other Words

“If any state would be willing to increase tobacco taxes to fund more government-sponsored health insurance coverage for kids, you’d think it would be the crunchy-granola state of Oregon. But last week voters there said ‘no.’ They voted by a 3-2 ratio against a big expansion of health coverage for kids in Oregon, even though the only people targeted to pay for it were smokers.

“That was a stinging slap at Democratic leaders who tried to pass a referendum after they had failed to muster the votes in the Oregon legislature for the tax increase.

“That’s the reality. Given the chance, Oregon voters said: Go slow and easy on this idea that government has all the answers on health care.”

House Editorial
Chicago Tribune
November 12, 2007

Oregon Voters Reject Proposed Cigarette Tax

Oregon voters in November strongly opposed a measure to put into the state constitution a cigarette tax to fund children’s health insurance.

Voters in 35 of Oregon’s 36 counties rejected Measure 50, a proposal that would have raised the state’s cigarette tax 84.5 cents to $2.025 a pack. The money would have been used to fund an expansion of the state’s “Healthy Kids” program, championed by Gov. Ted Kulongoski (D).

“Taxpayers are smarter than politicians would sometimes have you believe” said Grover Norquist, president of Americans for Tax Reform. “They value their constitution and understand that since nobody is going to take up smoking to keep these projects afloat, the next tax hike would only be looming in the woodwork—and they don’t like that idea.”

Supporters of putting the cigarette tax into the state constitution spent the final days of the campaign going door to door in a failed attempt to rally support. They argued the tax hike would extend health insurance to 100,000 uninsured children.

Opponents pointed out government tax and health policies are discouraging smoking, which would lead to less tobacco tax revenue over time. They also argued the constitution is no place to enact tax policy.

“Our state constitution should not be cluttered with ‘sticky notes’ like the refrigerator door,” said state Rep. Linda Flores (R-Clackamas) shortly before the election. “Taxpayers deserve better than that.”

— Steve Stanek
Analysts Warn Proposed Tax Hikes Could Hurt Maryland’s Competitiveness

By Steve Stanek

Tax hikes proposed by Maryland Gov. Martin O’Malley (D) would send tax burdens up and business competitiveness down, according to economist Curtis Dubay of the nonpartisan Tax Foundation, based in Washington, DC.

“Lost in the rush to increase taxes is the crushing impact these tax increases will have on Maryland’s competitiveness,” said Dubay. “Maryland’s increased tax burden and less-competitive business tax climate will severely lessen the state’s ability to attract new or expanding businesses and their jobs.”

O’Malley formally presented his budget proposal October 30. The proposal calls for:

- raising the sales tax to 6 percent from 5 percent;
- boosting the top income tax rate to 6.5 percent from 4.75 percent;
- doubling the cigarette tax to $2 a pack;
- hiking the state corporate income tax one percentage point to 8 percent; and
- increasing the gasoline tax 12 cents to 35.5 cents a gallon.

The additional taxes are projected to raise about $1.5 billion, and the budget would include about $500 million in savings by reducing the projected rate of spending growth to cover a 1.7 billion deficit in the $30 billion budget.

O’Malley also proposes about $350 million in new spending on higher education and transportation.

“The tax hikes proposed by Maryland Gov. Martin O’Malley would send tax burdens up and business competitiveness down . . .”

“Cost of Delay Too Great”

“We have put together a comprehensive, long-term solution to the state’s structural deficit,” said O’Malley in a statement. “Under the leadership of Senate President [Thomas V. Mike] Miller and Speaker [Michael E.] Busch, I am confident that members of the General Assembly will come together to move our state forward. The cost of delay is simply too great for us not to take action.”

Miller and Busch, both Democrats, represent Calvert and Prince Georges Counties and Anne Arundel County, respectively.

O’Malley’s budget office estimates the governor’s package would result in 83 percent of Maryland citizens paying less overall to the state.

Tax Increase, Not Cut

Budget watchdogs scoff at that claim.

“It’s amazing how the governor is selling what would be the largest tax increase in Maryland history as a tax cut,” said Christopher Summers, president of the Maryland Public Policy Institute. “He wants to raise gas taxes, sales taxes.

“One of the most dangerous things he wants to do,” Summers continued, “is take what is pretty much a flat state income tax and impose a top-tier income tax to make the rich pay their ‘fair share.’ I think he should be made to say what is fair.”

The proposed top-tier tax brackets of 6 percent and 6.5 percent would kick in at incomes of $200,000 and $500,000, respectively, for couples.

Maryland’s combined state and local tax burden is 10.8 percent of personal income, making it the 23rd heaviest burden in the country, according to Dubay. If the full O’Malley plan were implemented, according to the Tax Foundation analysis, the burden would rise to 11.5 percent, making it the 11th highest burden in the country.

From Surplus to Deficit

The Maryland Taxpayers Association notes two years ago, under Gov. Robert Ehrlich (R), Maryland had a $1 billion surplus. State spending has climbed 18 percent in the past two years.

Much of O’Malley’s plan hinges on slot machine gambling. By 2012 O’Malley envisions $700 million in annual revenue from that source to fund continued spending increases for higher education, transportation, and Medicaid.

“The problem we face is that since 2006, the state has been outsourcing general fund revenue,” said Delegate Steven Schuh (R-Anne Arundel County).

