Governor Tries to Replace Taxes Thrown out by Va. Supreme Court

Virginia Gov. Tim Kaine has proposed statewide tax hikes and fee increases after the state supreme court deemed unconstitutional $300 million in regional levies.

By Steve Stanek

 Barely three months after the Virginia Supreme Court struck down hundreds of millions of dollars in taxes and fees intended to fund transportation, Gov. Tim Kaine (D) launched a campaign to raise taxes and fees to replace the ones ruled unconstitutional.

In early June Kaine announced a plan to raise the retail sales tax from 5 cents to 6 cents on the dollar in the Hampton Roads and Northern Virginia areas. He also proposed raising the areas’ sales tax on cars from 3 percent to 4 percent, adding $10 to the yearly auto registration fee, and increasing taxes on home sellers. The money, he says, would...

North Carolina Governor Seeks to Hike the State’s Beer, Tobacco Taxes

By Joseph Coletti

North Carolina Gov. Mike Easley (D) managed to offend both the mentally ill and beer drinkers when he unveiled his budget for Fiscal Year 2009.

His proposed budget includes new taxes on beer, wine, and spirits to pay for mental health reform, and higher taxes on cigarettes to pay for teacher raises, as well as a $1 billion increase in general fund spending on operations.

“My thought is, if four cents a can, if...

Congress Acts to Address AMT Flaws

By Tim Carlson and Brian Trauman

Congress is finishing work begun in 2006 to remedy an unintended consequence of the Alternative Minimum Tax (AMT)—the treatment of a form of employee compensation called incentive stock options (ISOs).

AMT p. 6

McCain, Obama Vow Support for Transparency

By Sandra Fabry

The nation’s two presumptive major political party candidates for president have joined Sens. Tom Coburn (R-OK) and Tom Carper (D-DE) in introducing legislation to enhance a landmark spending transparency measure that became...

TRANSPARENCY p. 4
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I am here to tell you, our Republic is at risk. Washington is out of touch and out of control. I’ve had the good fortune of going to 26 states and 40 cities as part of the ‘Fiscal Wake-Up Tour’ during the last two years. I’ve been to a number of other states, and many more cities in my capacity as comptroller general of the United States, and now in my capacity as president and chief executive officer of the Peter G. Peterson Foundation. ... 

Frankly, I’m not just concerned about the sustainability challenges we face. I’m concerned about how far this nation has strayed from the solid foundations that our Founding Fathers provided for us in 1789. And let me mention just a few examples.

First, the size of government. The Founding Fathers believed in limited government. In 1789 the federal government was 2 percent of the economy. Today it’s 20 percent and is scheduled to get a lot bigger.

Second, the composition of government. At the beginning of our republic, the federal government focused on things that realistically only the federal government could do. Responsibilities like national defense, foreign policy, treasury, postal service, Congress, and the Executive Office of the President of the United States. Today, the 38 percent of the budget that is deemed to be ‘discretionary spending’ contains every major express and enumerated responsibility envisioned by the Founding Fathers for the federal government. Every single one. What happened to the provision written by the founders: that any role or function not expressly reserved for the Federal government belongs to the states and ultimately to the people? We have lost our way ...

“I’m concerned about how far this nation has strayed from the solid foundations that our Founding Fathers provided for us in 1789."

Let me touch briefly on a few sustainability challenges. ... Firstly, our federal fiscal challenge. It’s not our current deficits, and it’s not our current debt levels that are the problem. Yes, the deficits are larger than they should be. Yes, our debt levels can hardly be justified given the principles our founders established, and frankly, America’s history, up until the 1970s.

When we incurred significant debt because of wars, whether it was the Revolutionary War, whether it was the Civil War, whether it was World War I, or World War II, our nation had a tradition of paying down that debt as quickly as possible so we did not encumber future generations with burdens that they should not be expected to bear. But since the 1970s, that tradition has gone by the wayside, and it’s time that we think about bringing it back over time.

We have large deficits and debt levels, but the real problems are off-balance-sheet obligations. As per the latest federal financial statements, we have over $44 trillion (there are 12 zeros to the right of that 44) in off-balance-sheet obligations, primarily in the form of unfunded Medicare and Social Security obligations. Adding this number to our nation’s current debt levels means that our total federal fiscal hole was about $53 trillion as of September 30, 2007. That unfunded hole is getting bigger by $2 to $3 trillion a year by doing nothing. If you balance the budget tomorrow, which we’re a long way from doing, that hole would still grow by $2 trillion-plus a year. $2 trillion-plus a year!

Now, what is $53 trillion? It’s $455,000 per American household. What’s median household income in America? Less than $50,000 a year! Therefore, based on our present policies and programs, the typical American household has an implicit mortgage of over nine times their current annual income, but no house to back that mortgage. That’s the big sub-prime crisis.”

David M. Walker (at podium), former comptroller general of the United States, described a Washington Policy Center audience a federal government that has strayed far from what the Founding Fathers intended.
Ready for a 150 Percent Income Tax Increase?

CBO projects need for huge tax hikes

By Jason Mercier

For years, taxpayer advocacy groups have been sounding the alarm about serious spending problems facing the nation and the lack of attention elected officials are paying to this growing fiscal disaster. Now come projections out of the Congressional Budget Office (CBO) on what further delay means to taxpayers and the economy.

According to a CBO report and letter dated May 19 to Rep. Paul Ryan (R-WI), “Under current law, rising costs for health care and the aging of the population will cause federal spending on Medicare, Medicaid, and Social Security to rise substantially as a share of the economy. If tax revenues as a share of gross domestic product (GDP) remain at current levels, that additional spending will eventually cause future budget deficits to become unsustainable. To prevent those deficits from growing to levels that could impose substantial costs on the economy, the choices are limited: Revenues must rise, or both.”

Infeasible Tax Hikes

If tax increases turn out to be the preferred solution for resolving the spending problem, the toll will be tremendous, CBO reports.

“The tax rate for the lowest tax bracket would have to be increased from 10 percent to 25 percent; the tax rate on incomes in the current 25 percent bracket would have to be increased to 63 percent; and the tax rate of the highest bracket would have to be raised from 35 percent to 88 percent.”

CONGRESSIONAL BUDGET OFFICE

“With no economic feedbacks taken into account and under an assumption that raising marginal tax rates was the only mechanism used to balance the budget, tax rates would have to more than double,” the CBO report says. “The tax rate for the lowest tax bracket would have to be increased from 10 percent to 25 percent; the tax rate on incomes in the current 25 percent bracket would have to be increased to 63 percent; and the tax rate of the highest bracket would have to be raised from 35 percent to 88 percent.”

“Such tax rates would significantly reduce economic activity and would create serious problems with tax avoidance and tax evasion. Revenues would probably fall significantly short of the amount needed to finance the growth of spending; therefore, tax rates at such levels would probably not be economically feasible.”

Health Care Pressures

The report concludes, “The United States faces serious long-run budgetary challenges. If action is not taken to curb the projected growth of budget deficits in coming decades, the economy will eventually suffer serious damage. The issue facing policymakers is not whether to address rising deficits, but when and how to address them.”

“At some point, policymakers will have to increase taxes, reduce spending, or both. Much of the pressure on the budget stems from the fast growth of federal costs on health care, so constraining that growth seems a key component of reducing deficits over the next several decades. A variety of evidence suggests that opportunities exist to constrain health care costs both in the public programs and in the health care system overall without adverse health consequences, although capturing those opportunities involves many challenges.”

So what do the current presidential candidates plan to do? They aren’t saying.

Jason Mercier (jmercer@washingtonpolicy.org) is director of the Center for Government Reform of the Washington Policy Center in Olympia, Washington.

INTERNET INFO

Congressional Budget Office report for Congressmen Paul Ryan (R-WI) regarding government entitlement spending and the future impact on taxes: http://www.heartland.org/article/20080518/OPINION03/589056734/1/OPINION#When.America.needs.leadertship.it Gets.pandering

INTERNET INFO

Commentary by former U.S. Comptroller General David M. Walker concerning poor political leadership on entitlement spending control: http://www.heraldnet.com/article/20080518/OPINION03/589056734/1/OPINION#When.America.needs.leadertship.it Gets.pandering

Taxpayers in the Cincinnati area may see even more transparency than their fellow Ohioans. Thanks to an effort led by County Commissioner Pat DeWine (R), the Hamilton County Commission was poised for a June vote to create a searchable online database for county expenditures.

People’s Rights Cited

DeWine unveiled his proposal, the Government Accountability in Spending Project (GASP), at a press conference on May 15. Joined by representatives from several groups, including Americans for Tax Reform, DeWine said, “The right of the people to be informed about where their tax dollars are going is fundamental. GASP will help to create and preserve the kind of well-informed electorate that is vital to a well-functioning government.”

