Chicago Region Sales Taxes Surge By Nearly $1 Billion

By Steve Stanek

Sales taxes in the Chicago area could climb $1 billion this year, making Chicago the most expensive city in the United States in which to shop and dine.

The tax hikes have been imposed by the Regional Transportation Authority (RTA), which includes Cook County and five suburban counties, and by the Cook County Board. They come on top of other major tax hikes, including a record $86 million property tax hike and 40 percent real estate transfer tax hike in Chicago, and the imposition of the nation’s first tax on bottled water, also in Chicago.

“The government unions are controlling the whole process. Hire more people, increase pensions, raise salaries. That’s all they want, and they get it,” said Jerry Roper, president of the Chicagoland Chamber of Commerce.

“It’s death by a thousand taxes,” Roper said. “The question is where is the tipping point? When do major corporations view this as a disincentive?”

Wisc. County Saves Money with HSAs

By Frank Lasee

Manitowoc County Executive Bob Ziegelbauer has discovered how market forces can help lower the county’s health care costs by increasing smart shopping with Health Savings Accounts (HSAs).

“I was elected county executive two years ago,” said Ziegelbauer, who is also a Wisconsin state representative (D-Manitowoc). “The first month we looked at costs. One thing that jumped out was that health insurance costs were doubling every five to six years.

“Either taxes would need to go up dramatically on a regular basis or we’d have to shed employees,” Ziegelbauer said. “Our costs were approaching $20,000 a year for a family plan. There are local
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Property tax goes beyond taxing the advantages of the property’s location and punishes the property owner for what he has done for himself. As a result, home owners and productive property owners are overtaxed and negligent speculation becomes profitable.

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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.
Minn. Veto Override Means Higher Taxes

By Mark Giga

The first veto override of Minnesota Gov. Tim Pawlenty’s (R) administration will create one of the largest tax increases in the state’s 150-year history.

A $6.6 billion transportation bill had, for some legislators, been 20 years in the making. But passage wasn’t assured until February 25 when six House Republicans voted with 85 Democrats for the first override of a Pawlenty veto.

Bond Proposal Rejected

In opposing the Democratic-Farmer-Labor (DFL, Minnesota’s Democrat party) proposal, the Republican House minority offered up a $7.6 billion transportation spending package utilizing general obligation (GO) bonds, a funding source that has historically not been used for road construction in the state. The minority plan was to use GO bonds—essentially the state’s credit card—to fund new road and bridge construction and would have reprioritized spending away from transit projects.

That plan, advocated by the Minnesota Free Market Institute in a policy paper titled “The Case for Using GO Bonds for State Highway Projects,” was repeatedly defeated in the current legislative session in a series of procedural moves by DFL-affiliated legislators on the House floor.

“What a lot of people are starting to realize is that the sales tax increase that was being promoted as a panacea to traffic congestion has already been earmarked for new transit spending, with nothing left over for roads.”

PHIL KRINKIE

TAXPAYERS LEAGUE OF MINNESOTA

A day after the veto override, Pawlenty made clear what he thought of the legislature’s actions in a blog posting: “Yesterday the DFL caucus took a bucket of tax increases and dumped it on the heads of hardworking Minnesotans.”

Car Costs: $500 More

The bill will add more than $500 a year to the cost of owning a car for the average Minnesota family, according to an analysis by the House GOP staff. That would result from an 8½ cents gas tax increase, a ¼ cent sales tax increase for the seven-county Minneapolis metropolitan area, tax increases on the purchase of new cars, and elimination of the cap on license tab renewals (vehicle registrations).

While the metro county sales tax increases won’t kick in until July, the first installment of the statewide gas tax increase—two cents—started on April 1.

To administer the ¼ cent sales tax increase in the metro area, a new joint powers board—made up of the counties that authorized the sales tax increase—will allocate nearly $100 million in new tax revenue for new transit projects. The new money won’t be used to pay the operating losses on the existing transit system or for maintenance or new buses.

According to some taxpayer advocates, the new taxes and spending will do little to ease road congestion in the state. Phil Krinkie, president of the Taxpayers League of Minnesota and a leading opponent of the legislation, decried what he calls a legislative sleight of hand.

Spending Boost

“What a lot of people are starting to realize is that the sales tax increase that was being promoted as a panacea to traffic congestion has already been earmarked for new transit spending, with nothing left over for roads.”

TIM PAWLENTY (above)

GOVERNOR - MINNESOTA

Yesterday the DFL caucus took a bucket of tax increases and dumped it on the heads of hardworking Minnesotans ...”

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Chicago

Continued from page 1

Border Businesses Worry
Smaller businesses that often operate on thin profit margins and tight cash flow already view the tax rates as a disincentive, said Mindy Phillips, director of the Palatine Area Chamber of Commerce. Palatine is a village of about 68,000 persons in northwest suburban Cook County, near the Lake County line.

“We definitely have been hearing concern over how strong business will be as these taxes come into effect,” Phillips said. “We have a lot of the same retailers here as on Rand Road [a few minutes away] in Lake County. Especially for bigger-ticket items, people might decide it’s worth that short drive to save on sales tax.”

Phillips added, “From an economic development standpoint, there is definitely concern about building on the Lake or DuPage [County] side of the line instead of the Cook County side.”

Consumers Double-Whammed
The RTA sales tax hike took effect April 1 and applies to general merchandise, qualifying food, drugs, and medical appliances, and items that must be titled or registered in Illinois.

In Cook County, the RTA sales tax rate on general merchandise increased from 0.75 percent to 1 percent. In neighboring DuPage, Kane, Lake, McHenry, and Will Counties, the RTA sales tax rate has tripled from 0.25 percent to 0.75 percent.

0.75 percent. Officials estimate the RTA sales tax increase, to fund the Chicago Transit Authority, Metra commuter rail system, and Pace suburban bus service, will cost consumers $530 million a year.

On July 1 the Cook County sales tax jumps from 0.75 percent to 1.75 percent. County officials estimate the tax increase will cost consumers another $426 million a year.

Combining all the sales taxes (RTA, Cook County, state, and city) will give Chicago a general sales tax rate of 10.25 percent on July 1, highest in the nation. For downtown Chicago restaurateurs subject to the Metropolitan Pier and Exposition Authority sales tax, the total sales tax effective on July 1 will be 11.50 percent.

Lawmakers, Commissioners Fight
The RTA and Cook County sales tax hikes might come after bitter political battles. The RTA tax increase ended almost eight months of special sessions in the General Assembly to address transit funding in the Chicago region.

Gov. Rod Blagojevich (D) so angered lawmakers that in April the House, which is dominated by fellow Democrats, overwhelmingly approved a measure to allow citizens to amend the state constitution to allow the recall of the governor and other elected officials.

Lawmakers were angered by antics that included the governor calling sessions he did not attend and spending thousands of dollars on shuttle flights between his home in Chicago and the state capital, where he refuses to live.

In one notorious instance the governor left lawmakers hanging to attend a Chicago Blackhawks hockey game.

In Cook County, Board President Todd Stroger originally proposed more than tripling the county sales tax from 0.75 percent to 2.75 percent. He also proposed raising other taxes, including on gasoline and parking.

Half the board rebelled, and as a government shutdown loomed at the end of February, the 17-member board voted 9-8 to raise the sales tax to 1.75 percent, but not before shouting matches between tax-hike supporters and opponents.

“We will lose convention and tourism business,” said County Commissioner Mike Quigley, who opposed the tax hike. “The economy is slowing and raising taxes is exactly the opposite of what government should be doing. We should be priming the pump for the economy to move forward.”

Quigley said the tax-hike supporters “assume voters will have amnesia and forget about it and will reelect them in 2010. If they’re right, well, as Thomas Jefferson said, people get the government they deserve.

“Until our local government starts to restructure, it’s going to be stuck in structural deficits,” Quigley noted. “We need a plan to move forward so tax hikes aren’t necessary.

Supporters of the tax hike—Stroger and Commissioners John Daley and Larry Suffredin—did not return calls seeking their comments for this story.

Tax Hike Far Exceeds Deficit
Stroger said the tax hike is needed to cover a budget deficit of $234 million. Yet Stroger’s own estimates show the county bringing in nearly double the amount needed to cover the deficit, and Stroger’s budget calls for hiring 1,100 new workers.

The budget also does nothing to address illegal patronage hiring allegations leveled in March by a federal court monitor. And it does nothing to address an expert panel’s allegations of poor management and wasteful operations at the Cook County hospitals and juvenile detention center, said Lawrence Msall, president of the Chicago-based Civic Federation, a government watchdog organization.

“Gov. Rod Blagojevich so angered lawmakers that in April the House, which is dominated by fellow Democrats, overwhelmingly approved a measure to allow citizens to amend the state constitution to allow the recall of the governor and other elected officials.”

An outside panel of 15 persons from medical, civic, and labor organizations would be created to oversee the hospital system through 2010, but Stroger would get to name nine of the members with County Board approval, keeping the county government in control.