“We’re drawing down on fund balances. Based on current trends, we project a $1.7 billion shortfall in the 2009 budget. We expect revenue to be up 4.9 percent and spending to increase 8.5 percent.”

Tax Hikes ‘Unnecessary’

“These tax proposals are unnecessary,” Schuh said. “All we need to do is slow spending increases to 3.5 percent for the next two years and combine that with substantial upfront payments by slots operators. That’s the Republican alternative. It hasn’t a prayer,” he acknowledged, because of dominance of the Democratic Party, which backs the governor’s plan.

“My constituents are outraged,” Schuh said. “Email and phone traffic are running heavily against. I’ve never had so many constituent complaints.”

“One thing I find amazing is that raising these regressive taxes is going to hit O’Malley’s constituency base the hardest,” said Summers. “He’s soaking his own base. The public needs to wise up and see what this is. Maryland suffers from a spending problem. A debate on spending priorities needs to happen.”

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

Chicago Mayor Blocks New ‘Safety Assessment’ Tax Proposal

Chicago Mayor Richard M. Daley (D) has blocked a plan floated in the Chicago City Council to add an extra tax on local businesses to pay for customary fire and police protection.

Several city council members argued businesses should pay more because more than one fire truck may show up for a downtown business fire.

“Chicago Mayor Richard M. Daley has blocked a plan floated in the Chicago City Council to add an extra tax on local businesses to pay for customary fire and police protection.”

The “public safety assessment,” which Daley blocked in early November, would have been 40 cents per square foot for each commercial owner or tenant occupying more than 5,000 square feet. Aldermen estimated the assessment would have generated $15 million to $20 million a year.

Daley deemed the tax “selective, dangerous, and a disaster.”

“They’re saying anyone who lives in a high-rise should be taxed higher for fire and police. For what?” Daley told reporters.

The mayor also expressed his concern about a possible legal challenge if the proposal were passed.

— John W. Skorburg
Support for Alaska’s ‘Bridge to Nowhere’ Collapses

Alaska officials have dropped their fight to build the infamous “Bridge to Nowhere,” a proposed project that millions of Americans viewed as a symbol of political pork-barrel spending at its worst.

The late-September announcement by Gov. Sarah Palin (R) represented a big victory for advocates of fiscal responsibility in state and federal government. The project would have involved building a bridge nearly as long as San Francisco’s Golden Gate Bridge to link the city of Ketchikan and Gravina Island, home to the local airport and about 50 permanent residents. A seven-minute ferry ride now takes passengers from the island to the mainland and back.

Outrage Killed Project
“The death of the Alaska Bridge to Nowhere is a testament to the power of grassroots activism,” said Tim Phillips, president of Americans for Prosperity, one of several national organizations that helped stir opposition. “Citizens outraged against hard-earned tax dollars being wasted on questionable pet projects delivered this victory for taxpayers.”

Rep. Don Young (R-AK) and Sen. Ted Stevens (R-AK) two years ago championed a $231 million earmark for the bridge, which had a price tag of $400 million. State and local lawmakers staunchly defended the earmark in the face of withering criticism from tax watchdog groups and some U.S. lawmakers, led by Sen. Tom Coburn (R-OK).

“The Bridge to Nowhere was the poster child of Congressional excess, and hopefully its demise will be the harbinger of greater restraint and transparency in federal budgeting,” said Ryan Alexander, president of Taxpayers for Common Sense, in a statement.

— Steve Stanek

Overspending Puts New Mexico in a Commuter Rail-Induced Budget Crisis

By Paul J. Gessing

When New Mexico legislators return to Santa Fe in early 2008 they will face a transportation crisis, the possibility of tax hikes, and the suspension of certain road construction projects pending adequate funding.

Tax hikes are nothing new in the state, but the current crisis is occurring less than one year after state General Fund spending increased 11 percent.

Fiscal conservatives have warned of a coming budget crisis for some time. Since Gov. Bill Richardson (D) took over from fiscal hawk Gary Johnson (R) in 2003, just as oil and gas prices were on the rise, General Fund spending has increased $1.5 billion, or 37 percent. While cutting taxes, Richardson has used volatile oil and gas revenue to expand state government.

Because oil and gas revenues constitute a greater part of the overall budget in New Mexico than in any state but Alaska and Wyoming, conservatives believed budget problems would be postponed until oil and gas prices dropped. They were wrong.

Train Derails Budget

One big problem, according to budget watchers, is the more than $400 million the state has spent on the Rail Runner commuter train. Richardson made this 100-mile train line from Santa Fe to the southern suburbs of Albuquerque one of his top projects.

Upon signing the contract with Burlington Northern Railroad to begin the project, Richardson said, “We have made considerable progress toward turning the dream of commuter rail into reality.” He added, “Getting people out of their vehicles and onto commuter rail makes sense. It’s also about safety, and putting more money back in the pockets of our citizens.”

State Sen. Kent Cravens (R-Albuquerque), an opponent of the Rail Runner and critic of Richardson’s spending, takes an opposing view.

“The Rail Runner will prove to be the biggest budget-buster New Mexicans have ever faced, mostly done by Bill Richardson without much true representation by legislators on behalf of their constituents,” Cravens said in an interview for this article.