The county’s largest newspaper, the Cincinnati Enquirer, endorsed the proposal, stating, “The idea of increasing the transparency and accountability of government spending by putting the data online for citizens to see is a very good idea.”

Fellow commissioners David Pepper (D) and Todd Fortune (D) also have endorsed the idea, leading DeWine to say he expects it to win approval.

Cincinnati Moves for Transparency

DeWine’s proposal is resonating not only with the public and the media but also with other levels of government. Members of the Cincinnati City Council are proposing similar online databases for city government expenditures.

Explicitly referencing GASP, council member Chris Monzel (R) introduced a motion on May 28 instructing the city manager to “immediately implement a system that will make available, in a searchable database on the city’s Web site, all city expenditures broken down by department as well as aggregate totals.”

Fellow council member Jeff Berding (D) says he has a similar proposal in mind. “Citizens deserve the right to hold their government accountable for the expenditure of their tax dollars. Transparency of government expenditures will reduce waste, fraud, and abuse, as bureaucrats and politicians will be unable to hide shameful spending,” Berding said.

“These expenditures are already online for city hall insiders but hidden from the public. Shining a light on spending through the power of the Internet is a powerful citizen tool, consistent with the best practices of a new ‘Google government,'” Berding concluded.

Sandra Fabry (sfabry@atr.org) is government affairs manager for Americans for Tax Reform and executive director of the Center for Fiscal Accountability, a new project of Americans for Tax Reform.

Transparency

Continued from page 1

Law two years ago.

The Strengthening Accountability and Transparency in Federal Spending Act, backed by expected Republican Party nominee Sen. John McCain (R-AZ) and anticipated Democratic Party nominee Sen. Barack Obama (D-IL), would codify into law several features voluntarily incorporated into the USAspending.gov spending transparency Web site. It also would make some technical improvements to the earlier law.

Ohio Joins Movement

The push for federal spending transparency is being matched in many states and localities.

In Ohio, HB 420, sponsored by Rep. Tom Brinkman (R-Mount Lookout), passed the state House of Representatives unanimously this spring and is expected to be taken up by the state Senate after the legislature returns following the November 4 elections.

According to a CBO report and letter dated May 19 to Rep. Paul Ryan (R-WI), “Under current law, rising costs for health care and the aging of the population will cause federal spending on Medicare, Medicaid, and Social Security to rise substantially as a share of the economy. If tax revenues as a share of gross domestic product (GDP) remain at current levels, that additional spending will eventually cause future budget deficits to become unsustainable. To prevent those deficits from growing to levels that could impose substantial costs on the economy, the choices are limited: Revenues must rise, or both.”
Wisconsin Congressman Proposes New ‘Roadmap’ on Entitlements

In response to a Congressional Budget Office report projecting ruinous increases in spending and taxes to maintain promises in the Social Security, Medicare, and Medicaid programs, Rep. Paul Ryan (R-WI) announced A Roadmap for America’s Future, which he said he will turn into legislation.

“Washington is broken, and has yet to face up to our most pressing domestic challenges. My Roadmap for America’s Future will fulfill the promise of health and retirement security, lift the crushing burden of debt we’re passing to our children, and will strengthen American jobs and competitiveness for the twenty-first century,” Ryan said in announcing his plan.

Ryan said major components of the proposal will focus on health care, Medicare, Social Security, and tax reform. Here are the highlights as outlined by Ryan’s office in late May:

**Health Care**
- Ensures universal access to affordable health insurance by restructuring the tax code and shifting ownership of health coverage away from the government and employers to individuals.
- Provides a refundable tax credit—$2,500 for individuals and $5,000 for families—to purchase coverage in any state and keep it with them if they move or change jobs.
- Establishes transparency in health care price and quality data, so this critical information is readily available before someone needs health services.
- Modernizes Medicaid and strengthens the health care safety net by reforming high-risk pools, giving states maximum flexibility to tailor Medicaid programs to the specific needs of their populations. Allows Medicaid recipients to take part in the same variety of options and high-quality care available to everyone, through the tax credit option.

**Medicare**
- Transitions the program to allow beneficiaries to choose the most affordable coverage to suit their needs.
- Preserves the existing Medicare program for those 55 or older.
- For those under 55, creates a Medicare payment of up to $9,500, adjusted for inflation and based on income, with low-income individuals receiving greater support. It is also risk-adjusted, so those with greater medical needs receive a higher payment.
- Establishes and fully funds medical savings accounts (MSAs) for low-income beneficiaries, while continuing to allow all beneficiaries, regardless of income, to set up tax-free MSAs.
- Makes Medicare permanently solvent, based on consultation with the Office of the Actuary of the Centers for Medicare & Medicaid Services.

**Social Security**
- Preserves the existing Social Security program for those 55 or older.
- Offers workers under 55 the option of investing more than one-third of their current Social Security taxes into personal retirement accounts, similar to the Thrift Savings Plan available to federal government employees. Includes a property right so they can pass on these assets to their heirs, and a guarantee that total benefits from the personal accounts will not be less than they would have been under the current system.
- Combined with a more realistic measure of growth in Social Security’s initial benefits and an eventual modernization of the retirement age, makes the program permanently solvent, according to the Chief Actuary of the Social Security Administration (SSA).

**Tax Reform**
- Provides individual income tax payers a choice of how to pay their taxes—through existing law, or through a highly simplified code that fits on a postcard with just two rates and virtually no special tax deductions, credits, or exclusions (except the health care tax credit).
- Simplified tax rates are 10 percent on income up to $100,000 for joint filers and $50,000 for single filers; and 25 percent on taxable income above these amounts. Also includes a generous standard deduction and personal exemption (totaling $39,000 for a family of four).
- Eliminates the alternative minimum tax (AMT).
- Promotes saving by eliminating taxes on interest, capital gains, and dividends; also eliminates the death tax.
- Replaces the corporate income tax—currently the second-highest in the industrialized world—with a border-adjustable business consumption tax of 8.5 percent. This new rate is roughly half that of the rest of the industrialized world.

U.S. Rep. Paul Ryan of Wisconsin has outlined a series of proposals that aim to address health care, Medicare, and Social Security entitlement spending as well as tax reform. He plans to package the proposals as legislation he will introduce soon.

**In Other Words**

“For too long Democrats and Republicans alike have been ignoring the fact that America will not have the money to keep paying the costs of its social insurance programs as the retiring baby boomers draw upon them.

“Instead, Washington has piled on more spending while pushing the payments off to the future, where they accumulate like weights in an attic, waiting to crash down on future generations. ...

“That’s why U.S. Rep. Paul Ryan, R-Wis., deserves support for proposing a sweeping reform of how the nation pays for Medicare, Medicaid, Social Security and health insurance. His plan also reforms federal income and corporate taxes. ...

“The specific elements of Ryan’s plan may or may not be the right answers. But the plan’s focus is exactly on target. It attacks the No. 1 national problem that almost no one else in Washington wants to confront—the approaching fiscal calamity.”

*House Editorial*

*Wisconsin State Journal*  
*May 29, 2008*
Congress Mulls Mortgage Guarantees; Critics See More Harm than Good Likely

By Adam Brandon

Slow housing sales, falling property values, and rising mortgage defaults and foreclosures have prompted Congress to ready a bill to intervene in the housing market. But the bill’s supporters face tough opposition from critics who believe it constitutes an unjustified bailout. The plan would grant taxpayer guarantees to refinance up to $300 billion in private mortgages across the nation.

The bill would allow the Federal Housing Administration (FHA) to insure troubled mortgages for lenders that voluntarily agree to cut by 15 percent the troubled mortgages for lenders that voluntarily agree to cut by 15 percent the

Lenders Would Benefit

The proposal would benefit lenders, who would take relatively small write-downs in exchange for the opportunity to rid themselves of loans with a high chance of default. Senate passage remains uncertain, and even if the bill makes it through the Senate, it faces a veto threat from President George W. Bush, who issued a statement saying the House version would aid real estate “speculators.”

“[N]o one should lose their homes, savings, and retirement to a wildly disproportionate tax on phantom income they never saw, because our tax laws failed to anticipate the circumstances in which a number of our citizens now find themselves.”

CHRIS VAN HOLLEN (right)
U.S. REPRESENTATIVE - MARYLAND

Continued from page 1


“Under [the Alternative Minimum Tax], thousands of workers who received [incentive stock options] have faced enormous unintended tax liabilities.”

Due to an unintended flaw in the tax code, ISO AMT victims—employees of small and large companies across America—were forced to pay taxes sometimes exceeding 300 percent of their annual salaries, based on phantom “income” they never received. In many cases, families were unable to pay, leading the IRS to seize their houses and savings and garnish their wages.