“The Cook County tax hike was unnecessary and unjustified,” Msall said. “Instead of government efficiencies, they chose to raise the sales tax to the highest level in the United States. Equally frightening is that the current administration does not think their sales tax increase will be enough. They’re already hinting at more taxes.”

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

In Other Words

“This act of grand theft hurts more than 5 million county citizens and many of their employers. It sticks Chicago with the highest big-city sales tax in the U.S., 10.25 percent. Retailers in many suburbs will be at a 2-percentage-point disadvantage to competitors in towns just across a county line. Merchants in those towns already are responding with beckoning signs: ‘No Cook County Taxes.’

“We hope someday to estimate the dollar damage these nine board members have inflicted on Cook County businesses in sales lost to other jurisdictions and the Internet.

“All because the nine were busy protecting the interests of public employee unions that dole out huge campaign contributions.”

House Editorial
Chicago Tribune
March 23, 2008
Wisc. Voters Weaken ‘Frankenstein’ Veto
But Governor Retains Rewrite Power

By Steve Stanek and Maureen Martin
Wisconsin voters in April overwhelming supported a referendum on a constitutional amendment to weaken the governor’s “Frankenstein” veto, so called because of the monstrousity it has become in the eyes of critics.

Wisconsin’s governor, currently Jim Doyle (D), arguably has the strongest veto power in the nation. Doyle has used that power to delete and rearrange words and numbers—and even parts of numbers—in bills to create new bills with entirely different meanings than lawmakers intended.

About three of every four voters approved the April 1 referendum to block Doyle and future Wisconsin governors from creating new sentences by crossing out words or numbers from two

Village Looks to Secede Because of High Taxes

In suburban communities on the Cook County border, the county’s huge sales tax burden has businesspeople worried. Local officials and businesspeople in Palatine, Illinois are so angered that the village government has seriously broached the idea of seceding from Cook County.

On April 30, Cook County Board President Todd Stroger was scheduled to hold a meeting at a community college in Palatine to try to quell the anger.

Mindy Phillips, director of the Palatine Area Chamber of Commerce, said Stroger should have no problem understanding the anger.

“After the Cook County sales tax hits us July 1, the Palatine retail sales tax will be at 10 percent,” Phillips said. “It will be 7 percent in Deerfield [in Lake County], 7.25 percent in Bloomingdale, and 6.75 percent in Oak Brook [both in DuPage County]. Our retailers expect to lose sales to other counties.”

Wisconsin Gov. Jim Doyle has used his powerful veto to creatively edit appropriations legislation and other measures.
New Jersey
Continued from page 1

that would spend slightly less than the $33.5 billion allocated for the current fiscal year.

Stops Big Spending Increases
The proposed spending reduction would end a six-year string of spending increases. Since the FY 2003 budget, annual spending increases in New Jersey have averaged 8 percent.

Corzine’s proposed spending reduction is one component of the four-piece “Fiscal Restructuring and Debt Reduction Plan” he announced in his January State of the State Address. The other components include:

• capturing the value of New Jersey’s toll roads through a massive borrowing program financed through multiple large toll increases;
• restricting future government borrowing; and
• limiting future spending increases to the projected growth of recurring revenues.

Corzine outlined his budget proposal in a February 26 address to the legislature. It received a chilly reception. The only applause Corzine received was when he entered the legislative chamber and then when he left after finishing his presentation.

Jobs, Cabinet Agencies Cut
Corzine’s original promise was to freeze spending, but he explained that softening revenue growth projections caused him to recommend a $500 million cut. He achieved this recommended reduction by, among other things, reducing a property tax rebate program, cutting the state government workforce by 3,000 jobs, eliminating three Cabinet-level agencies, and cutting state aid to municipalities.

While the overall spending cut is popular with the public, some of the specific cuts have drawn criticism. Republican legislators—who are in the minority in the legislature—say the cuts don’t go far enough.

The spending cut that has received the most criticism is the reduction of state aid to local governments. That cut falls most heavily on the state’s least-populated towns.

Municipalities with populations of less than 5,000 would lose all of their aid. Towns with between 5,000 and 10,000 residents would lose one-half of their aid.

Corzine has said he believes these small towns are inefficient and that the reduction in state aid will encourage them to share services with surrounding towns or merge with adjacent ones.

Local Officials Upset
Local officials in towns that would be affected argue this unexpected and substantial aid cut will cause local property taxes to increase.

“The proposed budget is balanced on the backs of the property tax payers who live in small towns,” said William Dressel, executive of the New Jersey League of Municipalities, an organization that represents local governments. “Furthermore, there is no defensible rationale for basing aid reduction on population alone. The assertion that all small towns are inefficient is false.”

To achieve the workforce reduction, Corzine wants to use an early retirement incentive program (ERIP). That proposal also has its detractors.

Early Retirement Opposed
“New Jersey’s experience with ERIPs is that they cost more than they save,” said Paul Tyahla, vice president of government affairs and communications at the Commerce and Industry Association of New Jersey, a northern New Jersey-based organization of employers that opposes Corzine’s ERIP.

“New Jersey’s public employee retirement systems already have staggeringly high unfunded liabilities. An ERIP will exacerbate that problem,” Tyahla said.

Tyahla continued, “We support Corzine’s workforce reduction, but we encourage him to accomplish it without the ERIP. The governor correctly complains that civil service rules make a rational layoff plan impossible to implement. But that’s an argument for reforming the civil service law, not for implementing another costly ERIP.”

A budget must be adopted by June 30. While it is likely the legislature will make changes to Corzine’s budget, the governor has powerful tools to enforce his spending limits. The governor solely determines the amount of revenues available to support the budget. Also, he has broad line-item veto authority allowing him to eliminate or reduce specific spending items the legislature may present to him.

Toll Plan Stymied
The status of the remainder of Corzine’s fiscal reform plan is mixed. Corzine has acknowledged his proposal to sell billions of dollars of bonds backed by a series of toll increases is unlikely to be adopted in the form he recommended. The borrowing would be used to pay down New Jersey’s $32 billion bonded indebtedness and finance transportation projects.

Corzine’s budget proposal does not, however, rely on revenues that would be generated by the toll road borrowing. A constitutional amendment that restricts state government’s ability to issue bonds without prior voter approval is awaiting a vote of the state Senate. The proposal has not seen action in the lower house. If approved by the legislature, the amendment would be submitted to voters at a general election.

Corzine has not offered a specific proposal to tie future budget growth to anticipated growth in recurring revenues, and the legislature has not considered any statutory or constitutional legislation that would implement a spending cap.

The lack of action on the spending cap concerns Jerry Cantrell, president of the New Jersey Taxpayers Association.

“Without a permanent and constitutionally required spending cap, there is a strong likelihood that New Jersey lawmakers will resume their irresponsible spending habits,” Cantrell said. “We need long-lasting reform, and we need Corzine to take a prominent role in arguing for a spending cap.”

Gregg Edwards (gmedwards1@verizon.net) is president of the Center for Policy Research of New Jersey.
**Washington Democratic State Senator Sues to Overturn Taxpayer Protections**

By Jason Mercier

To overcome a forecast $2.4 billion budget deficit, the majority leader of the Washington state senate is suing the state to make it easier for lawmakers to raise taxes. The deficit is a result of increasing expenditures, as state tax revenues have been rising in recent years.

At issue is a provision in the 1993 voter-approved Initiative 601 (I-601) that in part requires a two-thirds vote of the legislature to raise taxes.

Arguing such a restriction is unconstitutional, Senate Majority Leader Lisa Brown (D-Spokane) in March filed a lawsuit to have the state supreme court throw out the two-thirds vote requirement. The case is *Lisa Brown v. Brad Owen*.

“Our constitution cannot be amended by passing an initiative or by passing a bill in the legislature. Initiatives and bills create statutes, not constitutional amendments,” said Brown. “But many constitutional scholars believe—and I agree—that one part of Initiative 601, passed by the voters in 1993, violates our constitution. That initiative required the legislature to pass any tax increase by a two-thirds majority rather than a simple majority. Our state constitution clearly states that bills pass the legislature by a simple majority. A handful of exceptions are written into the constitution, but raising taxes is not one of them.”

**“Senate Majority Leader Lisa Brown (D-Spokane) in March filed a lawsuit to have the state supreme court throw out the two-thirds vote requirement [for raising taxes].”**

### Liquor Tax Maneuver

Because I-601 was originally adopted in 1993, to gain legal standing before the state supreme court, Brown had to demonstrate she had suffered some injury as a result of the law. To accomplish this she arranged for a Senate vote on a liquor tax (SB 6931) increase that she knew would trigger the two-thirds vote requirement.

After the bill failed to receive the required two-thirds vote, she asked Senate President Brad Owen (D), who also serves as lieutenant governor, for a ruling on whether the two-thirds vote requirement was unconstitutional.