The cost of building the railroad and rising prices for many of the materials used in road construction have caused the state to fall $500 million short of the amount needed for previously approved highway and transportation projects.

Additional Spending Hikes

The cost of the commuter train line, the currently finished portion of which runs 50 miles from the northern suburbs to the southern suburbs of Albuquerque, will soon rise. Currently, the system costs $10 million a year to operate, with $8 million of that coming from the federal government. The latter subsidy will end in 2009.

So just as the second half of the system is built to Santa Fe, operating costs will rise to $20 million a year and the entire cost will be borne by New Mexico taxpayers.

House Minority Leader Tom Taylor (R-Farmington) wrote in the Albuquerque Journal, “We’re now stuck with a $400 million train, growing expenses piling up on other road projects around the state, and no end in sight to the expanding mess that our roads face today. I imagine we can afford to go on as we have been for a couple of years before we hit the proverbial financial wall that will affect virtually every budget in state government, including education and health care.”

Hikes in the gross receipts tax (New Mexico’s sales tax) and gas tax are already on the table in the effort to bridge the transportation budget gap.

Governor Departs

Richardson’s transportation department has clung to the Rail Runner as an integral component of the state’s transportation system. In response to critics, S.U. Mahesh, a spokesman for the department, told the Albuquerque Journal, “These individuals (Rail Runner critics) are out of touch with reality. It’s time for these legislators to move away from the horse-and-buggy mentality and embrace the ideals of moving New Mexico forward.”

“When New Mexico legislators return to Santa Fe in early 2008 they will face a transportation crisis, the possibility of tax hikes, and the suspension of certain road construction projects pending adequate funding.”

Cravens responded with harsh words of his own for Richardson.

“It’s easy to pay bills on a credit card when you’re not going to be around when the bill comes in,” Cravens said. “Lame duck Governor Bill Richardson has mortgaged the future of New Mexico and is off to satisfy some other personal whim. The idea that he is prepared to be President of the United States is laughable.”

Paul Gessing (pgessing@riograndefoundation.org) is president of the Rio Grande Foundation, a non-partisan, tax-exempt research and educational organization in New Mexico.
State Auditor Finds Better Traffic Flow Is Possible in the Puget Sound Region

By Amber Gunn

Washington Gov. Christine Gregoire (D) and the state legislature need to combat traffic congestion in the Puget Sound region, according to a new performance audit by State Auditor Brian Sonntag. Traffic delays are costing drivers significant time and money, the audit says.

“As of 2007, the phenomenon of an all-day rush hour is beginning to happen across the Puget Sound region,” wrote Sonntag in the audit, which evaluated population growth, the regional economy, freight movement, and state Department of Transportation (DOT) documents.

The congestion audit evaluated the state’s DOT investments and infrastructure policies given current and projected highway usage along several major Puget Sound highways. During morning commutes, the audit found, 42 percent of traffic flow is below 45 miles per hour. The afternoon figure is 48 percent.

Quick Improvements Possible

Overall, the audit found short-term actions by DOT, including better traffic light coordination, better operational efficiency, and increased efforts for regional transit and telecommuting, could reduce traffic delays by 15 to 20 percent. That would save the region some $300 million to $400 million in travel time and vehicle operating costs per year.

“The Washington Gov. Christine Gregoire and the state legislature need to combat traffic congestion in the Puget Sound region, according to a new performance audit by State Auditor Brian Sonntag.”

Sonntag’s cover letter accompanying the audit states, “Congestion in the Puget Sound is a solvable problem. Many of the solutions can be addressed within the next five years and within the Department’s existing revenues.”

The audit, released October 10, is very critical of the repeated failure of the legislature and executive branch to seriously address road congestion issues over a period of years.

No One in Charge

No person, group, entity, or agency has taken charge of the state’s comprehensive transportation policy, the audit found. It lists 128 government entities that play some role in governing highways along Puget Sound. The audit calls on the legislature to empower either DOT or a single regional authority to allow for a more integrated approach to congestion reduction planning.

The audit also notes the DOT and legislature have not made congestion a key priority for the region. “A clear commitment to reducing congestion—after meeting safety requirements—would likely shift investment decisions,” the report says.

Auditors said when considering new transportation spending, DOT officials should weigh the project’s ability to combat traffic congestion.

“Transportation investments—highways and transit alike—should be measured, in part, based on how many hours of delay can be reduced for each million dollars of investment,” the audit states.

Relief Not a Priority

Scott Dilley, a policy analyst for the Evergreen Freedom Foundation, says one of the main reasons traffic in the area has become worse over the past 10 years is because the legislature has not enforced the law that made congestion relief a priority for the DOT.

“In the 2007 legislative session, lawmakers just gave up and passed a new law directing DOT to focus on broad goals such as ‘maintenance,’ ‘preservation,’ and ‘environment.’ Congestion is simply not in the mix,” Dilley noted.

The audit finds managing congestion in the long term will require adding new lanes of highway and making reduction a primary goal.

“Elected officials have refused to be held accountable for their promises and keep asking for more money,” said Evergreen Freedom Foundation President Bob Williams. “Pouring more revenue into our broken transportation system is like putting gas in a leaky tank. The serious deficiencies in DOT and regional transportation planning must be addressed before state and local officials even think of raising taxes.”

Amber Gunn (agunn@efweda.org) is a policy analyst at the Evergreen Freedom Foundation in Olympia, Washington.