House Provides Additional Relief

Congress acted at the end of 2006 to provide some measure of relief in refunding accrued credits, and HR 6049 addresses two remaining issues:

- Some employees still cannot recover their ISO AMT overpayment credits because of phase-outs based on arbitrary income levels. HR 6049 removes those limits.
- Thousands of families have been unable to pay their ISO AMT liability, and they have struggled for almost eight years with this ongoing liability and significant accrued interest and penalties ("accruals"). Although the 2006 legislation provided for refunds of amounts paid, it required that the amounts actually be paid, and then a refund sent. HR 6049 immediately abates unpaid liability and accruals, netting the payment obligation and the refund to provide immediate relief.

Considered Long Overdue

The ISO correction and relief provision in HR 6049 was based on the AMT Credit Fairness and Relief Act, HR 3861, introduced by Rep. Chris Van Hollen (D-MD) and lead co-sponsor Rep. Sam Johnson (R-TX), with original co-sponsors Reps. Richard Neal (D-MA) and Jim Ramstad (R-MN).

“The goal of this legislation is to restore a basic sense of fairness to a provision in the tax code that has gone tragically awry,” said Van Hollen in a press statement. “While everyone should pay a just and proportionate amount of tax on money they actually make, no one should lose their homes, savings, and retirement to a wildly disproportionate tax on phantom income they never saw, because our tax laws failed to anticipate the circumstances in which a number of our citizens now find themselves.”

“I am thrilled to see House passage of legislation to put an end to this long nightmare,” said Johnson. “For too many years I’ve had constituents who were subject to taxation on income they never received,” Johnson continued. “To pay taxes on this ‘phantom income’ my constituents have emptied their retirement accounts, taken money out of their children’s education funds, and put second mortgages on their homes. Others have had their homes sold by the IRS to pay taxes on income they never received. It is long past time to get this important change made law.”

Senate Action Pending

The Senate’s counterpart to HR 3861 was introduced as S 2389 in November 2007 by Sen. John Kerry (D-MA) and co-sponsored by Sens. Maria Cantwell (D-WA) and Joseph Lieberman (I-CT). It is also sponsored by the Senate Finance Committee’s ranking member, Sen. Charles Grassley (R-IA), and Sens. Richard Durbin (D-IL) and Barbara Boxer (D-CA). Their sponsorship demonstrates strong support for this second phase of ISO AMT relief, particularly in America’s high-tech corridors and technology incubator regions.

“With growing, bipartisan support for a permanent ISO AMT fix in the Senate, I am hopeful we will get this correction signed into law this year,” said Van Hollen.

Tim Carlson (tcarlson@ti.com) is president of the Coalition for Tax Fairness. Brian Trauman (btrauman@mayerbrown.com) is an attorney specializing in tax issues at Mayer Brown LLP in New York City.
‘Patriot Tax’ Surcharge Would Slap Small Businesses

By Ryan Ellis

Over much stronger opposition than usually accompanies such measures, the U.S. House of Representatives has passed a bill to increase funding for veterans’ education.

Such rewards for service to country are generally so uncontroversial they pass by voice vote or under expedited rules. But this one met stiff opposition, as it would pay for the benefits with revenues generated by a new surtax on high-income taxpayers. The bill passed the House on a 256-166 vote shortly before the Memorial Day break.

The new measure, dubbed the “Patriot Tax” by House Democrats, would impose a 0.47 percent surtax on taxpayers with adjusted gross income (AGI) of $500,000 or more ($1,000,000 or more for married couples filing taxes jointly).

According to the IRS Statistics of Income Division, the surtax would affect about 400,000 households. Congress’s Joint Tax Committee estimated it would raise some $52 billion over 10 years.

‘PAYGO’ Rules Enforcement

Some observers took to calling the surtax the “Blue Dog Tax Hike,” because it was only at the request of Democrats that the veterans’ education bill was funded at all. Under Congress’s ‘PAYGO’ rules, any new mandatory (that is, entitlement) spending must be offset by spending cuts, tax increases, or both.

To date, the Congressional majority has chosen to enforce PAYGO by paying for higher spending with tax increases alone.

House Appropriations Chairman David Obey (D-WI) said in National Journal’s “Congress Daily” on May 16 he wanted an even broader tax because the American public has not been asked to sacrifice for the war, leaving the nation’s soldiers and their families to shoulder the load. But he said he lost that battle and taxing those earning more than $500,000 was the next-best idea.

Republican Reaction

The surtax set off a flurry of reaction from Republicans. All but 32 of the 199 House Republicans voted against the measure, mostly because of the tax increase. President George W. Bush threatened a veto.

Americans for Tax Reform (ATR) took the unusual step of double-rating a vote against the surtax in its annual “Hero of the Taxpayer” Congressional scorecard. ATR also declared the income tax increase a violation of the “Taxpayer Protection Pledge,” which has been signed by all but a handful of House Republicans. In addition, a vote for the surtax was an automatic disqualification from receiving ATR’s “Hero” award for 2008—no matter what the member’s overall score happened to be.

Using IRS data, ATR calculated the surtax would affect approximately 325,000 small business owners. That’s because 87 percent of tax returns with the surtax’s level of AGI have business income from sole proprietorships, partnerships, or Subchapter S corporations—all of which pay tax on the individual 1040 form.

‘Plenty of Wasteful Spending’

“It’s pretty cynical to pass a tax increase on small business owners and tell them to simply take it because it’s the patriotic thing to do,” said ATR President Grover Norquist.

“If Blue Dog Democrats were so hell-bent on paying for veterans’ education benefits, there are plenty of wasteful spending programs out there they could have offset it with. This tax increase shows that Blue Dog Democrats are neither ‘conservative’ nor at all committed to reigning in the size of government,” Norquist continued.

The fate of the surtax, now on its way to the U.S. Senate, is unclear. Compared to the House, that body has shown little appetite for tax increases.

Ryan Ellis (rellis@atr.org) is tax policy director at Americans for Tax Reform in Washington, DC.

CONTINUED from left

hoods.

In a floor speech, Sen. Tom Coburn (R-OK) said the Senate version of the bill “only creates more opportunities for borrowers to receive government-backed loans, increasing the liability on American citizens but not preventing the possibility of delinquency or default.”

Others see the potential for moral hazard. Rep. Marsha Blackburn (R-TN) told The New York Times Frank’s approach would “reward recklessness and provide a safety net for irresponsibility.”

Bailout for Big Banks

Many others are concerned the bill essentially serves as a handout to big banks.

FreedomWorks, a free-market advocacy group in Washington, sponsored an online petition opposing the bill because it represents a government bailout of the mortgage industry. To date, more than 54,000 people have signed the petition, and many have left heated comments on the organization’s Web site.

Wayne Brough, chief economist for FreedomWorks, says the reaction is to be expected. He points to poll numbers showing a majority of Americans oppose such legislation. He says public frustration is justified.

“This gives banks the freedom to take their riskiest loans—many of which they never should have taken in the first place—and offload them onto America’s taxpayers,” Brough said. “It’s a publicly financed get-out-of-jail-free card for lenders who made bad bets on risky loans.”

Adam Brandon (abrandon@freedomworks.org) is press secretary for FreedomWorks, a Washington, DC-based free-market advocacy group.
North Carolina
Continued from page 1

that causes somebody economic hardship, then they’re probably drinking too much and going to be customers of mental health, substance abuse sooner or later anyway,” Easley said in defending his beer tax proposal.

Lawmakers Surprised
Legislative leaders in both of North Carolina’s legislative chambers and across party lines were surprised by the tax hike plan, which Senate Republican leader Phil Berger (R-Rockingham) called “one last tax hike to ensure [Easley’s] legacy.”

Democratic leaders questioned the wisdom of imposing new taxes in a sluggish economy.

“My thought is, if four cents a can ... causes somebody economic hardship, then they’re probably drinking too much and going to be customers of mental health, substance abuse sooner or later anyway.”
MIKE EASLEY (left)
GOVERNOR - NORTH CAROLINA

Taxes would climb 19 percent for most wines and 16 percent for fortified wines such as port. Taxes on hard liquor, which is sold only through state-run stores, would increase 32 percent.

The 57 percent increase in the cigarette tax, to 55 cents a pack, would leave North Carolina with the nation’s twelfth-lowest tax. The state currently has the seventh-lowest cigarette tax, at 35 cents a pack.

“During a period of time when North Carolina consumers are struggling with record high gas prices and home foreclosures and a weak economy, ... [Gov. Easley] would increase an already-high state excise tax which falls most heavily on those least able to afford it,” said Dean Plunkett, executive director of the North Carolina Beer and Wine Wholesalers Association.

Joseph Coletti (jcoletti@johnlocke.org) is fiscal and health care policy analyst at the John Locke Foundation in Raleigh, North Carolina.

Loose Square Men Help Smokers One Cigarette at a Time

By Darrell Moore

When someone has a nicotine craving and no money to buy a pack of cigarettes made extremely expensive by state and local taxes, who can he or she turn to?