Owen ruled, “Senator Brown’s arguments are cogent and persuasive, but the proper venue for these legal arguments is in the courts, not in a parliamentary body. For these reasons, the [Senate] president believes he lacks any discretion to make such a ruling, and he explicitly rejects making any determination as to the constitutionality of I-601 and instead is compelled to give its provisions the full force and effect he would give any other law.”

### Had Lawsuit Ready

Knowing she would receive that ruling, Brown had her lawsuit to overturn the two-thirds requirement ready to be filed against the lieutenant governor. She filed it soon afterward.

“I clearly see it [the tax increase bill] as a thought-out process,” state Sen. Joe Zarelli (R-Ridgefield) told the *Tacoma News Tribune*. “They want to get the initiative out of the way (before the 2009 legislative session) so they have the option of raising taxes next year with just a majority vote.”

In years past the legislature has “suspended” the two-thirds vote requirement with a simple majority vote to increase taxes. Apparently not wanting to ask fellow Democrats to take a politically risky vote to suspend the law in an election year, Brown decided to ask the court to remove the tax increase restriction for them.

### Double Standard

Ironically, while complaining of the supermajority requirement for tax increases imposed on the legislature by the people, Brown saw no problem with sponsoring Senate rules requiring a supermajority vote to amend the budget on the floor.

Senate Rule 53 states, “No amendment to the budget, capital budget or supplemental budget, not incorporated in the bill as reported by the ways and means committee, shall be adopted except by the affirmative vote of sixty percent of the senators elected or appointed.”

This rule was exercised during the latest budget deliberations to thwart an attempt to remove $250,000 from the Senate budget to buy tickets for girls to attend Seattle Storm basketball games. The vote to remove the funding was 24-23 but it failed because it did not receive the required supermajority vote.

### Legal Precedents

Mike Reitz, lead legal counsel for the Evergreen Freedom Foundation, notes case law supports the people’s I-601 taxpayer protections being upheld by the court.

“If lawmakers, or the people, want to adopt a law that has lawmakers exercising less power than is given to them in the constitution—like making it harder for them to raise taxes—they are perfectly free to do so.”

PAUL GUPPY
VICE PRESIDENT
WASHINGTON POLICY CENTER

“The California constitution has a counterpart that is nearly identical to our constitution’s ‘simple majority’ requirement. In *People v. Cortez*, a California appeals court held that Proposition 8, which required a two-thirds vote of the legislature to support an amendment, was not in conflict with the simple majority provision. Clearly a bill which obtains the approval of two-thirds of the membership of each house has also obtained the approval of a majority of the legislators in each house; it ruled,” said Reitz.

Policy experts agree with Reitz’s legal analysis.

“The purpose of the constitution is to place limits on government power—not limit the freedom of individuals. If lawmakers, or the people, want to adopt a law that has lawmakers exercising less power than is given to them in the constitution—like making it harder for them to raise taxes—they are perfectly free to do so,” said Paul Guppy, vice president of research for the Washington Policy Center.

Guppy added, “What would be unconstitutional would be if I-601 attempted to give lawmakers more power than the constitution gives them. I-601 clearly doesn’t do that. Hopefully the courts will see that adopting a procedure that limits the power of the legislature more than the constitution already does is not in itself unconstitutional.”

Guppy said the state Senate’s own supermajority rules show “if lawmakers are able to place additional restrictions not found in the constitution on the passage of legislation, so too can the people.”

Jason Mercier (jmercer@washingtonpolicy.org) is director of the Center for Government Reform at the Washington Policy Center.
North Carolina Climate Change Proposals Would Raise Taxes and Limit Freedoms

Commission’s recommendations would create regressive taxes, harm state’s economy, state think thank predicts

By Mitch Kokai

Proposals to help North Carolina address global warming would raise taxes, hurt the poor, and limit consumers’ choices, according to a recent report from the North Carolina-based John Locke Foundation.

“This report translates each of North Carolina’s proposed climate change policies into plain English so that the public and policymakers can understand what really is being proposed,” said Daren Bakst, author of “Taxes, Subsidies, and Regulation: A Guide to North Carolina’s Proposed Global Warming Policies” and a legal and regulatory policy analyst for the foundation. “The goal is to cut through the fog and identify the essence of each recommendation.”

Bakst analyzed more than 50 policy proposals that emerged last October from the state’s Climate Action Plan Advisory Group (CAPAG). The Legislative Commission on Global Climate Change is considering those proposals, including a cap-and-trade program for carbon dioxide (CO2) emissions.

Bakst’s report notes, “In a CO2 cap-and-trade program, the government would cap the amount of total carbon dioxide emissions—it is an energy-rationing scheme that acts as an energy tax. Regulated parties would have to own a permit to emit each ton of CO2. If a regulated entity does not have enough permits, it can buy permits from other regulated entities.”

Regressive Taxes

Bakst said in an interview for this article, “The words ‘cap-and-trade’ disguise the fact that this is a new tax on North Carolinians. The CAPAG proposals also fail to explain that this new tax would be regressive. That means it imposes disproportionate harm on the poorest North Carolinians.”

The cap-and-trade proposal is one of 18 regressive proposals analyzed in Bakst’s report. He cites 23 policy proposals that recommend new taxes, 32 that involve new taxpayer-funded government subsidies, and 28 that ignore the importance of consumer choice and personal freedom.

Another proposal that would create a regressive new tax and limit consumers’ freedom of choice is a “feebate” on vehicles, Bakst said. “The feebate tax would increase based on a vehicle’s CO2 emissions, fuel consumption, and/or other measures of a vehicle’s environmental impacts,” he said. “This recommendation is designed to help government change the types of cars people buy and sell in North Carolina.”

Bakst also takes aim at policy proposals linked to land development planning.

“Under one proposal, transportation funds would be withheld from any municipality or county that does not develop a land use or development plan that meets state standards,” Bakst said.

“High-density development, euphemistically known as ‘smart growth,’ would be promoted through means such as development impact fees. Those impact fees are basically taxes on construction of new homes.”

Dubious Assumptions

These and other policy proposals are based on unproven assumptions about the best way to deal with CO2 emissions, Bakst said. “The CAPAG recommendations assume that the only way to reduce carbon emissions is for the government to take action,” he said. “There is not one recommendation that presumes individuals and other private actors will take action on their own.”

CAPAG’s recommendations are based on two other questionable assumptions, Bakst said. First, the policy proposals assume North Carolina must take some action to deal with global warming. CAPAG did not test the assumption, Bakst said.

“This report translates each of North Carolina’s proposed climate change policies into plain English so that the public and policymakers can understand what really is being proposed.”

DAREN BAKST
AUTHOR AND POLICY ANALYST
JOHN LOCKE FOUNDATION

“Instead the group bought into recommendations prepared by a consultant called the Center for Climate Strategies, which is pursuing an agenda set by global warming alarmists,” Bakst said.

Second, CAPAG’s proposals assume reducing carbon dioxide emissions will affect the world’s climate, Bakst said. “This assumption should surprise no one who’s skeptical of this process,” he said.

“It’s well-established that there is nothing the United States—or an individual state—could do to have any measurable effect on temperature,” Bakst continued. “Rather than admit that fact, CAPAG tries to get around the ‘temperature problem’ by ignoring the goal of reducing temperature. Reducing CO2 becomes the goal, and reducing temperature is simply never mentioned again.”

CONTINUED on right


• Regarding “cap-and-trade” programs: “In a CO2 cap-and-trade program, the government would cap the amount of total carbon dioxide emissions—it is an energy-rationing scheme that acts as an energy tax. Regulated parties would have to own a permit to emit each ton of CO2. If a regulated entity does not have enough permits, it can buy permits from other regulated entities.”

• Regarding two requirements for utility companies to meet an “environmental portfolio standard”: “The first requirement is a renewable portfolio standard that requires utilities to provide a certain percentage of their electricity through renewable sources. A renewable energy credit allows utilities to purchase electricity from renewable energy providers, even from out-of-state providers that generate electricity for out-of-state residents only. The second requirement mandates that utilities achieve energy efficiency savings—basically a reduction in expected energy use at some future date.”

• Regarding rebates and “feebates” designed to change the mix of vehicles on North Carolina’s roads: “This is another tax on vehicles. The tax would increase based on CO2 emissions, fuel consumption, and/or other measures of a vehicle’s environmental impacts. The purpose of this recommendation ... is to change the types of cars that are purchased and sold.”

• Regarding the complex term “Modal Transportation and Promotion”: “More funding would be provided for public transit, including rail. There also would be a focus on what is called ‘transit-oriented development,’ which is grounded in the belief that communities should be developed to meet the needs of transit as opposed to transit meeting the needs of communities.”

• Regarding a new insurance mandate: “The state would require insurance companies to provide pay-as-you-drive (PAYD) insurance. It also would require all drivers eventually to have this type of insurance. PAYD insurance ties the cost of premiums to an individual’s amount of driving—the more you drive, the more you pay.”