Washington Court Strikes Down Tax Cap OKed by Voters

By Amber Gunn

A measure to limit property tax hikes that Washington voters overwhelmingly approved in 2001 has been ruled unconstitutional by the state’s supreme court.

“A measure to limit property tax hikes that Washington voters overwhelmingly approved in 2001 has been ruled unconstitutional by the state’s supreme court.”

The court handed down the 5-4 ruling against Initiative 747 on November 8. The majority ruled the “text of the initiative misled voters about the substantive impact of the initiative on existing law.”

The four dissenting judges wrote, “There is no confusion, ambiguity, or uncertainty in this initiative. The ballot title and text clearly disclose the effect of the new legislation to reduce taxes and amend current legislation allowing higher yearly tax increases. If a voter were to simply read the text of the initiative, the voter would have understood that I-747 reduced the property tax levy limit to one percent. This is not misleading.”

Prior Legal Action

The divergent opinions were the result of confusion stemming from court action over another initiative passed one year before I-747. (See “Washington Court to Decide if State’s Voters Understood 2001 Tax-Cut Vote,” Budget & Tax News, August 2007.) That initiative—I-722—cut the cap on annual property tax increases even more, from 2 percent to 1 percent.

Eyman and other tax-cap supporters faced the dilemma of whether to draft the new initiative to amend I-722, which passed but was being challenged in court, or amend the law that existed prior to the passage of I-722. Either choice risked amending a law that was no longer valid.

Both Scenarios Covered

Eyman and his backers anticipated the problem, explaining in the voters’ pamphlet that I-722 was being challenged in court, and presenting both scenarios. If I-722 were upheld, I-747 would reduce the cap from 2 percent to 1 percent; if I-722 were struck down, I-747 would reduce the cap from 6 percent to 1 percent.

In an earlier appellate court ruling against I-747, Judge Mary Roberts found this was confusing and misleading, and on November 8 five state supreme court justices agreed.

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Louisville
Continued from page 1

advertising campaign and continual cheerleading by Mayor Jerry Abramson (D) and the editorial page of the city’s major newspaper, a plan to raise occupational taxes by $40 million annually for Louisville’s library system suffered a stunning defeat.

The library tax hike measure lost by a 2 to 1 margin.

Tax Hike Not Needed
“There were more ads for the library tax than for the governor’s campaign on this issue,” said Hal Heiner, a Republican metro councilman who offered a plan to fund the city’s $200 million Library Master Plan without raising taxes.

Approval of the ballot measure would have resulted in a 0.2 percent increase in the city’s occupational tax rate. (See “Foes Slug It Out Over Louisville Library Tax Proposal,” Budget & Tax News, November 2007.) Heiner’s alternative plan designates funding that will soon be available when old bond issues for capital projects are paid off.

Heiner argued the tax proposal ran counter to the spirit and purpose of the consolidation of the city and Jefferson County governments in 2002.

“Merger was sold on ... more efficient government,” Heiner said. “There was a contract—to improve services without increasing the tax burden.”

‘Angry’ Electorate Acts
Heiner said polling place reports he received indicated voters were “really angry” about this issue.

“They felt deceived that the campaign never mentioned a tax, never mentioned that there was any cost. They only talked about the importance of the library in very slickly prepared ads,” Heiner said. “But when the voters really understood that it was a tax and that there was a way to improve libraries without the tax, they showed their displeasure with the campaign.”

“Despite an estimated $1 million advertising campaign and cheerleading by Mayor Jerry Abramson and the editorial page of the city’s major newspaper, a plan to raise occupational taxes by $40 million annually for Louisville’s library system suffered a stunning defeat.”

That displeasure translated into 143,350, or 67 percent, voting “no” while only 33 percent supported the measure. The proposal mustered majority support in only 50 of the 500 voting precincts and three of the 26 Metro Council districts.

Pitchmen Fail
Voters refused to be persuaded by either the money of Humana founder David Jones Sr. or the star power of the pro-tax television advertising campaign, including an appearance by popular University of Louisville basketball coach Rick Pitino. They also did not bend to fear-mongering in the FAQ section about the tax on the library’s Web site titled, “What happens if we don’t create a public library district?”

The two sides on this issue could not have been more different—even in their election-day gatherings. Chris Thiene-

Alternate Library Plan Moves Forward

Despite the overwhelming defeat of a referendum to raise taxes for the Louisville, Kentucky library system, it appears the library system will expand.

“Despite the overwhelming defeat of a referendum to raise taxes for the Louisville, Kentucky library system, it appears the library system will expand.”

On November 8, two days after voters rejected the tax hike, Councilman Hal Heiner (R) introduced an alternative plan that relies on using money that will be freed up as debt on major capital projects is retired. He says his proposal accomplishes all the stated goals of the pro-tax group without raising taxes.

Along with issuing $25 million in bonds for construction and renovation during each of the next seven years, Heiner’s plan includes a $1.5 million annual increase in the library’s operating budget over the same time. Currently, the council appropriates about $16.5 million for the library’s operating costs annually. Heiner’s plan would increase council funding for the library’s operating costs to $27 million in 2014.

The Library Master Plan approved by the Metro Council two years ago calls for improving the 17-branch system, with a major share of improvement funds going toward building three new 40,000-square foot regional libraries and work on the city’s downtown 300,000-square foot facility.