In Chicago, New York, and many other cities across the country, there is likely to be a “loose square man” ready to sell a single cigarette or two.

“it’s easy to get a profit from selling loose squares. Everybody wants them, so I supply them.”

LOOSE SQUARE MAN
CHICAGO, ILLINOIS

Filling a Need
“It’s easy to get a profit from selling loose squares. Everybody wants them, so I supply them,” said a Chicago-area loose square man who did not want to be identified.

The high demand for loose squares is largely the result of high cigarette taxes. In Chicago, the tax on a pack of cigarettes has risen 42 percent since 2006, to more than $4 a pack when federal, state, and local cigarette taxes are totaled. The loose square man sells a single cigarette for 50 cents and no tax.

The loose square men often travel to Indiana, where packs of cigarettes are less expensive than in Chicago because the taxes are lower. They drive back to Chicago and sell the single cigarettes, especially in lower-income neighborhoods, at local stores or on the corner. The selling of cigarettes brings income to low-income families trying to make extra money on the side.

But the loose square business is risky. In Cook County, Illinois, for example, it is illegal to sell single cigarettes without charging the tax. People have been arrested or fined for doing so. As a result, loose square men operate discreetly.

Criminal Act
Such tax rebellions are something of an American tradition. John Hancock, signer of the Declaration of Independence, was one of many in the American revolutionary movement who engaged in smuggling, selling legal products that high taxes made too expensive for many people to afford.

Today’s loose square man may not be a John Hancock, but he is following in this Founding Father’s footsteps by providing a legal product many people cannot afford a pack at a time because of growing cigarette tax burdens.

Darrell Moore (dmoore@heartland.org) is an administrative assistant for The Heartland Institute who knows some loose square cigarette sellers.
History Shows Smoking Bans Likely to Be Repealed

**By Jeremy Richards**

Government-imposed smoking bans have been spreading across the United States and around the world in the past two decades. Cities, counties, states, provinces, and even whole countries have embraced the idea that the slight public health risk possibly caused by secondhand smoke justifies the use of police powers to enforce smoking bans on private property.

Most news accounts regarding smoking ban proposals make it seem as though this phenomenon is fresh, new, and progressive, and that once passed, smoking bans are likely to remain on the books and be enforced forever. However, history shows the reality is quite different.

Many smoking bans have been adopted in the past, often for reasons that appear ridiculous in hindsight, and they were repealed when cooler heads prevailed.

**Four Centuries of Suppression**

Smoking bans have come and gone on a global basis for the past 400 years. In 1575, the first recorded smoking ban in America occurred in 1632, when Massachusetts introduced a ban on smoking in public places.

**The first recorded smoking ban in America occurred in 1632, when Massachusetts introduced a ban on smoking in public places.**

In Connecticut in 1647, people were allowed to smoke only once a day, and public smoking was prohibited. In 1683, Massachusetts passed the first laws in America prohibiting smoking outdoors. The city of Philadelphia followed suit, introducing fines for offenders.

**“Smoking bans have come and gone on a global basis for the past 400 years.”**

In 1634, Russian Czar Alexis banned smoking. Those found guilty of a first offense risked whipping, a slit nose, and exile to Siberia. Those found guilty of a second offense faced execution. That same year, the Greek Orthodox Church banned the use of tobacco, claiming tobacco smoke was responsible for intoxicating Noah.

Asian nations made moves against tobacco, too. In 1612, a royal decree forbade the use or cultivation of tobacco in China. It was expanded in 1639, when China made the use or supply of tobacco a crime punishable by decapitation. In 1617, a Mongolian Emperor prohibited the use of tobacco. People breaking the law faced the death penalty. In 1620, the Japanese government banned the use of tobacco.

Even in America, where tobacco originated, anti-smoking restrictions developed. The first recorded smoking ban in America occurred in 1632, when Massachusetts introduced a ban on smoking in public places. In 1639, Gov. Willem Kieft of New Amsterdam outlawed smoking in what later became New York City.

**Nazi Smoke-Haters**

The next major anti-smoking restrictions were in Nazi Germany. Anti-tobacco extremist Adolf Hitler once stated tobacco was “the wrath of the Red Man against the White Man.” Under Hitler, smoking was barred in many workplaces, government offices, hospitals, and rest homes, and later blanket smoking bans were introduced in many cafes, bars, and restaurants.

After World War II, during the period of de-Nazification, those bans were repealed.

**Neither Progressive nor Permanent**

Placed in historical context, today’s anti-smoking restrictions appear to be neither progressive nor permanent. Like past bans, they are based on prejudices and conventional wisdom that are likely to be falsified by new scientific and health discoveries or, if you like, new prejudices and conventional wisdoms.

Also like past bans, today’s prohibitions are leading to civil disobedience, black markets, and heavy social and economic costs. With the anti-smoking movement backed by billions of dollars from government, foundations, and drug companies, it is easy to overlook the backlash that is already occurring and has been growing stronger.

Business owners have been fighting back against smoking restrictions, and prohibitions are being more widely flaunted in places such as Italy, Spain, Turkey, and, yes, to some degree even in California.

In addition, governments need the revenue that smokers provide in taxes and in revenue to hospitality establishments that cater to a smoking clientele.

Though the anti-smoking movement looks formidable, if history is any indication we will not have to wait long for current smoking bans to unravel.

Jeremy Richards (think@heartland.org) is an assistant professor of history at a Georgia college.

**New York Sets Record Cigarette Tax**

New York’s state cigarette tax climbed from $1.50 to $2.75 a pack in June, the highest state cigarette tax burden in the nation.

State officials, including New York Health Commissioner Dr. Richard Daines, assert the higher tax burden will cause about 140,000 state residents to give up smoking, based on reductions from prior cigarette tax hikes.

New York City charges its own $1.50 a pack tax, for state and local taxes totaling $4.25 a pack, said Jeff Lenard, spokesperson for the National Association of Convenience Stores. The federal excise tax on cigarettes adds 39 cents a pack.

**“People seek out low-tax and no-tax alternatives. They will cross borders or pay bootleggers.”**

Jeff Lenard, spokesperson, National Association of Convenience Stores

Lenard said while cigarette sales at regular retail outlets may drop, the drop is usually greater than the actual reduction in smoking.

“When taxes increase, smoking does not decrease to the extent promised by those who push the increases,” Lenard said.

“People seek out low-tax and no-tax alternatives,” Lenard explained. “They will cross borders or pay bootleggers. In New York State, it’s not difficult to find a Native American reservation [where cigarettes are not subject to government taxes]. Convenience stores, retailers playing by the rules, are punished by these tax policies.”

—Steve Stanek
Californians Doubt Schwarzenegger’s Plan to Borrow against the Lottery

By Krystle Russin

California Gov. Arnold Schwarzenegger (R) has proposed borrowing against future earnings in the state lottery to solve the state’s budget deficit, currently estimated at $17 billion.

Schwarzenegger’s office says the borrowing decision avoids cutting funds for education, state parks, beaches, and California prisons. But success in the plan would require a several-billion-dollar growth in the “underperforming” lottery, according to analysts, and could cost at least $23 billion in interest over 30 years to repay $15 billion in borrowed money.

Voter Approval Uncertain

California voters would have to approve the move. A decision to put the issue to voters this November rests with state lawmakers, as there is not enough time to gather signatures from the public to force the measure onto the ballot. Opinion polls show most state residents oppose the idea, and reaction from lawmakers has been mixed.

If the lottery plan does not go forward, Schwarzenegger has proposed a 1 cent hike in the state sales tax. California already has the highest state sales tax rate in the country, at 7.25 percent, and many cities and counties impose local sales taxes on top of that.

Political Necessity

Though Schwarzenegger’s recent policy proposals have angered many conservatives in the state, at least one conservative political commentator grudgingly supports the borrowing plan.

“The solution to fixing the budget long-term would be to radically reform our spending habits. But given that this is an overwhelmingly blue state, Democrats will be Democrats and Republicans will be Democrats to a certain degree as well.”

CHRISTIAN HARTSOCK
COLUMNIST
LOS ANGELES

Schwarzenegger’s plan relies on doubling lottery revenues from $3 billion to $6 billion annually over the next 10 years, which the LAO believes is too optimistic. State lottery officials in May reported sales were $275 million below projections for the fiscal year ending in June.

Under Schwarzenegger’s proposal, if lottery profits fall short of projections, bondholders would be allowed to tap education’s share of the money, forcing the state to dip into its general fund to replace the school money.

M.C. Armstrong, a filmmaker in Oxnard, Calif., recalled the California lottery was created in 1984 with the promise it would put money into the school system without raising taxes. He said the lottery as originally proposed “left everyone with a good feeling even if you didn’t win anything, since a state-mandated 35 percent of net profit went to the educational system.”