• Regarding a public education campaign: “A public education campaign about greenhouse gas emissions would target policymakers and state agencies, educators and students, community leaders and local organizations, industry, and the general public,” according to Bakst’s report. “[The Climate Action Plan Advisory Group] recommends that public education ‘efforts should commence as rapidly as possible.’”
States Moving to Weight-Based Taxes on Smokeless Tobacco Products

By Steve Stanek

For some lawmakers, switching their states from an ad valorem tax on smokeless tobacco products to a unit-based tax is a matter of fairness. For others it is a matter of stabilizing revenue. For others it’s a matter of health.

For a variety of reasons, growing numbers of lawmakers are concluding ad valorem taxes—excise taxes based on the price of the product—should be dropped.

 “[A]t press time, 12 states now tax smokeless tobacco products based on weight, and in July Utah will switch from ad valorem to a weight-based tax.”

Eight states have gone to a weight-based system for smokeless tobacco since 2005, said Monte Williams, a partner at Shepherd, Williams & Associates, LLC, a consulting firm that specializes in tax issues, with an emphasis on cigarettes and other tobacco products. Seven of them have switched from an ad valorem system. The eighth state, Kentucky, started taxing smokeless tobacco with a weight-based tax.

In all, at press time 12 states now tax smokeless tobacco products based on weight, and in July Utah will switch from ad valorem to a weight-based tax.

‘Huge Disparity’

“Though it’s an uphill fight, states are realizing there is an impact on their revenues and that the ad valorem tax is not doing what it used to do,” said Williams.

“There is stuff that wholesales from 70 cents [an ounce] to more than $3. With ad valorem taxes based on price, we have huge disparities in the amount of tax for basically the same products.”

Several years ago cheaper products began hitting the marketplace in a big way. Lower-quality product sales are growing in every state, according to Williams. The average wholesale price of a can of smokeless tobacco has fallen since 2004 in most states.

“Under ad valorem taxation, when there were only premium products, taxes went only up. That’s no longer true,” Williams said. “The average price of a can has dropped because of downtrading to cheaper products.”

He attributes part of the downtrading to ad valorem taxation, which increases cost differentials between premium products and lower-quality brands. Because the ad valorem tax is built into the final sales prices, in states with sales taxes the final cost differential becomes even greater.

And, said Williams, “When they have ad valorem taxation, they are supporting the use of cheaper products, which is contrary to what they are trying to do to deter consumption.”

Tax Fairness a Big Issue

Late last year Wisconsin switched from an ad valorem tax on smokeless tobacco to a weight-based tax of $1.31 an ounce, said Jeff Fitzgerald (R-Horicon), majority leader in the Wisconsin Assembly.

“It came down to tax fairness,” Fitzgerald said. “If we look at gasoline, beer, even cigarettes, it’s a per-unit tax. Regular unleaded and premium unleaded are taxed the same. There are $6 bottles of wine and $100 bottles, and the tax is unified.

“It didn’t seem okay to me that if we have a higher-quality product, the tax should also be higher,” Fitzgerald continued. “It gives an unfair advantage to the lower end. People do understand tax fairness. We shouldn’t use taxes to pick winners and losers. It’s a commonsense approach.”

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

By Steve Stanek

The U.S. Postal Service (USPS) enjoys subsidies that distort the private package delivery market and suffers legal restrictions that hinder its performance, according to a Federal Trade Commission (FTC) report that concludes USPS should lose the subsidies and the restrictions.

"Accounting for Laws That Apply Differently to the United States Postal Service and its Private Competitors," which FTC issued early this year, is now under review by the Postal Regulatory Commission (PRC). PRC has a year-end deadline to issue recommendations regarding USPS operations. The FTC report likely will play a big part in those recommendations, said James Cooper, director of policy planning at FTC.

"The PRC has standards the Post Office must follow when it sets prices," Cooper said. "Our report feeds into that process by identifying implicit subsidies the Post Office may enjoy. It's up to the PRC how they handle the information."

FTC analysts noted USPS subsidies include exemptions from certain state and local taxes and licensing requirements for its competitive products operations. These subsidies are worth between $39 million and $117 million a year, according to FTC.

Market Distortions

Michael Schuyler, a senior economist at the Institute for Research on the Economics of Taxation who has spent years studying USPS, said the FTC report provides a "good economic analysis." He says the report could have gone farther.

"Although USPS spent a lot of time talking about the mailbox monopoly, the report did not put a dollar estimate on the value of that monopoly," Schuyler said. "That's a very big subsidy. Just on that one item I'm sure they did lowball the Postal Service's subsidy benefits."

But on the whole the FTC report "is superb," Schuyler said. "I just note that the FTC was emphasizing burdens that have economic costs to the Postal Service and subsidy benefits that are market distortional. The dollar estimates, I think, were of secondary importance. As the FTC acknowledged, their estimates were selective."

United Parcel Service spokesman Malcolm Berkley declined to comment on the FTC report. Representatives at Federal Express and DHL did not return calls for comment.

Benefits of Competition

Schuyler said the FTC report's chief strength is its analysis of competition. "When they talked about benefits and burdens the FTC was on its home turf of looking at competition," Schuyler said. "They did burden and benefit estimates, but I don't think they were giving those numbers as much weight as their analysis about competition. The FTC concluded the USPS has numerous advantages and disadvantages and both are problems."

Monopoly Protections

Schuyler said USPS enjoys two monopolies: the exclusive rights to deliver first- and third-class mail and to put mail in private mailboxes.

"The private express monopoly can be traced to colonial days," Schuyler said. "The mailbox monopoly was created in 1934 because utilities were delivering bills directly to consumers, and the Postal Service wanted to stop them. This clearly was a revenue grab. We are the only country with a mailbox monopoly."

Regulatory Drawbacks

While pointing out these and other advantages—such as monopoly protections that it did not quantify—the FTC report also noted serious drawbacks for USPS.

For instance, FTC concluded government regulations hinder USPS's ability to manage its labor force and configure its network, increasing costs by as much as $782 million a year.

Federal constraints imposed on USPS also make it less nimble than private package delivery competitors, according to FTC, forcing the Postal Service to spend more time and money to develop its products. But these higher costs are partially masked by USPS's legal protections in other areas, creating incentives for consumers to buy more mail products from USPS than they otherwise would.

"People who are steeped in this topic are aware of the distortions," Cooper said. "Our report, for the first time, has put all this information in one place and put rough estimates on the dollar figures."

Schuyler cautions the estimates are very rough, in part because FTC often relied on USPS figures that it sometimes found dubious.

"In virtually every case, the FTC took Postal Service numbers and asked, 'Do we feel comfortable with this?' If yes, we'll use it. If no, we won't use it," Schuyler said. "As far as original research regarding burdens, I don't think the FTC did that or claimed to do it."

Even Footing

Schuyler said he was pleased FTC rejected the Postal Service's argument that it should "have a free pass" on subsidies because of the legal restrictions it faces.

"The FTC said it's too bad the Postal Service has these disadvantages, but if they try to cover them up with government resources, we get a misallocation of resources," Schuyler said.

Ideally the federal government would remove both the unnecessary burdens and the implicit subsidies, Schuyler said. FTC agrees and says if burdens and subsidies cannot both be removed, then one or the other should be removed.

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

Summary of FTC's Recommended Postal Reforms

The Federal Trade Commission report, "Accounting for Laws That Apply Differently to the United States Postal Service and its Private Competitors," now under review by the Postal Regulatory Commission (PRC), makes several suggestions for reform:

- Congress may wish to consider acting to reduce the constraints on the U.S. Postal Service's (USPS) competitive products operations.
- PRC may wish to consider requiring USPS to account for its implicit subsidies when making pricing and production decisions.
- Congress could eliminate the legal differences between USPS and its private competitors. This is a long-term suggestion that could be accomplished by relaxing the current mailbox monopoly to allow private carriers to deliver competitive products. FTC says this would deliver a net benefit to consumers.
- Move to establish USPS's competitive products division as a separate corporate entity with either private or government ownership. This would eliminate many of the major remaining legal differences between USPS and its private competitors, according to FTC.
- The Post Office has competitive and non-competitive products, which is really a fiction, because they are not separate companies," said James Cooper, director of policy planning at FTC. USPS is not supposed to sell competitive products below cost or cross-subsidize them. For accounting purposes, how much of the mail truck is being used for competitive Priority Mail versus monopoly First Class mail may need to be determined, but for practical purposes the distinction means little, said Cooper.

"Ultimately the PRC will need to determine the appropriate approach under its regulatory authority to require the USPS to account for the economic benefits it derives from differential legal treatment," the report notes. "Further, only Congressional action can eliminate the legal constraints that negatively impact the USPS's competitive product operations."

— Steve Stanek
Chicago Midway Airport Privatization Takes Wing

By Steve Stanek

Chicago’s Midway International Airport, which handles 19 million passengers a year, could become the first major commercial airport in the United States to go private.