— Jim Waters

Complaint Filed
A complaint filed with the Kentucky Registry of Election Finance argues thousands of yard signs claiming “A Library Champion Lives Here,” handed out by pro-tax forces to ostensibly praise children for meeting reading goals, were “barely disguised political advocacy” to promote the tax.

“Once we were able to clarify the opposition’s true position, everything just fell into place,” Morton said in explaining the victory for taxpayers. “Voters felt browbeaten by elitist groups to fund the library through this tax. It appears they would rather not have the library than vote for that.”

Jim Waters (jwaters@bipps.org) is director of policy and communications at the Bluegrass Institute for Public Policy Solutions in Bowling Green, Kentucky.
Film Documents Impact of Eminent Domain Abuse

By Steve Stanek

Phil Klein has been arrested at a public meeting, and his assistant’s car has been vandalized, but the incidents have done nothing to cool his zeal for exposing what he says are attacks on property rights by states and local governments.

He’s doing it in Begging for Billionaires, a documentary film Klein has spent eight years putting together. He expects to release the film in 2008.

The 47-year-old lifelong Missouri resident and documentary filmmaker says he decided to make the film after watching Kansas City, Missouri start the process of seizing private businesses for an economic development project. The nearly 90-minute film also documents similar moves in other communities.

Taken for Empty Arena

Much of the focus is on two small businesses in Kansas City that local officials forced out for a redevelopment project for Sprint Arena, a professional sports facility that still has no tenants. The area includes the corporate headquarters of H&R Block, a multibillion-dollar Fortune 500 company.

“Things have gotten worse, more aggressive,” Klein said of the tactics local governments are using against property owners since he started his project. “I followed two families who were trying to survive eminent domain. Both of them lost.

“The city used Nazi-like tactics,” Klein continued. “They put a fence around their property, turned off the electricity, blocked off the street, went onto property with police officers. Pure intimidation.”

Klein notes both families eventually had to relocate their businesses—American Formalwear and Just Right Printing and Stamp Company—to less-desirable locations and have been struggling as a result. Many customers assumed the companies had gone out of business.

Launched Before Kelo

The film project was underway before the U.S. Supreme Court’s 2005 ruling in the Kelo case. The court ruled in favor of New London, Connecticut’s decision to use eminent domain to destroy a residential neighborhood for “economic development.” The court ruled cities may use eminent domain to take private property and turn it over to other private parties who promise to use the land in ways that boost tax revenues.

“Cities would rather have big car dealers and big-box stores than little mom and pop stores,” Klein said. “They’re bringing back land baronism. When I started doing this, I was shocked, going to these hearings and seeing how people were treated. A TIF [tax increment finance] commission was terrible. People were told to sit down and shut up.

“The news media have articles on this stuff here and there, but they don’t really show the effects. If you don’t see the emotional and psychological impact on these people, you can’t really understand what’s happening,” Klein said. “That’s what I try to do; show the impact. Maybe if enough people get mad, we’ll make some changes. If we don’t have property rights, what good are other rights?”

Arrested During Filming

While filming public meetings where eminent domain was under discussion, Klein was once placed under arrest. After leaving another meeting, he and an assistant discovered the assistant’s car, which they had used to get to the meeting, had been damaged by vandals.

Begging for Billionaires is edited by award-winning producer and editor Daniel Polsfuss, whose past documentary projects include The Barbed Wire Club, about a group of men imprisoned in Japanese POW camps; Gen-X, which investigates Gen-x-ers’ outlook on media advertising; and Imagination Reality, a profile of Chinese Tai Chi Master T.T. Liang.

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

Continued from page 1

The overwhelming rejection left supporters of the tax puzzled. The Seattle Times quoted House Transportation Chairwoman Judy Clibborn (D-Mercer Island) as saying, “We’ll have to look when we get to the end. Is it the money or the program list? I have no good feeling for why people are saying no.”

**Congestion Not Reduced**

Voters may have rejected the measure because it would have failed to reduce traffic congestion despite billions of dollars in tax increases.

“Prop. 1 failed because it did not provide the one solution people want most—traffic relief,” said Michael Ennis, director of the Transportation Center for the Washington Policy Center. “Voters could either spend $47 billion and double congestion, or save $47 billion and still double congestion. If the failure of Prop. 1 tells us anything, it’s that any future proposal must show a stronger link in its ability to reduce traffic.”

**Photo Finish on Supermajority Rule**

A measure to gut the state’s constitutional requirement that tax increases for school levies receive 60 percent approval was too close to call at press time, though it had edged ahead by a few thousand votes.

HJR 4204 initially appeared to have been rejected by 51 percent of voters, but late ballot counts indicate the measure could be headed to a recount, possibly delaying the outcome for weeks.

For years educators pressured legislators to pass a constitutional amendment to allow school levies to pass with a simple majority vote. Lawmakers put the measure before voters this year.

Not only would HJR 4204 eliminate the 60 percent approval requirement for school levies, but it also would jettison the requirement that there be at least 40 percent of the turnout from the previous general election for school levy increases to be valid.

**Rainy Day Fund Wins**

The most popular statewide ballot measure was a constitutional amendment (SJ 8206) creating a mandatory and restricted budget savings account. SJR 8206 was adopted with 68 percent of the vote.