Armstrong added “those days are long gone,” as lottery revenues go to everything from lotto administration to remodeling state government buildings.

Krystle Russin (krystle@purepolitics.com) is a freelance writer in Austin, Texas.

State Lotteries Stagnating?

Has the day arrived for states to “cash in” on private payoffs from lotteries, leaving this business to the pros? Policy analysts are asking the question as lottery revenues in many states are coming in below expectations, leaving less for state coffers without tricks or gimmicks.

In an article last year for the Gambling Compliance Ltd. Web site (“US Lotteries Maturing, Looking to Counter Player Fatigue”), business reporter F. Scott Van Voorhis wrote, “State lotteries across the US are turning to ever-higher priced instant tickets, sometimes up to US$20 each, and innovative marketing tricks, in their bid to find new growth in an era of stagnating revenues.”

‘Decreasing Interest’

Michael LaFave, director of fiscal policy for the Mackinac Center for Public Policy and senior managing editor of the Michigan Privatization Report, said, “State-sanctioned lotteries are being forced to grapple with decreasing interest in their product—gambling—and a corresponding decrease in revenue derived from lottery games. This makes it a good time to consider privatizing.”

“The solution to fixing the budget long-term would be to radically reform our spending habits. But given that this is an overwhelmingly blue state, Democrats will be Democrats and Republicans will be Democrats to a certain degree as well.”

“Lottery privatization makes sense in a number of ways,” agreed Leonard Gilroy, a certified urban planner and director of government reform at the Reason Foundation in Los Angeles.

“First, it’s difficult to argue that running a lottery is a core function of government,” Gilroy said. “Put simply, businesses are best at running business, and government is best suited in a regulatory and oversight role to make sure that the public interest is protected.”

— John W. Skorburg
Governors in Several Key States Continue to Push Lottery Privatization

By John W. Skorburg

The dominoes have yet to fall toward lottery privatization as a way to add more money to state government coffers, but several persevering governors continue to look closely at the idea.

“In nearly all the states where lottery privatization has been proposed the executive was the proponent,” said Arturo Perez, a fiscal analyst for the National Conference of State Legislatures (NCSL) who has been tracking the issue. “It’s possible that we will continue to see this as an option that states will consider for raising new revenue.”

California’s Close

California had been perhaps the closest to taking its lottery private. Facing a multibillion-dollar long-term budget shortfall, state legislative leaders were set to consider Gov. Arnold Schwarzenegger’s (R) proposal to lease the lottery to the highest bidder for what he said could have been “a $37 billion solution” to the state’s “shortfall situation.”

Several California legislators, however, accused the governor of being too optimistic with his revenue projections. He then changed his proposal to have the state borrow against future lottery revenues rather than take the lottery private.

In his 2008-2009 budget report, delivered May 14, Schwarzenegger included a financial link between state borrowing and lottery revenues. His plan calls for a “modernization” of the lottery “to boost performance and returns on this asset.”

The report says the state will be able “to raise cash upfront by selling future lottery revenues with no risk to the state.”

Illinois Governor Pushes

Illinois Gov. Rod Blagojevich (D) said in his State of the State address early this year he wants lawmakers to approve "partial lease of the state lottery, which would help fund up to $10 billion of a $25 to 30 billion state construction program."

Though Blagojevich is a liberal Democrat, one of the state’s most powerful Republicans, former U.S. Speaker of the House J. Dennis Hastert, has jumped on the governor’s bandwagon. Blagojevich has named Hastert to head a state coalition to generate support for a public works construction program named Illinois Works.

The construction bill relies on a multibillion-dollar partial lease of the state lottery as a key revenue source. Blagojevich estimates such a lease could bring between $7 billion and $10 billion.

Other Governors Take Lead

Lawmakers in Indiana, Texas, and Vermont have rejected lottery lease proposals in the past two years, but governors in all three states are keeping the idea alive.

In Indiana, Gov. Mitch Daniels (R) proposes contracting for the administration of the Hoosier Lottery and using the funds for a scholarship program for state high school graduates to attend Indiana colleges or universities.


“Not only will this proposal ease the financial strain on homeowners, it will help clear the backlog of school construction, giving our students twenty-first century learning environments in energy-efficient buildings,” Douglas told lawmakers in his annual State of the State address in January.

John W. Skorburg (skorburg@heartland.org) is associate editor of Budget & Tax News.

Budget Expert, Tax Watchdog Sound Caution Over Lottery Plan

Lawrence McQuillan, director of business and economic studies at the San Francisco-based Pacific Research Institute, said California Gov. Arnold Schwarzenegger’s (R) plan to borrow money against the state lottery “is like a bridge to take us from where we are today to what we hope will be better economic times down the road.”

Schwarzenegger proposes borrowing $15 billion, using $5.1 billion next year and putting the rest into a “rainy day” fund. He hopes in three years the state will have recovered economically and the rainy day fund will no longer be needed.

Spending Control Is Key

“Politically, it’s brilliant and avoids immediate tax increases,” McQuillan said. “But after three years, if the economy is not boom- ing, there is no nest egg there. If state spending continues at the pace it’s been going and revenues don’t turn out to be strong, we’re back where we started from. It would be just another $15 billion papering over of problems.”

State spending has climbed more than 40 percent, from $99.4 billion to $142 billion, since the 2000-01 budget year, and is projected to top $144 billion in the new fiscal year.

Four years ago the state borrowed $15 billion to improve the fiscal situation but failed to achieve the promised results.

“That’s why it’s important to pair this borrowing plan with actual substantive budget reform,” McQuillan said. “That would be the thing that matters to fiscal conservatives. [Schwarzenegger] wants to pair it with budget reform, but I don’t know if the legislature would go for that.”

‘Everything’s on Table’

Kris Vosburgh, executive director of the California-based Howard Jarvis Taxpayers Association, said Schwarzenegger “seems to be in a state of denial. He has said he would not raise taxes, but he’s talking about doing away with the mortgage interest deduction [on state taxes], doing away with deductibility for dependent children, putting a surcharge on homeowners insurance, and looking at broadening the sales tax to services like dry cleaning and lawyers.

“The governor who came in saying we have a spending problem, not a revenue problem, is now putting everything on the table,” Vosburgh continued.

George Passantino, a budget expert and senior fellow at the Reason Foundation in Los Angeles, said, “The current budget solution is not a whole lot more than business as usual. There’s a structural imbalance and no serious effort to tackle that long-term balance.”

Passantino said this is largely because California does no legislative performance review as part of the budget process to determine what the state is getting for its billions of dollars of spending.

“Politically, it’s brilliant and avoids immediate tax increases. But after three years, if the economy is not booming, there is no nest egg there. ... It would be just another $15 billion papering over of problems.”

LAURENCE McQUILLAN, DIRECTOR
BUSINESS AND ECONOMIC STUDIES
PACIFIC RESEARCH INSTITUTE

As for the lottery borrowing idea, Passantino said, “The lottery would be under the same administration, with no guarantee of improvement.”

— Steve Stanek
Alabama Natural Gas Tax Hike Shelved

By Karri Bragg

As Alabama legislators headed home after the end of a special legislative session on June 1, many feared they’d soon be back to address a tax debate they had hoped was put to rest in the regular session.

“The selective and random application of the tax code to punish or reward business and industry ... will present a serious impediment to the development of new business within our state.”

JERRY MITCHELL, PRESIDENT NORTH ALABAMA AFRICAN AMERICAN CHAMBER OF COMMERCE

The matter reaches back to September 2007, when the state Department of Revenue determined ExxonMobil was due $41 million for deductions it should have been granted, but was not, for processing natural gas off the Gulf Coast. In response, Gov. Bob Riley (R) proposed a $40 million annual tax surcharge on the sale of natural gas drilled off the Gulf Coast from depths of 18,000 feet or more—a tax that would apply only to ExxonMobil.

Intense Opposition

Riley’s proposal was shelved in May, but at press time legislators expected him to call a week-long special session, during which he might revive the tax measure. “Selective and random application of the tax code to punish or reward business and industry ... will present a serious impediment to the development of new business within our state,” said Jerry Mitchell, president of the North Alabama African American Chamber of Commerce. “Stable tax and regulatory policies are essential to encouraging needed investment.”

Riley faced almost immediate opposition to the proposal, causing it to falter initially in a House committee. Some legislators grew more comfortable with the proposal after it was changed to refer to the surcharge as temporary.

Consumer, Trade Group Alliance

Local consumer and trade groups joined forces to oppose Riley’s legislation, stressing the potential damage to the state’s business climate and economy if the measure passed. In late April, these groups gathered at the steps of the state capitol to express their opposition.

“Any tax measure that causes businesses and industry in our state to take a hit will also impact local jobs and economic growth.”