Six firms have submitted qualifications to Chicago city officials to lease the airport and run it privately. The city expects to select one of the firms by year’s end or early next year.

One of the firms to submit qualifications—Macquarie Capital Group Ltd., based in Australia—is party to the $1.8 billion lease of the Chicago Skyway, a nearly eight-mile stretch of toll road in Chicago that links with the Indiana Toll Road. That lease was executed four years ago. The Indiana Toll Road was leased to the same private investors for $3.8 billion two years ago.

Chicago also has embarked on a plan to lease the city’s parking meters to a private firm.

$3 Billion Estimate

The airport deal is by far the bigger move. Some industry experts expect Chicago to receive about $3 billion for a long-term airport lease, though Robert Poole, an expert in the privatization of government airport lease, though Robert Poole, an expert in the privatization of government transportation services, said he believes that estimate may be too high.

Annual revenues of the airport, including parking, concessions, and passenger facility charges, top $130 million. A private operator would have an incentive to attract more flyers by offering a greater selection of retail concessions, wider range of parking services, and other passenger-friendly improvements, said Lisa Schrader, Chicago’s deputy chief financial officer.

Airlines using the airport also can expect to see lower airport charges and more predictability and control over the charges, Schrader said.

Airlines using the airport also can expect to see lower airport charges and more predictability and control over the charges, Schrader said.

“Five of the seven airlines that use Midway and account for 95 percent of the traffic there have signed on to the city’s attempt to take the airport private.”

Debt Wiped Out

Poole, a member of the Government Accountability Office’s National Aviation Studies Advisory Panel, agrees with Schrader’s predictions.

Chicago plans to use the lease proceeds to pay off the airport’s $1.2 billion in outstanding bonds, which would free up $50 million a year in debt service “that can go right to the bottom line, without any increases in revenues or cuts in costs,” Poole noted.

Poole also said he is “surprised at how much control the agreement gives the airlines—some significant assurances regarding charges plus airline veto power over capital projects that would increase what they have to pay for.”

Four of the six airlines that use Midway and account for 95 percent of the traffic there have signed on to the city’s attempt to take the airport private.

The biggest of those air carriers, Southwest Airlines, “likes the possibility of savings in leases and charges to operate there,” said company spokesperson Brandy King. “Charges can fluctuate up and down, mostly up. With privatization you can lock in some costs to predict your financial position moving forward.”

Steve Stanek (stanek@heartland.org) is a research fellow at The Heartland Institute and managing editor of Budget & Tax News.
Labor Union Density Shows First Uptick Since 1983

By David Y. Denholm

The Bureau of Labor Statistics’ (BLS) annual report on union membership in the United States has logged the first increase in union membership as a share of the U.S. workforce in nearly 25 years. The gain shown in Union Members in 2007 falls within the margin of error for the survey.

Every year BLS releases a summary of information from the Current Population Survey (CPS) about employment and union membership. It contains national figures for the total workforce and breakdowns by industry and occupation. The industry breakdown includes whether it is in the private or public sector, and the public sector is further divided by federal, state, and local employment.

“[T]otal union density increased 0.1 percentage points, from 12.0 percent of the workforce in 2006 to 12.1 in 2007. On private payrolls the increase was 0.1 percentage points, from 7.4 in 2006 to 7.5 in 2007. In the public sector density fell from 36.2 percent in 2006 to 35.9 in 2007.”

Union Members in 2007, released early this year, is of particular interest because it shows a slight uptick in union density, the first since modern record-keeping on the subject began in 1983.

The report shows total union density increased 0.1 percentage points, from 12.0 percent of the workforce in 2006 to 12.1 in 2007. On private payrolls the increase was 0.1 percentage points, from 7.4 in 2006 to 7.5 in 2007. In the public sector density fell from 36.2 percent in 2006 to 35.9 in 2007.

Striking members of the International Alliance of Theatrical Stage Employees were passing out fliers outside the Ambassador Theater in New York, where “Chicago” would be playing.

Growth in Government Jobs

A key factor in understanding the figures is that 43 percent of all new jobs in 2007 were in public employment. In 2007 government employment grew 3.2 percent while employment on private payrolls grew by just 0.8 percent.

In recent years the average annual increase in public employment has been about 1.7 percent, compared to 1.6 percent in the private sector.

Of the 311,000 new union members, 179,000 (63 percent) were public employees, and 132,000 were on private payrolls.

Despite the decline in union density in the public sector and the fact that only one in six jobs is in government, the extent to which the entire union movement consists of public employees increased again, from 48.0 percent in 2006 to 48.2 percent in 2007.

It seems inevitable that some time in the not-too-distant future most union members in America will be government employees. In 2007, government employee union membership comprised the majority of all union members in 25 states.

The portion of government employees who are union members has likewise been steadily increasing. In 1983, 32.4 percent of the government workforce was unionized. In 2007, 35.9 percent of the government workforce was unionized.

Downward Trend

Because the apparent increase of 0.1 percentage points is within the margin of error for the survey, I applied a five-year moving average to the annual figures for the past 10 years. This indicates that despite the apparent increase in 2007, the downward trend continues in all sectors.

Interestingly, the annual data show union density in the public sector has declined for two years, but the five-year average, which more accurately demonstrates trends, shows this decline in public-sector density has been going on for five years. Table 1 shows those trends.

Because the sample size for CPS is smaller at the state level and public-sector employment is a relatively small portion of total employment, the numbers are not as accurate and tend to fluctuate more than is realistic from year to year. The situation does, however, vary slightly from year to year and from state to state.

The Public Service Research Foundation maintains a set of tables and charts on employment, union membership, and union density—total, private, and public—for each state. Those tables and charts are available on request.

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

Union Numbers Are Accurate Nationally, Less So by State

The modern era of the Current Population Survey (CPS), on which the Bureau of Labor Statistics’ union membership numbers are based, began in 1983 when the survey methodology was changed. There were no data on unionism in 1982, and CPS data before 1983 are inconsistent with the later data.

At the national level, CPS data are very accurate, with a confidence rating of about plus or minus 0.2 percent. They are, however, survey data, and therefore subject to the statistical and sampling errors inherent in all survey data.

Five-Year Average a Better Measure

At the state level, particularly in lower-population states and when looking at a sector of employment within a state, the report can’t be as accurate as on the national level. This sometimes leads to wide fluctuations from year to year.

Those fluctuations can be reduced and the data made more accurate by applying a five-year moving average. The moving average, however, tends to backlight trends. If the trend is downward, the figure for the average will be higher than is probably the case, and vice versa.

For example, from the raw numbers it appears that between 2006 and 2007 public-sector union density in West Virginia fell from 30.0 to 22.5 percent. That probably didn’t happen. The sample size for West Virginia’s public sector in 2007 was 423, giving a confidence rating of plus or minus 4.7 percent. Applying a five-year moving average produces figures of 27.5 for 2006 and 26.9 for 2007, a drop of just 0.6 percentage points.

Table 1: Percent Union - Total, Private, Public Annual Figures and Five Year Average

<table>
<thead>
<tr>
<th>YEAR</th>
<th>TOTAL 5-YEAR</th>
<th>TOTAL S-YEAR</th>
<th>PRIVATE 5-YEAR</th>
<th>PRIVATE S-YEAR</th>
<th>PUBLIC 5-YEAR</th>
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<tr>
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Prevailing-Wage Rules Cost Taxpayers $8.6 Billion Annually: Study

By Frank Conte

Bias in the measurement of the federal "prevailing wage" force U.S. taxpayers to spend $8.6 billion a year more for public construction projects than they would have to pay if unbiased measures were used, according to a new study by the Beacon Hill Institute at Suffolk University (BHI).

"The existing way of measuring the prevailing wage amounts to the maintenance of a costly and arcane welfare system for construction workers."

DAVID G. TUERCK
EXECUTIVE DIRECTOR
BEACON HILL INSTITUTE

The measurement biases add 22 percent to the cost of labor on public construction projects and 9.91 percent to overall construction costs, the study finds.

"The existing way of measuring the prevailing wage amounts to the maintenance of a costly and arcane welfare system for construction workers," said David G. Tuerck, executive director of the Beacon Hill Institute and a coauthor of "The Federal Davis-Bacon Act: The Prevailing Mismeasure of Wages."

Adopted by Congress in 1931, the Davis-Bacon Act (DBA) enforces the prevailing wage at the federal level and serves as the basis for prevailing wages in 32 states, and the District of Columbia require the payment of a prevailing wage for all workers employed directly on site for government-funded construction projects over a certain dollar threshold.

"In the Nassau-Suffolk, New York MSA, for example, brick masons and block masons make at least $24.17 per hour more than they would if the prevailing wage were calculated using [Bureau of Labor Statistics] methods."

Inaccurate Measure
As currently implemented, the law does not actually measure the prevailing wage, the study concludes.

The U.S. Department of Labor, which has the job of determining the prevailing wage, does not use the unbiased and statistically accurate data published by its Bureau of Labor Statistics (BLS), but instead uses unreliable and upward-biased data published by its own Wage and Hour Division (WHD).