“I’m very pleased the voters of Washington have said yes to creating a Rainy Day Fund with the constitutional protection needed to fulfill its purpose,” said state Sen. Joseph Zarelli (R-Ridgefield) in a statement. Zarelli has championed the idea for years.

“If you look at how state overspending—up 33 percent in just the past four years—has put government on the road to a deficit, how our state economy is cooling, and how soaring property taxes are cutting into household incomes all around Washington, it’s not a surprise that people like the idea of putting money aside while we can,” Zarelli’s statement added.

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**Clean Sweep’ for Taxpayers**

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MICHAEL ENNIS (above)

DIRECTOR, TRANSPORTATION CENTER
WASHINGTON POLICY CENTER

Although opponents claimed adoption of I-960 would shut down state government, 52 percent of voters supported the measure.

“Voters spoke for responsible government by soundly approving Initiative 960,” Senate Minority Leader Mike Hewitt (R-Walla Walla) told The Olympian newspaper.

“Over the years, the legislature has eroded Initiative 601 to the point where it can raise taxes without having any real restraints in place. Now that hurdle will be much higher, as it should be.”

Not willing to concede defeat, opponents threatened court action. Christian Sinderman, spokesperson for the No on I-960 campaign, said a constitutional challenge is likely.

**‘Clean Sweep’ for Taxpayers**

Taxpayer advocates were encouraged by the election.

“This election appears to be a clean sweep for fiscal discipline and protecting the taxpayers. Hopefully our elected officials are paying attention and will respect the will of the people.”

DANN MEAD-SMITH

PRESIDENT

WASHINGTON POLICY CENTER

**Transparency Prevails**

Washington voters also supported a measure to make it more difficult for lawmakers to circumvent the state tax and spending limit, I-601, passed by voters in 1993.

I-960, advertised as the “Taxpayer Protection Act,” reaffirmed an oft-ignored law requiring a two-thirds vote of the legislature to raise taxes. The measure also requires the legislature to approve all state fee increases and notify the public via email any time a tax or fee increase is proposed. It also mandates that if the legislature raises taxes without first referring them for voter approval, the voters will have the opportunity to participate in a non-binding advisory vote on the increase.

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Jason Mercier (jmercier@washingtonpolicy.org) is director of the Center for Government Reform at the Washington Policy Center in Seattle, Washington.
The New Religious Left

By Ryan Bedford

Nearly two decades after the birth of the Religious Right, a new movement of religious activists is on the rise. This time, though, they lean left.

In “The Religious Left, Reborn,” the Manhattan Institute’s Steven Malanga explores the origins and battlefronts of the rising force.

“Working mostly at the state and local level, and often in lockstep with unions, the ministers, priests, rabbis, and laity of this new Religious Left have lent their moral authority to a variety of left-wing causes,” Malanga writes. Targeted causes include “living” wages, union organization drives, opposing free trade, and blocking the expansion of non-unionized businesses such as Wal-Mart.

Today’s Religious Left “owes much to the tireless efforts of savvy labor bosses, especially AFL-CIO president John Sweeney,” Malanga writes. When Sweeney took over the AFL-CIO in 1996, a primary goal was to re-harness religion to the union bandwagon.

To that end, the AFL-CIO has formed a number of programs, including the “Labor in the Pulpits” program, to “preach the virtues of organized labor and tout its political agenda”; the “Seminary Summer” program to place seminarians on summer break with union locals where they engage in union field work; and the “New Sanctuary” program that uses churches to give illegal aliens sanctuary from deportation.

“Nearly two decades after the birth of the Religious Right, a new movement of religious activists is on the rise. This time, though, they lean left.”

Reliable Ally

The Religious Left has successfully emulated many of the tactics the Religious Right made successful, while suppressing opposition, even religion itself, with virulent and polarizing rhetoric.

“Indeed, the movement’s effectiveness has made it one of organized labor’s most reliable allies,” writes Malanga.

Critics abound, though. Father Robert Sirico of the Acton Institute wrote that if seminarians and congregational leaders “don’t have an economic background, it’s easy for them to fall into the fallacy of the Left that our economy is a zero-sum game that demands conflict between business owners and workers.”

Gary Palmer, president of the Alabama Policy Institute, says leftist clerics can best relieve poverty by emphasizing strong family units and personal responsibility. A kind of “Christian socialism” is not the solution, he says.


Realistic Look at Unions’ Troubles

Labor unions paradoxically appear to be growing weaker yet more powerful at the same time.

Most of the Democratic presidential candidates jumped to obey in 2007 when Service Employees International Union officials said candidates could not gain the SEIU’s endorsement unless they offered a universal health care plan and spent a day in a worker’s shoes.

Yet union officials must face the reality of the labor movement’s 50-year decline in membership. Kim Moody’s eccentric but thoughtful new book, US Labor in Trouble and Transition, does just that. Moody analyzes the market economy in which today’s unions operate and pins the decline on union officials’ collaboration with corporate capitalism, up to and including modeling unions after a corporatist structure.

Moody relives recent mergers and splits between major unions, such as the split between the AFL-CIO and Change to Win. Moody also notes the weakening clout of workers as evidenced recently by UAW’s one-day strike against General Motors and a strike Southern California garbage workers cut short because the company began advertising for permanent replacement workers.