GEORGE CLARK, PRESIDENT MANUFACTURE ALABAMA

George Clark, president of Manufacture Alabama, pointed out at the gathering, “Any tax measure that causes businesses and industry in our state to take a hit will also impact local jobs and economic growth.”

National taxpayer advocacy groups also weighed in on the legislation, stressing the importance of keeping tax burdens low in order to keep sky-high energy prices from rising further and crushing consumers in the state. “Gov. Riley’s tax hike punishes business that brings jobs and growth to Alabama,” said Grover Norquist, president of Americans for Tax Reform. “Any move that will drive investment away, or threaten to hike energy prices, should be rejected outright by any legislators in Montgomery who consider themselves pro-taxpayer and pro-consumer.”

Karri Bragg (kbragg@atr.org) is a state government affairs manager at Americans for Tax Reform.

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In late April, groups opposed to Alabama Gov. Bob Riley’s attempt to impose a $40 million annual tax surcharge on ExxonMobil gathered at the state capitol to rally against the plan. Among the groups represented at the event were the North Alabama African American Chamber of Commerce, Manufacture Alabama, and Americans for Tax Reform.
Gas Tax Holidays, Windfall Profit Taxes
Are of Doubtful Value, Analysts Conclude

By Aleks Karnick

As gasoline prices continue to climb, several state and national political leaders, including the major-party presidential contenders, have presented plans they say would ease consumers’ pain. But many economists and public policy experts have their doubts.

The presumptive Republican Party nominee, Sen. John McCain (R-AZ), and Sen. Hillary Clinton (D-NY), who sought the Democratic Party’s nomination, each proposed a federal gas tax “holiday” during the summer. Some state lawmakers have offered similar proposals.

“As for the federal gas tax ‘holiday,’ the proposals are horrible tax policy,” said Jason Mercier, director of the Center for Government Reform at the Washington Policy Center in Olympia, Washington. “Americans are unquestionably overtaxed, but the answer is not ‘holidays’ or subsidies but uniformly lowering the overall tax rates—no more tax relief winners and losers picked by government.”

“Americans are unquestionably overtaxed, but the answer is not ‘holidays’ or subsidies but uniformly lowering the overall tax rates—no more tax relief winners and losers picked by government.”

JASON MERCIER, DIRECTOR
CENTER FOR GOVERNMENT REFORM
WASHINGTON POLICY CENTER

Mercier says the candidates’ proposals are the same kinds of policies that led to high gas prices to begin with. He said the price of gas can be regulated better through market forces.

“If Congress really wants to lower gas prices, it needs to get out of the way of the market by making it easier for domestic oil exploration and production and encouraging new refinery capacity to be built,” Mercier said. “You can’t restrict supply and expect prices to be low for a high-demand commodity like oil.

“As much as Congress may think it is all powerful,” Mercier continued, “it can’t repeal the law of supply and demand.”

Better for Politicians than Consumers

Tax holidays rarely confer the full value of the tax cut to consumers, says Jonathan Williams, an economist and director of the Tax and Fiscal Policy Task Force of the American Legislative Exchange Council, a nonpartisan organization whose membership includes more than 2,000 state lawmakers.

Instead, said Williams, during tax holidays prices tend to remain the same, while the suppliers tend to increase their profits.

“The only way a gas tax holiday will cut prices by the full amount [of the tax cut] is by forcing down prices with old-fashioned price controls,” Williams said. “And anybody old enough to remember the gas lines and shortages of the 1970s knows how well that’s likely to work.”

In addition, Williams notes, price controls can have consequences beyond long lines and shortages.

Bureaucratic Meddling

“Making tax holidays work often requires costly enforcement bureaucracies and legal threats to station owners. Not only is that unfair to mom-and-pop businesses, but it puts an economic drag on their efficiency ...”

JONATHAN WILLIAMS, DIRECTOR
TAX AND FISCAL POLICY TASK FORCE
AMERICAN LEGISLATIVE EXCHANGE COUNCIL

“The real problem with tax holidays is that they let elected officials off the hook too easily,” Williams said. “Holidays distract attention from types of tax relief that are politically more difficult to enact but far more beneficial to taxpayers and the economy. If consumers are hurting, why help them for just one month? Why not give a break on everything, with an across-the-board tax cut?”

“Or better yet,” Williams said, “why not trim wasteful pork spending from transportation budgets—which are funded by gas taxes—and pass on the savings as permanent tax relief?”

“Gas tax holidays make a great sound bite for lawmakers, but they’re lousy tax policy,” Williams continued. “They’re one of the rare tax breaks we should do without.”

“‘Windfall’ Tax Failures

Windfall profits taxes also have failed to lower gas prices.

“This nation’s experiment with windfall profits taxes in the 1980s proved to be economically devastating,” Williams noted. “When it was last tried, the windfall profits tax failed to raise even a fraction of the revenue forecasted, and it crippled the production of the domestic oil industry.”

Williams also pointed out that while Sen. Barack Obama (D-IL), the presumptive Democratic Party nominee for president, and some others in Congress are calling for the resurrection of a 1980s-style windfall profits tax on the oil industry, “It is important to note that America’s energy companies are already providing a ‘windfall’ of tax revenue.”

“Various proposals aimed at the oil industry have nothing to do with ‘fairness’ or righting a so-called wrong,” Williams said. “They are simply attempts by the government to abscond with additional revenue. Taking aim at profits also sets an extremely dangerous example by targeting a certain industry based on its level of success.”

— Aleks Karnick

Aleks Karnick (akarnick@umail.iu.edu) writes from Indianapolis.
**State Agency’s Plan to Buy Wrigley Field Stumbles Again**

By Liam Rinehart

Worries about violating Major League Baseball rules—and probably bigger worries about violating Internal Revenue Service rules—apparently have killed the latest proposal for an Illinois agency to buy Wrigley Field, home of the Chicago Cubs Major League Baseball team. Tribune Co. and Cubs owner Sam Zell rejected a second offer from the state in May.

Former Illinois governor James Thompson (R) has been trying to acquire Wrigley Field for the Illinois Sports Facilities Authority (ISFA), a state agency Thompson serves as chairman. Although ISFA has been tight-lipped concerning the deals, some of the basic facts are known.

Early this year Thompson proposed a state buyout in which he insisted no tax dollars or state bonds would be at stake. He said team lease payments and the sale of partial naming rights would cover the cost of buying the ballpark. However, after evading questions about hundreds of millions of dollars more that would be needed for renovation of the aging ballpark, Thompson suggested a plan to divert future sales tax revenues in the surrounding neighborhood to pay for renovations.

**City Opposed Taxes**

Overwhelming opposition to the use of tax dollars, including from Chicago Mayor Richard M. Daley (D), killed that idea. Thompson returned with a new purchase proposal for more than $400 million. As with previous negotiations, there would not have been a tax increase to fund the buyout. Instead, a new financing method—called equity seat rights—would be employed. Equity seat rights involves selling seats individually, like condominiums.

Chicago business leader Lou Weisbach, who has applied for a patent on the equity seat rights idea, has been one of the main proponents of the notion. But as Zell’s Chicago Tribune reported, Zell and Cubs Chairman Crane Kenney worried the plan would violate IRS codes and rules established by Major League Baseball.

Some people have speculated Zell’s rejection of the equity seats idea has spelled the end of talks regarding a sale of the ballpark to the state, but that’s not true.

“At this stage, negotiations are still ongoing,” said Matt Royse, a spokesperson for ISFA.

Nevertheless, the pressure is on. Zell needs to sell both the Cubs and Wrigley Field to pay down some of the $13 billion debt left over from his highly leveraged buyout last year of Tribune Co., which owns the Cubs. However, some financial pressure recently was released when Zell announced the sale of the Tribune’s Newsday newspaper in Long Island, New York for $650 million.

**Private Buyer More Likely**

Nonetheless, there is now a higher likelihood Wrigley Field will be sold to a private entity instead of the state. If such a deal were to go through, Wrigley would be one of only two stadiums in MLB that have not been heavily financed by regional governments.

Allen Sanderson, an economics professor at the University of Chicago who specializes in sports economics, explained there are practical reasons for this prevalence of public financing, virtually all of which benefit team owners more than the public.

“The team owner doesn’t usually want to own the facility because it loses money,” Sanderson said.

Furthermore, there is a general belief that government charges lower rent as compared to what private owners would charge.

“The state is far less likely to think of a sale like this as an investment, or to think of maximizing profit and minimizing costs,” the way a private owner would, Sanderson said.

At a May 27 news conference, Illinois Gov. Rod Blagojevich (D) said, “I am determined to do everything that I can to make sure that the Cubs stay at Wrigley Field, no matter who the new owner might be. And if ISFA is not the way to go, there are other ways, and we’re working on some of those other ways.”

**Not a Government Function**

As the state continues to wrangle with its own budget issues, others wonder why so much effort has been put toward having a government agency acquire the stadium.