The number is biased upward to reflect what the construction trades want to impose as a wage, not the wage that in fact prevails for a given trade in a given Metropolitan Statistical Area (MSA), the study concludes.

22 Percent Premium
The BHI study compared the estimates reported by WHD to those reported by BLS for a sample of nine occupational categories accounting for 59 percent of all construction workers across 80 MSAs.

BHI found on average the DBA prevailing wage is almost $4.43 per hour above the BLS average wage—22 percent higher—when wages are weighted according to the number of workers in each trade and each MSA.

In the Nassau-Suffolk, New York MSA, for example, brick masons and block masons make at least $24.17 per hour more than they would if the prevailing wage were calculated using BLS methods. In Poughkeepsie-Middleton, New York, plumbers, pipe fitters, and steamfitters get a premium of $26 per hour.

Steel and metal workers in Bakersfield, California receive a premium of $16.37.

Anti-Competitive Law
Originally enacted to discourage poor Southern blacks from seeking construction jobs in the North, the prevailing wage law has always been intended to shield local construction workers from "outside" competition, Tuerck noted.

"The whole purpose of a prevailing wage law is to deny employment opportunities to workers from outside the immediate area," said Tuerck. "On that basis alone, the best solution would be to repeal Davis-Bacon and to render unnecessary the whole problem of divining what the prevailing wage is."

Tuerck added, “Next best would be to shut down the Labor Department’s Wage and Hour Division (WHD) and take the simple step of getting the measurement of the prevailing wage right. That’s easy enough to do, considering that the Bureau of Labor Statistics maintains a parallel and highly reputable office for measuring wages."

Frank Conte (fconte@beaconhill.org) is director of communication and information services at the Beacon Hill Institute at Suffolk University.

INTERNET INFO
"The Federal Davis-Bacon Act: The Prevaling Mismeasure of Wages": http://www.heartland.org/article.cfm/artid=23166

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Public-Sector Unions Must Disclose Financial Dealings, District Court Rules

By Scott Dilley

A U.S. District Court judge has ruled federal financial transparency laws apply to certain public-sector unions, traditionally exempt from such regulations.

If it stands, the decision will allow workers across the country to have increased access to records of their unions’ financial dealings.

The case, Alabama Education Association v. Chao, has worked its way up and down the court system for several years. The most recent decision, issued in late March, requires state-level public-sector unions to disclose their finances to the federal government if those unions are affiliated with a national union that must comply with the federal reporting laws.

Multiple Unions Affected

While the case deals directly with affiliates of the National Education Association, the same principle applies to other public-sector unions, including the American Federation of County, State, and Municipal Employees and Service Employees International Union.

Transparency proponent Ben DeGrow, an education policy analyst with the Colorado-based Independence Institute, praised the ruling.

“Now that the court recognizes the value of transparency, so teachers and other public employees can get a fuller picture of where their union membership funds are going,” DeGrow said. “The thousands of busy public school teachers who belong to the Colorado Education Association deserve to see exactly what their hard-earned dues money is buying and whether the CEA represents their own values.”

Appeal Likely

The case will likely be appealed to the District of Columbia Circuit Court of Appeals. If upheld, the decision will mean financial reports from many state-level public-sector unions will be available on the Department of Labor’s disclosure Web site, http://www.unionreports.gov.

Union financial transparency is not a new concept. In 1959, Congress passed the Federal Labor-Management Report and Disclosure Act (LMRDA) in an attempt to curtail corruption in private-sector unions of the day.

That financial disclosure law, however, excluded state and local public-sector unions from reporting if they did not represent any private-sector workers.

“Thirteen states already have some form of financial disclosure law for state- and local-level public-sector unions.”

Transparency Expanded

That exception opened a doorway for the U.S. Department of Labor to expand reporting requirements when it began updating its LMRDA filing rules in 2003. During that process, the department mandated that state-level public-sector unions—traditionally held as exempt from reporting—had to begin disclosing their finances if they are affiliated with national unions subject to federal disclosure.

The agency also revised the annual financial disclosure forms for the first time in four decades and posted received forms on a searchable Web site, allowing workers easy access to their unions’ income and expenditure records for the first time.

Several state teacher unions filed suit against the rule changes. However, U.S. District Court Judge Rosemary Collyer held the Department of Labor simply need not to—and did—provide a reasonable legal justification for its reinterpretation of the law.

The department argued its actions were consistent with Congress’s intent to have increased reporting and that under the revised rules private-sector unionized employees could track how their dues payments may be transferred from a national-level union to a lower, state-union affiliate or another union.

Some Already Disclose

States need not wait for federal laws or lawsuits to ensure their workers have the right to know about union finances.

Thirteen states already have some form of financial disclosure law for state- and local-level public-sector unions.

“The remaining states should seriously consider transparency reforms,” said Michael Reitz, general counsel for the Evergreen Freedom Foundation in Washington.

“Financial transparency is essential for good stewardship. If there is no information, no transparency, there’s no accountability,” Reitz said. “Public employees cannot make informed decisions about the benefits of union representation unless they know the details of the union’s income and expenditures.”

Scott Dilley (sdilley@effwa.org) is a labor policy analyst at the Evergreen Freedom Foundation in Olympia, Washington.

Iowa GOP Defeats Pro-Union Amendment

By Ryan Harriman

House Democrats in Iowa tried to undermine the state’s Right to Work law in March. Democrats disguised House File 2645 as an uncontroversial set of amendments to Iowa’s collective bargaining law.

To be eligible for the debate on March 18, any amendment had to be filed by 4:00 p.m. the previous day. At precisely 4:00 p.m. on March 18, House Democrats added a 14-page amendment (H-8164) to HF 2645.

The amended version of the bill would have dramatically altered negotiations to favor labor. Perhaps the most significant change was the addition of a highly contentious “Fair Share” provision. Under the plan, all employees working under a bargaining unit would have had to pay their “Fair Share,” thus making way for forced unionism throughout the state.

House Republicans protested and forced Democrats to offer an alternative version that blocked forced unionism stipulations from making their way to the bargaining table.

Ryan Harriman (rharriman@effwa.org) is coalitions manager and a labor policy analyst with the Evergreen Freedom Foundation in Olympia, Washington.

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.

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https://www.heartland.org
California Cities Keep Collecting Phone Tax, Ignoring Federal Law

By Tim Bittle and Jon Coupal

Many city attorneys in California know that the past and present collection of their city’s utility tax on cell phone bills is illegal without voter approval, but they and the politicians they represent are trying to bluff their way out of holding a vote.

A utility tax is a tax on utility use. The idea of taxing utility usage first became popular in California during the 1960s, before cell phones. Instead of writing their own ordinances, many cities adopted or copied a uniform Utility Tax Ordinance, based on federal law, that was in circulation at the time.

Proposed Minnesota Wireless Regs Are Unneeded, Destructive

By Thomas A. Schatz

Minnesota is no different from other states facing budget problems. While Minnesota lawmakers grappled with a $935 million deficit, they wasted time trying to regulate the wireless telecommunications industry through HF 635 and SF 833, named “The Minnesota Wireless Telephone Consumer Protection Act.”

Those benign-sounding House and Senate bills threaten the affordability and accessibility of cell phone and other wireless services by changing how wireless consumers interact with their service providers.

There is no problem with wireless service in Minnesota, yet HF 635/SF 833 would pile on needless regulations by micromanaging customer contracts, billing, and coverage terms. Enacting these bills into law will drive up costs, limit choices, and stifle innovation.

12 Percent Burden

Minnesotans already pay more than 12 percent in federal, state, and local wireless taxes, surcharges, and government fees on their wireless bills each month. Wireless users think that is more than enough. A survey of 600 likely voters in Minnesota showed 67 percent believe HF 635/SF 833 will make their service more expensive.

The wireless industry is one of the most dynamic in the world. Today’s phones not only provide high-quality voice service but also are used for Internet access for Web browsing, e-mail, music, video, and more. Many businesses, especially small firms, could not function without wireless devices.

Constitutional Extensions

The California state constitution, as amended by Proposition 218, authored by the Howard Jarvis Taxpayers Association, requires voter approval for any new tax or the extension of any existing tax to new circumstances.

As a test case, the association filed suit against the City of Sacramento in June 2007. Sacramento amended its ordinance in October 2006 to remove the former reference to federal law and redefine telephone service in order to impose the tax on cell phones. That amendment, the suit charges, required voter approval and, without it, application of the tax to cell phones is illegal. The suit is awaiting a state trial court date.

Thomas A. Schatz (amoutevelis@cagw.org) is president of Citizens Against Government Waste.

New Technology, Old Definition

Because of changes in technology many phone services no longer fit neatly into the federal definition of 50 years ago. Because they do not limit subscribers to a local area or charge for calls based on both time and distance, most cell phone services do not legally qualify as taxable.