Moody’s suggested solution is not new: Return to local union control and relive the 1960s civil rights movement for the benefit of migrant workers. The new influx of workers, he hopes, will re-energize the movement and take it back to its glory days.


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

New York’s “Taylor Law” Feeds Union Power, Raises Taxes

“Over the past 40 years, the number of state and local government jobs has grown at more than twice the rate of private-sector employment in New York, and the average pay of state and local government workers is higher than that of private-sector workers in most regions of New York,” states the Empire Center in a new report, “Taylor Made: The Cost and Consequences of New York’s Public-Sector Labor Laws.”

New York’s Taylor Law was enacted in 1967 to end a decade of strained and broken relations between municipal employees and employers that culminated in a major strike by city transit workers. It implemented ground rules for union organizing of public employees and negotiations with public employers. It also included a framework for resolving disputes.

The resulting peace, however, came at a price. Union rolls grew exponentially, driven by—and feeding—politically powerful union bosses who manipulated the system to their advantage.

The Empire Center study discusses the origins of the Taylor Law, how it has evolved over the past 40 years, and how policy reforms could better address today’s laws and economy. The center’s recommendations include:

- requiring that binding arbitration take into account the ability of a community to pay for a contract;
- striking the Triborough Amendment, which allows the raises granted in a previous contract to continue in the absence of a new contract; and
- reversing Public Employment Relations Board (PERB) rulings that restrict contracting out and other cost-saving practices.

— Ryan Bedford

INTERNET INFO


Empire Center Policy Forum Focuses on Taylor Law (summarry with audio and video files), Empire Center: http://www.empirecenter.org/Events/Index.cfm?EventID=15

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Gasoline Tax Hikes, Misappropriation Trouble Voters

By Jonathan Williams

Gasoline taxes are often mentioned as the best form of taxation from an economic perspective because they provide road funding simply by charging road users when they fill up their vehicles’ fuel tanks.

Gasoline taxes are often mentioned as the best form of taxation from an economic perspective because they provide road funding simply by charging road users when they fill up their vehicles’ fuel tanks. This “user tax” adheres to what economists refer to as the benefit principle of taxation. Simply stated, the benefit principle says consumers of government services should be taxed in proportion to the benefit they obtain from them. Early gasoline taxes in the states were explicitly created to charge road users for the privilege of using roads. However, from the very inception of gasoline taxation, public officials have faced temptation to divert revenue to projects only tangentially related to transportation ... and often motivated purely by politics.

Pandering Trumps Principles

In all too many instances, benefit-principle taxation has taken a backseat to political pandering.

For instance, current federal highway legislation authorized more than 6,000 earmarks from the highway trust fund. Some of these went to legitimate transportation programs, but others were for items such as the infamous “bridge to nowhere” in Alaska.

Today gasoline tax revenue is spent on everything from public education and museums to graffiti removal and parking garages. The federal government taxes each gallon of gas 18.4 cents. Diesel fuel is taxed at 24.4 cents a gallon. These rates have been in effect since 1997.

In addition, states and various municipal governments levy gas taxes of their own. As a result, the combined burden of local, state, and federal gas taxes costs American drivers 46.9 cents per gallon on average. The average American now pays $269 annually in gasoline and diesel taxes.

Support for Tax Falling

Today’s gasoline taxes are not nearly as popular as the early gasoline taxes in the states. A recent Tax Foundation/Harris Interactive poll found respondents consider gasoline taxes to be the least fair of all state and local taxes. Only 5 percent of respondents believed state-level gasoline taxes were “very fair.”

At the federal level, only the estate tax was seen as less fair than the federal gasoline tax.

The revenue derived from federal gasoline taxes is distributed into three accounts. One—the Leaking Underground Storage Tank Fund for clean-up at gas station sites—gets a sliver of revenue, one-tenth of a cent for each gallon of gasoline or diesel sold.

All other federal gas taxes flow into the Federal Highway Trust Fund, which divides the revenue into two accounts. The highway account receives 15.44 cents for each gallon of gasoline and 21.44 cents for each gallon of diesel. The mass transit account receives 2.86 cents for each gallon of gasoline or diesel sold.

States Pile On

Every state levies a statewide excise tax on gasoline. In addition, seven states apply their general sales taxes to gasoline purchases, and some states levy taxes based on the per-gallon gross production of petroleum products. Some states levy environmental fees and other taxes on gasoline purchases. These state taxes on gasoline can significantly add to the tax burden on motorists.

Motorists in California pay the highest combined gasoline tax, at 62.8 cents per gallon, while Alaskans pay the least—26.4 cents per gallon.

On average, the combined state tax rate on diesel fuel is six cents per gallon greater than on gasoline. The national average tax on diesel fuel is 52.9 cents per gallon. Hawaii has the highest combined diesel taxes in the nation at 69.5 cents per gallon, while Alaska taxes it at the national low of 32.4 cents per gallon.

“Today gasoline tax revenue is spent on everything from public education and museums to graffiti removal and parking garages.”

Funds Misused

The annual per-capita burden of state and federal gasoline and diesel taxes ranges from $166 in Alaska to $366 in Connecticut. While federal gasoline and diesel tax rates have remained unchanged since 1997, 14 states have enacted gasoline tax rate hikes since then, and seven others automatically increase the tax by indexing it for inflation.