“Entertainment is not a core function of government,” noted Greg Blankenship, president of the Illinois Policy Institute, a nonpartisan policy research organization. “As an asset built for entertainment, Wrigley Field is always going to be better off in private hands.”

Referring to a long string of political scandals involving Chicago city officials and employees, Blankenship added, “Given the state of affairs in Chicago, at the very least it will be an honest operation if left in private hands.”

Liam Rinehart (liam.e.rinehart@gmail.com) is a policy associate at the Illinois Policy Institute, a nonpartisan policy research organization.
Use of Tax Dollars to Influence Tax Vote Is Questioned in North Carolina County

**County committed $110,000 to failed advocacy effort**

By Hal Young

Taxes are an unpopular necessity of government, and elected officials have to communicate their concerns to gain voter support for increased levies. However, the actions of one North Carolina county are raising questions about the use of public funds to promote a tax hike.

Commissioners in Orange County, North Carolina recently committed more than $110,000 in tax dollars toward passage of a controversial real estate tax that had been soundly rejected by voters in every county that suggested it.

In the wake of the measure’s two-to-one rejection in May, Orange County commissioners pondered a second attempt come November. However, state lawmakers from both parties are calling for the option’s repeal, saying repeated efforts to gain approval have only agitated voters with little hope of passage.

**Voter OK Required**

Last year’s restructuring of Medicaid funding in North Carolina moved a tremendous burden from county budgets to the state, but it also removed a part of the state sales tax that was being routed back to the counties that collected it. In its place, the General Assembly allowed counties to levy a local sales tax or a real estate transfer tax—if the voters approved.

The sales tax option has had limited success, and it became clear last November that voters were not in the mood to approve the real estate tax, rejecting it by substantial margins in all 16 attempts. Undeterred, commissioners in Orange County placed the transfer tax on the May 2008 primary ballot.

Barry Jacobs, chairman of the Orange County Commission, said the “hold harmless” provision of the Medicaid bill hadn’t worked out for his county. “After the shuffling with Medicaid, school construction funds, and all the things the General Assembly tinkered with, we actually lost money,” Jacobs said.

“Commissioners in Orange County, North Carolina recently committed more than $110,000 in tax dollars toward passage of a controversial real estate tax that had been soundly rejected by voters in every county that suggested it.”

**Failed Effort**

Believing the nine weeks from the passage of the Medicaid bill until the November 2007 election was too short a time to make their case with the voters, the commission scheduled the measure in conjunction with the presidential primary in May 2008. In February of this year, they spent $10,000 with a local polling firm to gauge the voters’ response to either tax proposal.

The referendum effort ultimately failed. In a historically high turnout for North Carolina’s primary election, the transfer tax was defeated by a two-to-one margin in Orange County and failed in three other counties the same day.

**Resident’s Official Complaint**

Although they had expected opposition from the home builders’ and realtors’ associations that had successfully fought the transfer tax in other counties—Jacobs referred to tax opponents as “the biggest financial bullies in North Carolina government”—in one news report—Orange County officials were surprised and angered by a local resident’s complaint to the state Board of Elections alleging misuse of county funds.

The petition filed by Michael Griffin of Hillsborough said, “examination of the poll and its questions reveals it is calculated to be used as a tool for advocacy by the Orange County Board of Commissioners for the passage of the land transfer tax,” which puts it in the category of reportable expenditures, according to Griffin’s attorney, John R. Wallace.

Had it been purely an educational effort, Wallace said, the poll would have been designed to identify simple lack of information among voters. Instead, the poll identified objections to the tax and the voters’ preferred media, so a campaign could be designed in response. That expenditure should have been reported to the Board of Elections.

**Sharp Denial**

Jacobs disputed the allegations, saying he knew “for a fact” that commissioners had not decided on the issue at that time and the poll was “absolutely not a vehicle for propagandizing.” “You know people often project what they’re doing on others,” Jacobs said. “There is no controversy” about the poll, he asserted, “just a group of people who will take any approach to get their way.”

**$100,000 Media Contract**

Less than two weeks after Griffin’s March 5 petition, the commission awarded a contract for up to $100,000 to a media firm in Durham to produce a voter educational program, raising further questions about the distinction between education and advocacy. Jacobs confirmed the transfer tax on the first $27.5 million of real estate sales would be needed to make up the cost of the poll and the media campaign.

Professional organizations partly funded the referendum effort. Commissioners had a hand in the effort as well. The North Carolina Association of County Commissioners (NCACC), for example, hosted “public awareness training sessions” before and after the November election “to give some strategies on how to put these out to the public—in general terms, how to get the public to support it,” said Patrice Roesler, the organization’s deputy director.

**Search for Alternatives**

Following the defeat of the Orange County transfer tax, county commissioners conjectured they might place the measure on the ballot for the November general election this year. However, following defeats in 19 of 19 counties—twice in one of them—the state’s General Assembly is considering a bill to remove the transfer tax option altogether.

Orange County’s own state representative, Bill Faison, a Democrat, has joined Republican leaders in co-sponsoring the bill.

Meanwhile, Orange County property taxes, already nearly the highest in the state, could climb 9.2 percent this year if the county manager’s budget is approved by the county commission in June.

Hal Young (hal.young@smithyoung.com) is a contributing editor for Carolina Journal, a publication of the John Locke Foundation.
Report Card Exposes Big Labor’s Hold on State Governments Across the Country

By Brian M. Johnson

As the presidential campaign builds, one thing has become apparent—the political Left in this country is aligned with Big Labor in a big way. Union political contributions overwhelmingly favor Democrats over Republicans, with an average of 80 percent of all union contributions going toward the former.

At the same time, private-sector labor union membership is at a historic low of around 7 percent of the workforce. Public-sector union membership is skyrocketing, with membership rates over 36 percent nationally.

If the elections this November strongly favor the Left, we can expect to see pro-union, anti-worker legislation forced on the states like never before. Public-union, anti-worker legislation forced favor the Left, we can expect to see pro-

Six states scored zero, meaning they have essentially no real worker freedom. Those states, in continuing to maintain heavily regulated and controlled labor markets, are forcing population flight and repressing economic growth.

As nearly any economist will note, having a large small-business and entrepreneurial class is one of the best formulas for job creation and economic growth. All the states that scored an “F” had small-business creation below the national average and union density well above the national average.

“The 2007 Index of Worker Freedom: A National Report Card gives state legislators, policy analysts, and the public a ‘snapshot’ of how their state ranks on a variety of labor issues.”

in the bottom quartile on the IWF have relatively high population loss and high union density rankings. The bottom quartile states’ average population growth rate is far below that of the United States as a whole, and their union density is almost double the national average.

Utah Has Most Freedom

“Red” states have fared better than “blue” states according to the index, and states that grow in population have higher scores than those experiencing population flight or no growth. Utah scored the highest on the index, with a nine out of 10, earning the state an “A” grade. No state earned a perfect 10.

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INTERNET INFO

Iowa Governor Stops Expansion of Union Benefits

By Scott Dilley

Iowa Gov. Chet Culver (D) has vetoed a bill aimed at expanding the matters subject to collective bargaining for public school teachers throughout the state.

The bill, HF 2645, would have required negotiation for supplemental pay, evaluation procedures, preparation time, class size, discipline processes, certain retirement benefits, and dues checkoff, among other topics.

Culver, a self-described “supporter of workers rights and collective bargaining,” asked majority Democrats in the general assembly to allow public input on the bill. However, the bill passed both legislative chambers without a public hearing.

A motion to reconsider provided more time for public input and negotiations, but in his veto message Culver concluded the bill was still “vaguely written with the potential for far-reaching, unintended consequences that could obligate the citizens of Iowa to substantial new public expenditures.”

City officials in Des Moines predicted a 7 percent property tax increase would be required if the bill were enacted.

“[This bill is] vaguely written with the potential for far-reaching, unintended consequences that could obligate the citizens of Iowa to substantial new public expenditures.”

CHET CULVER (right)
GOVERNOR - IOWA

Teachers Disappointed

The Iowa State Education Association (ISEA) expressed disappointment with the governor’s actions. ISEA President Linda Nelson said the governor “missed the opportunity to recognize educators as true professionals and full partners in educational decision making.” She said the legislation “would have leveled the playing field for educators and other public employees at the bargaining table” by granting them rights similar to those enjoyed by private-sector employees.

Organizations such as the Iowa Association of School Boards (IASB) and Professional Educators of Iowa (PEI) fought hard against the union-backed bill and praised the governor’s veto. PEI criticized the bill for taking educational and personnel decisions out of the hands of local school authorities.

Supporters of HF 2645 argued the measure simply extended private-sector rights to public-sector employees. IASB noted HF 2645 did not establish the same strike and arbitration procedures as found in the private sector.