In a series of decisions beginning in 2005, five federal courts of appeal across the country held wireless cellular services for which charges are based on time but not distance do not qualify as taxable telephone services under the definition in the Federal Excise Tax statute.

To comply with those rulings, in 2006 the IRS ended the practice of collecting the Federal Excise Tax on cell phone bills. Despite the clarification of the law, to our knowledge no California city has ceased collecting its utility tax on cell phones.

Some cities are ignoring the change in federal law and are continuing to apply their existing ordinance to cell phone bills. The rest have amended their ordinances to delete the reference to federal law and to redefine telephone service to include cell phones. Most of the latter have not sought voter approval.

Unconstitutional Extensions

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Tim Bittle (info@hjta.org) is director of legal affairs and Jon Coupal (info@hjta.org) is president of the Howard Jarvis Taxpayers Association.
Michigan’s Economic Development Corporation Favors Perception, Bluster Over Real-World Needs

By Michael D. Lafaivre

Since 1999 Michigan has operated its Economic Development Corporation (MEDC) and a variety of other expensive programs designed to create or keep jobs in the state. According to Gov. Jennifer Granholm’s (D) 2008 State of the State Address, more such programs was appropriated more than $1.6 billion in federal, state, and other dollars to facilitate its mission, Michigan between 1999 and 2006 shed 244,000 jobs. MEDC officials and their apologists want us to believe these programs “create” jobs. The truth is that while MEDC was appropriated more than $1.6 billion in federal, state, and other dollars to facilitate its mission, Michigan between 1999 and 2006 shed 244,000 jobs ...

“[W]hile the [Michigan Economic Development Corporation] was appropriated more than $1.6 billion in federal, state, and other dollars to facilitate its mission, Michigan between 1999 and 2006 shed 244,000 jobs ...”

Virginia

Continued from page 1

ia Del. Bob Marshall (R-Manassas) and joined by more than a dozen taxpayers affected by the hikes.

A 2007 transportation funding package crafted by the Republican-controlled General Assembly and signed by Gov. Tim Kaine (D) created the unelected “transportation authorities” in the Northern Virginia and Hampton Roads areas. The two authorities subsequently voted to impose burdens of $300 million and $168 million, respectively, on taxpayers.

“We never should have done this,” said Marshall of the creation of unelected transportation authorities. “Nobody else paid attention to bans in the constitution on things like the NVTA. I take my oath seriously. These people were trying to take lots of money and not be responsible for it.”

Warning to Other States

In its February 29 ruling against the NVTA taxes, the court stated, “the General Assembly may not delegate its taxing power to a non-elected body such as the NVTA.” Therefore, “such taxes and fees that NVTA has already imposed are null and void.”

Taxpayer activists hailed the outcome as a strong message to the General Assembly that it may not disregard the rights of taxpayers in attempts to find politically expedient revenue sources. Equally important, the decision provides a clear warning to over-reaching legislatures in other states.

Refund Process Begins

On March 25 Kaine signed a bill authorizing refunds of the illegal taxes. NVTA started tax collections in January, while the Hampton Roads Transportation Authority had put tax collections on hold pending the court’s ruling.

“We would rather have to deal with refunds than give up the revenue we would not collect during that waiting period,” an NVTA spokesperson said in late 2007.

NVTA has since announced it will take up to three years and cost hundreds of thousands of dollars to return the taxes it collected in the first two months of 2008. The nature of the taxes, which included levies on home sales, hotels, and rental car fees, makes the refunds difficult to process.

The state’s Department of Motor Vehicles, Unclaimed Property Division, and court clerks have been charged with refunding the seven taxes collected by NVTA.

Outlook Uncertain

In response to the ruling, Kaine and legislative leaders have announced plans to examine alternate ways to generate more transportation funding. The exact strategy is still in the formative stage.

“It’s tough to say where things are headed,” said Del. Jeff Frederick (R-Prince William), an NVTA member who voted against all seven taxes. “One side is digging in their heels for a statewide tax increase. The other side is united against a statewide tax hike, but otherwise divided on what to do. It’s a tough nut to crack.”

Patrick McSweeney, counsel for the individuals who challenged the taxes and former chairman of the Virginia Republican Party, said the decision “abruptly reshaped the debate over transportation policy in Virginia.”

McSweeney noted some “Republican House leaders have focused on new regional funding solutions, including the same regional sales tax increase that voters in Hampton Roads and Northern Virginia overwhelmingly rejected in 2002 referendums.”

Severe Traffic Congestion

Marshall said he is not surprised by talk of new taxes to replace those struck down by the Virginia Supreme Court.

“The entire political establishment supported the transportation authorities,” Marshall said. “You can read a Russian novel sitting in our traffic, but nothing is worth abandoning the fundamental principle of representative government. They tried to abandon it.”

Instead of focusing on taxes that have already been rejected by the electorate, Krystal Slivinski, vice president for government affairs for Tertium Quids, a leading Virginia free-market advocacy group, said the legislative focus should be on congestion relief.

“Only when this priority is acknowledged can we create a feasible plan with measurable goals and timetables for improvement,” Slivinski said. “Until then, neither the General Assembly nor local governing bodies should be taking any more of our money.”

Kristina Rasmussen (krasmussen@ntu.org) is director of government affairs for the 362,000-member National Taxpayers Union. Rasmussen was a plaintiff in the case mentioned in this story.
New Job Loss Figures for Michigan Confirm the Need for Policy Reforms

By James Hohman

Figures recently released by the national Bureau of Labor Statistics (BLS) show Michigan is in dire need of transformational policy reform.

Once again the state is the national leader in job loss and unemployment, according to the report released in March.

Michigan lost 1.5 percent of its employment from 2006 to 2007. The state’s unemployment rate rose from 6.9 percent in 2006 to 7.2 percent in 2007—highest in the nation and the highest average annual rate the state has suffered since 1993.

Since 2002 Michigan has lost 5 percent of its total nonfarm employment. Overall, national employment over the same period increased 6 percent. The only other state to lose jobs over this period was Ohio, which lost 0.4 percent of its jobs.

Economic Decline

Michigan’s economic decline has been deep and broad. Losses include 19 percent of its manufacturing jobs, 17 percent of its construction jobs, 12 percent of its natural resources and mining jobs, 11 percent of its information jobs, and smaller losses in financial activities, professional and business services, and government.

“While the employment figures for Michigan continue to be distressing, they are not surprising,” said Tricia Kinley, director of tax policy and economic development at the Michigan Chamber of Commerce. “The state continues to grapple with the fallout of auto sector restructuring, and the results exacerbate our home foreclosure crisis and drain family discretionary spending.”

“Unfortunately,” Kinley continued, “the legislature and administration added salt to the wound by raising business and income taxes in order to increase government spending.”

Wages appear to be growing for the auto workers who remain. Between 2001 and 2006, average wages at auto manufacturing plants in the state increased 27 percent, according to the Quarterly Census of Employment and Wages. Average compensation is now more than $85,000 annually, excluding benefits packages.

Central Planning

Observers say Michigan policymakers are largely failing to implement policies that would improve the state’s economic situation, focusing instead on promoting fringe industries in alternative energy and on re-regulating Michigan’s electricity generation. Not only do such diversions ignore the fundamental problems facing the state, but they steer state policies farther away from a competitive market, analysts say.

“Michigan lost 1.5 percent of its employment from 2006 to 2007. The state’s unemployment rate rose from 6.9 percent in 2006 to 7.2 percent in 2007—highest in the nation and the highest average annual rate the state has suffered since 1993.”

“Legislators are still trying to centrally plan the state’s ailing economy with targeted tax credit programs,” said Michael LaFaive, director of the Morey Fiscal Policy Initiative at the Michigan-based Mackinac Center for Public Policy. “Their latest brainstorm is refundable tax credits for filmmakers. Do legislators really believe they will be able to offset the damage they’ve done by handing out goodies to a favored few?”

Targeting an area where pending legislation could improve Michigan’s business structure, a bill introduced by state Rep. David Agema (R-Grandville) would prevent the Department of Environmental Quality from enacting environmental rules more stringent than federal policies.

The proposed legislation would decrease the regulatory burden on businesses while maintaining safety measures that meet federal guidelines.

Playing Favorites

Economists including LaFaive say what’s lacking in Michigan is a serious discussion of labor and tax reforms that would truly improve the state’s stagnant economy. The state, he points out, can no longer afford status quo arguments that benefit one group at the expense of the state as a whole.

Only significant reforms, such as a right-to-work law and the elimination of one of Michigan’s major taxes—sales, income, or business—will reverse the precipitous economic decline, LaFaive says. Until such a transformational change takes place, Michigan residents can expect further depressing numbers from BLS, he says.