In light of the I-35 bridge collapse in Minnesota in August 2007, lawmakers would be wise to carefully scrutinize the practice of using gasoline tax dollars for anything other than legitimate road construction or repair.

The reputation of gasoline taxes serving as user fees has been tarnished by the mismanagement of transportation funds throughout the United States.

Jonathan Williams ([jwilliams@alec.org]) is director of the tax and fiscal policy task force at the American Legislative Exchange Council. This article is based on a study he prepared while an economist at the Tax Foundation.
By Steve Stanek

E.S. “Steve” Savas chuckles when asked what he thinks about being named, with two other professors, the first “Presidential Professor” in the history of Baruch College in New York City.

“Here I am, preaching privatization in a public university. There is some academic freedom in some places, Savas said. “I guess it shows conservatives can be honored even in the People’s Republic of New York.”

Savas is a Heartland Institute policy advisor, professor of public affairs, and renowned expert on privatization, a word he says he dislikes. The Presidential Professorships were bestowed in 2007 for the first time by Baruch College President Kathleen Waldron. The other two professors receiving the honor were Linda Allen, professor of finance, and Carol Berkin, professor of history.

The college created the professorships to honor faculty members who demonstrate outstanding teaching skills and whose research or creative work has received national and international recognition. Their professional contributions also must have added “distinction and luster” to the college, according to Waldron. In addition to prestige, the professorships give recipients research support.

Idea Snowballs

Savas has been receiving national and international recognition since the 1960s, when he served as assistant deputy city administrator under Mayor John Lindsay in New York City. A blizzard in 1969 paralyzed the city, and Lindsay asked Savas to find out why.

“I learned that during this snow emergency, department of sanitation workers were plowing streets only half of the time,” Savas says. “The rest of their time was spent on breaks. I wondered, ‘Gee, if they’re working only 50 percent of the time in an emergency, what are they like during the rest of the time they’re on garbage collection?’”

He learned they probably worked even less.

“Private guys were charging $17 a ton [to haul waste]. City guys were costing us $47 a ton,” Savas said.

Savas suggested hiring private contractors through competitive bidding in a couple of collection districts, leaving city sanitation workers to continue collecting garbage in other districts. The city could then compare who was doing a better and more cost-effective job.

Unions on Attack

“The unions hated me,” Savas said. “They put up wanted posters in the sanitation garages with my picture on them. A professor of public administration sent a letter to Mayor Lindsay blasting me. Lindsay dropped the idea, to keep the unions happy.”

Savas stuck with the idea, though, launching his own studies of public service labor costs. He began writing about the topic, demonstrating that private companies could often provide municipal services and do so at higher quality and lower costs.

In 1982, after having published several studies on garbage collection, he came out with his first book, Privatizing the Public Sector: How to Shrink Government.

“This book, because of its title, attracted a lot of enmity from the usual suspects on the Left,” Savas said. “Critics were government unions and people so addicted to the notion of large government they believe it makes us all one big happy family.”

He followed that with Privatization: The Key to Better Government (Chatham House, 1987), still considered one of the most influential books on the topic.

Catches Reagan’s Attention

Those books and previous articles by Savas attracted many supporters, among them President Ronald Reagan. Savas served as Reagan’s assistant secretary for policy development and research in the U.S. Department of Housing and Urban Development from 1981 to 1983.

Another supporter, who has since become a nationally known expert in the outsourcing of government services, credits Savas with sparking his interest: Robert Poole, founder of the Reason Foundation.

“I encountered his writings in the early to mid-1970s, I think in Harper’s magazine, or maybe Forbes, calling for competition in municipal government,” Poole said. “I was intrigued by that idea.”

Poole pursued his own research and in 1980 published Cutting Back City Hall, the first book-length treatment of the subject. Before long Poole and Savas started meeting each other at conferences and got to know each other.

“We get along very well,” Poole said. “We decided we were fellow warriors in the same battle and have stayed in touch ever since. He’s genial, has a great smile, and is well traveled. He’s been all over the world and has a cosmopolitan nature.”

Works Around the World

Savas has consulted in 54 countries, including recently in China, where his books have been translated from English and where government leaders have been encouraging public officials to read them.


Savas also has been instrumental in spreading private transportation services across Ukraine in the former Soviet Union. He worked with locals to create a private bus service in Odessa in the early 1990s and continued consulting there. Within three years, more than 80 Ukrainian cities were being served by more than 30 private bus companies.

Monopolies on the Run

Though he is widely acknowledged as the father of privatization, Savas dislikes the word. He prefers the term “outsourcing,” because there have been instances in which government workers have been able to win bids when going up against private firms for certain work.

The idea, Savas says, is to break government’s monopoly hold by injecting competition into what government does.

“In the U.S., and this applies to outsourcing, we go to great lengths to protect against [private-sector] monopolies,” Savas said. “But what do we do to protect against public monopolies? The non-thinking approach has been if it’s a public activity, it’s being carried out in the public interest. That’s nonsense. People in public monopolies behave like people in private monopolies. They become fat, dumb, and happy.

“Outsourcing is a way to protect people from monopolies,” Savas continued. “Through outsourcing of services we can have or can create a competitive market to provide better services at lower costs.”

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