James M. Hohman (hohman@mackinac.org) is a fiscal policy research assistant with the Mackinac Center for Public Policy in Midland, Michigan.
Freight Rail in Unprecedented Expansion, While High-Cost Urban Rail Transit Lags

Investment in urban rail transit has peaked

By Kenneth Orski

Two years ago, I suggested the era of multibillion-dollar system-building investments in urban rail transit is coming to an end. I wrote: “The 30-year effort to retrofit American cities with rail infrastructure, begun back in the Nixon Administration, appears to be just about over. To be sure, federal capital assistance to transit will continue, but its function will shift to incrementally expanding existing rail networks and commuter rail services rather than embarking on construction of brand new rail transit systems” (“The New Starts Program Is Changing Its Emphasis,” Innovation Briefs, March/April 2006). The newly released Fiscal Year 2009 Budget Proposal of the U.S. Department of Transportation confirms the truth of that speculation. Of the 30 transit capital projects proposed for funding in FY 2009, 17 are rail projects, only two of which are new projects recommended for full-funding grant agreements (FFGA).

The remaining 13 projects are modestly funded “Small Starts,” of which 11 are Bus Rapid Transit (BRT) projects. Twelve additional rail projects are in Final Design or Preliminary Engineering, for a total of 29 rail projects in construction or the engineering pipeline. By contrast, seven years ago, the FY 2002 budget listed a total of 69 rail projects in construction or engineering. Even as recently as FY 2007, seven new rail projects were recommended for FFGAs.

“The bulk of future investment in rail transit will almost certainly take the form of incremental additions to existing rail networks.”

Cost Concerns

What accounts for this profound transformation in the federal transit program? The simplest and most obvious explanation is that after 30 years of sustained federal investment in urban rail systems—resulting in the construction of 22 new light rail systems and five new heavy rail systems—the New Starts program is beginning to run out of cities that can afford or justify cost-effective rail transit investment.

Norfolk, Virginia is the only new urban area to have joined the “club” of rail cities in recent years. The only other cities that can hope to join in the foreseeable future are Charlotte, North Carolina and Orlando, Florida. Their projects are currently in preliminary engineering.

Hence the bulk of future investment in rail transit will almost certainly take the form of incremental additions to existing rail networks.

Economical Alternative

Also responsible for the decline in rail projects is the rising attraction of the more affordable BRT alternative with its incentive of a simplified Federal Transit Administration evaluation process.

Continued from page 1

County

continuing on right

governments in our midst who are spending well over $21,000 a year (per employee) for family coverage.”

So in November 2006 Manitowoc County government asked for quotes on HSAs and signed up for such a plan. Costs dropped thousands of dollars per employee, while coverage improved.

“57,400 Savings Per Family”

“The quotes gave us better coverage and a $7,400 reduction in the family plan,” Ziegelbauer said. “This allowed us to fully fund the HSAs and give employees more than $4,000 of the savings. And we saved over $2,000 per copy [employee who took the family plan coverage] for taxpayers.”

The more expensive standard plan offered a $500 deductible for the family plan and a $250 deductible for single coverage. Employees paid 8 percent of the plan premium.

Under the HSA plan employees pay no premium and have no co-pays because the HSA covers them.

“There’s a net benefit for employees of over $4,000 a year per family plan,” Ziegelbauer said.

HSA Consumer Incentives

HSAs, a sort of Individual Retirement Account (IRA) for health care, let people set aside tax-free money to pay for medical expenses, both now and in future years. A savings account is paired with a high-deductible health insurance plan. Generally, the higher the deductible, the lower the cost in premiums. HSAs provide money rewards for better use of medical care, and thus give patients strong reasons to demand higher quality and cost-effective care, because the costs first come out of their HSA. This helps keep prices competitive.

Often routine check-ups and vaccinations have no deductible and no co-pay, to make sure HSA holders don’t try to save money by forgoing preventive checkups and vaccinations.

The employer, the employee, or both may contribute to the HSA account. The HSA funds belong to the individual account owner. An individual not in a group plan can buy his or her own HSA. If the money isn’t spent, it is banked and can be added to for future medical expenses.

Patients with a stake in the costs now ask questions such as, “How much will this procedure cost?” and “Will this test give the doctor useful information?” Patients look for less-costly solutions and ask for them. Consumers help change the medical system by caring about whether they are getting a good deal.

‘Culture Shift’ Among Workers

Ziegelbauer said a “culture shift” has taken place among the county’s government union workers, whose leaders “pil¬liored” the HSA concept during the 2006 gubernatorial election in Wisconsin, during which public funding of health insurance was a big issue.

First to jump on board was Manitowoc County’s sheriff’s deputies’ union. About two-thirds of the county’s non-bargaining unit employees also signed up as soon as the HSA plan was offered. The American Federation of State, County, and Municipal Employees (AFSCME) union initially rejected the HSA.

“The AFSCME people ended up deferring an entire year. They missed out on that $4,000 per member in the family plan because they bought into the orthodox stuff coming from union headquarters,” Ziegelbauer said. “They want to kill HSAs because they want single-payer systems.”

“The real story here is that the public sector, ironically, is perhaps the most fertile ground for HSAs because we are spending so much already.”

Bob Ziegelbauer (left)

MANITOWOC COUNTY EXECUTIVE

STATE REPRESENTATIVE

MANITOWOC, WISCONSIN

Frank Lasee (laseenotes@yahoo.com) is a Republican state representative from Green Bay, Wisconsin. This article was adapted from the March 25, 2008 issue of the “Lasee’s Notes” newsletter.
Tolls and Private Capital May Drive New Investment

Could highways become more like freight railroads? Could future highway infrastructure be financed with user fees and private capital, just like rail infrastructure? Or is the notion that highways are a public good to be supported primarily by taxpayers too deeply ingrained to allow for such a radical change in approach?

The debate on this score has just begun, and its eventual outcome is uncertain. Ultimately, the answer may hinge less on how Congress decides to fund the federal contribution to the surface transportation program than on how governors, state legislatures, and local governments across the nation decide to approach the long-term challenge of financing new road infrastructure.

Highway Toll Options

The signals from many state capitals suggest user fees in the form of tolls are increasingly being considered as the principal means of financing future highways and bridges. Governors and legislative committees in as many as 14 states are contemplating adding tolls to their arsenal of revenue measures.

This does not mean the need for fuel taxes will disappear. The gas tax will continue to be needed to fund the ever-growing requirements to preserve and modernize the nation’s aging road facilities. However, finding the resources to pay for new capacity will require a more entrepreneurial approach, with the freight railroads serving as a possible financing model.

“[F]inding the resources to pay for new [highway] capacity will require a more entrepreneurial approach, with the freight railroads serving as a possible financing model.”

“Since 2000, freight railroads have spent $10 billion to expand track, build freight yards, and buy rolling stock, and they have $12 billion more in upgrades planned.”

Dramatic Freight Rail Expansion

In the meantime another rail sector—the freight railroads—is experiencing unprecedented expansion.

“For the first time in nearly a century railroads are making large investments in their networks,” wrote Daniel Machalaba in a well-documented front page article in The Wall Street Journal (“New Era for Rail Building,” February 13, 2008).

Their campaign is altering the corridors of American commerce, more so than any other development since interstate highways spread to the interior,” Machalaba noted.

Since 2000, freight railroads have spent $10 billion to expand track, build freight yards, and buy rolling stock, and they have $12 billion more in upgrades planned.

“It’s been a century since railroads embarked on a similar spate of capital investment,” Machalaba observed.

Surge in Demand

The catalyst for this burst of investment has been the rapid growth of international trade and its rising demands to move containers of finished goods from ports to major cities. Demand for rail service increased sharply when Asian imports intensified starting in 2003.

While long-haul trucking continues to be the backbone of the nation’s land-based freight system, railroads are stepping in to supplement the goods-carrying capacity in many corridors.

Burlington Northern was the first to begin expanding the physical capacity of its rail network, by adding a second set of tracks to portions of its Chicago-Los Angeles Transcon line, now nearing completion. Union Pacific followed with an upgrade of its Sunset Corridor from Los Angeles to El Paso, Texas.

Norfolk Southern is improving access to the ports of New Orleans and Norfolk by expanding the capacity of its Crescent (New York-New Orleans) and Heartland (Chicago-Norfolk) rail corridors. CSX is doing the same in its Chicago-to-Florida Southeast Corridor.

Private Funds Exclusively

What is remarkable is that this massive expansion and modernization of freight rail infrastructure has been accomplished without the help of any public funds. From 1980, when the Staggers Rail Act partially deregulated railroads, through 2006, railroads have invested some $400 billion of private capital in their systems, according to the Association of American Railroads (AAR).

Currently, railroad companies are investing 18 percent of their revenue in new infrastructure, more than any other industry, says AAR. They are able to do so because dramatic increases in freight volume due to booming international trade have led to record earnings. Forecasts are for continued profitability, with railroads prepared to continue funding internally the vast majority of their planned rail infrastructure investment.

C. Kenneth Orski (korski@verizon.net) is editor and publisher of Innovation Briefs (http://www.innobriefs.com), a transportation newsletter in its 18th year of publication, where an earlier version of this article appeared. Used with permission.
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