In the private sector, workers are allowed to go on strike, and arbitration is usually voluntary, or binding arbitration is voluntarily agreed to. HF 2645 banned strikes by public employees and provided for binding arbitration, which could place an arbitrator in the position of single-handedly raising government expenses (and thus taxes to cover the costs).

The HF 2645 veto was the second major defeat for Iowa labor unions in as many years. In 2007 labor unions narrowly persuaded the legislature to repeal Iowa’s right-to-work law but were not able to overcome public opposition and procedural hurdles.

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

INTERNET INFO


Virginia

Continued from page 1

be used to address traffic congestion in the affected areas.

At press time Virginia lawmakers were preparing to go into special legislative session beginning June 23 to take up the matter.

Skeptical Lawmakers

The governor’s proposals immediately received a skeptical response from some key lawmakers.

“A major problem with the governor’s tax plan is that it will further hurt two of our hardest-hit industries, real estate and automotive sales,” said Virginia House Speaker William Howell (R-Stafford).

Stafford noted in 2002 voters in the Northern Virginia and Hampton Roads areas strongly opposed tax increases smaller than those the governor is proposing. He said the governor’s message is, “We know what you said to those tax increases, but oh well.” Giving his own opinion on the matter, Howell said, “Tax increases are rarely good, but these regressive taxes are especially bad because our real estate and auto sales industries are truly suffering.”

Howell also said he is “not convinced the Virginia Department of Transportation will spend the money wisely, as they already spend more than $4 billion a year. One thing I would like to see done is a complete audit of VDOT so that people know if the money they are already giving is being spent wisely.”

Unanimous Court Decision

Kaine’s proposal comes in response to a February 29 decision by the Virginia Supreme Court, which unanimously ruled $300 million in new taxes levied by the Northern Virginia Transportation Authority (NVTA) were unconstitutional.

NVTA and the Hampton Roads Transportation Authority were created as part of a 2007 transportation funding package. The two authorities, whose voting members were appointed to their positions, subsequently levied $300 million and $168 million in taxes, respectively. The Hampton Roads authority decided not to collect its taxes pending the outcome of the state supreme court decision. Virginia Del. Bob Marshall (R-Manassas) and more than a dozen taxpayers challenged the legality of the transportation authorities, and the court agreed, ruling “the General Assembly may not delegate its taxing power to a non-elected body such as NVTA.” Therefore, the court decided, “such taxes and fees that NVTA has already imposed are null and void.”

“Tax increases are rarely good, but these regressive taxes are especially bad because our real estate and auto sales industries are truly suffering.”

WILLIAM HOWELL
HOUSE SPEAKER
STAFFORD, VIRGINIA

Refund Process Begins

On March 25 Kaine signed a bill authorizing refunds of the taxes illegally collected by NVTA. The process could take up to three years and cost hundreds of thousands of dollars, according to NVTA, because there are seven taxes and fees, including taxes on home sales, hotel room rentals, and car rentals, making the bookkeeping extremely difficult.

Kristina Rasmussen, one of the plaintiffs who successfully challenged the legality of the taxes and fees imposed by the unelected transportation authorities, said she believes more tax hikes would hurt the Virginia economy as well as businesses and individuals.

“Northern Virginia has the reputation of being the low-tax alternative to live and work when compared to Washington, DC and Maryland,” said Rasmussen. “If legislators in Richmond keep beating the drum for higher taxes, Northern Virginia may very well lose its competitive advantage.

“Taxpayers will not let Governor Kaine push his tax hikes through without a fight,” said Rasmussen, who works as director of government affairs for the 362,000-member National Taxpayers Union, based in Washington, DC. “The folks in Richmond will be getting an earful from many of NTU’s 9,000 Virginia members during the special session.”

Steve Stanek (stanek@heartland.org) is a research fellow at The Heartland Institute and managing editor of Budget & Tax News.
Study: Massachusetts Business Taxes Should Be Lowered and Simplified

By Frank Conte

Massachusetts could boost its economy and increase investment by taxing all business entities similarly and adopting unitary reporting, single-sales-factor apportionment, and other reforms, according to the Beacon Hill Institute (BHI) at Suffolk University.

“Business Taxes in Massachusetts: Toward Fundamental Reform” concludes the commonwealth’s hodgepodge of poorly conceived measures violates the most fundamental principles of tax equity and efficiency and is a drag on economic activity. The report also notes Massachusetts levies the fourth-highest statutory state corporate income tax rate in the United States, at 9.5 percent.

BHI’s report, released in April, predicts enactment of its recommendations would create about 4,000 new private-sector jobs and $120 million in new investment upon implementation. The state would lose $86 million in revenue, about 0.4 percent of annual state tax revenue.

“This tiny loss in revenue is well worth the economic stimulus and the tax simplification that the proposal would make possible,” said David G. Tuerck, executive director of BHI and a co-author of the study.

Numerous Problems

Tuerck said by reducing the corporate income tax rate and broadening the tax base, Massachusetts would make itself more of a destination for business investment. The problem of corporate loopholes would disappear as firms found it in their interest to report income in Massachusetts rather than other states.

The report notes, “Sound tax policy requires that any tax should meet the test of horizontal equity; that is to say, the application of a tax to two equal individuals or entities treats them equally. Sound policy likewise requires a tax to meet the test of vertical equity, where the concept of ‘ability to pay’ is applied to individuals or firms with different incomes.

“Other objectives,” the report continues, “are simplicity, transparency, stability, neutrality and economic growth. The current tax system and recent proposals fail to meet any of these tests of sound tax policy.”

The report also notes, “[L]arge multi-state corporations (often with greater tax law expertise) have more opportunity than smaller firms to shift income to lower corporate tax states. This inequity distorts business decisions, driving smaller firms and their employees out of the state. It also diminishes the amount of revenue generated by other taxes, including the individual income tax, the sales tax, the meals tax, and property taxes.”

“Massachusetts should strive for a predictable and competitive business tax policy that serves firms, investors, workers, and government in the most optimal manner. A uniform rate covering a broader base would provide a stable source of revenue and promote economic growth.”

JAMES ANGELINI, PH.D., DIRECTOR
MASTER OF SCIENCE IN TAXATION
SAWYER SCHOOL OF BUSINESS
SUFFOLK UNIVERSITY

Competitive Approach

Against the tide of corporate tax avoidance strategies, the commonwealth could strike a competitive blow by lowering rates rather than simply raising more revenue, according to the report.

“If they are expected to become viable sources of revenue in a volatile economy, business taxes must be reformed in a manner that promotes revenue stability, economic growth as well as equity, simplicity and transparency,” said Angelini.

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

INTERNET INFO

“Business Taxes in Massachusetts: Toward Fundamental Reform”: http://www.heartland.org/article.cfm?artId=23394
Connecticut Residents Tune in to Debate about School Funding and Taxes

By Mary F. Crean

More than 1 million households across Connecticut state tuned in to a lively debate over why public school costs keep rising and what can be done to stop the increases, making it clear they’re very concerned about property tax increases.

“Debate ‘08—Balancing the Cost of Education with Property Taxes” was broadcast statewide May 15 on The Talk of Connecticut’s four-station radio network and Connecticut Network (CTN), which provides television and Webcast coverage of Connecticut state government and public policy. The Yankee Institute for Public Policy, a nonpartisan education and research organization based in Connecticut, and The Talk of Connecticut radio network presented the forum.

Panelists representing a cross-section of Connecticut legislators and town leaders were joined by a national expert on education funding and property taxes.

Waste Reduction, Local Control

“The main point of the debate was how the municipalities are getting saddled with unfunded federal and state mandates,” said Dan Lovallo, radio host on The Talk of Connecticut and a co-moderator of the debate. “What disappointed me during the debate was the call by many municipal leaders for more money from the state to help defray education expenditures at the local level.

“I believe the conversation should center around ways to reduce waste in the budget and how to return more of education to local control, instead of asking for more state assistance,” Lovallo said. “The forum itself was a great idea. People need to understand how their taxes are being spent, and a presentation of this kind helps to illuminate the issue.”

The panel agreed rising energy costs, state and federal unfunded mandates, and binding arbitration for school employees are main challenges to controlling school budgets.

Unfunded Mandates Criticized

While there is little the state can do to control energy costs, unfunded mandates are another matter, panelists said. The legislature enacts mandates without providing funding for compliance, leaving the problem to the towns and cities. The solution usually is to raise property taxes to pay for the mandates.

Barbara Henry, Roxbury’s first selectman, briefly mentioned the effects of rising fuel costs on her town’s school budget, but she laid most of the blame on “unfunded mandates, especially for special education. The unfunded mandates keep coming down. ... Until those things get lifted, I don’t see the cost changing.”

House Leader Lawrence Cafero (R-Norwalk) disagreed, saying, “Though there’s no purposeful waste, there are efficiencies [to be found].” He shared cost-cutting examples from his own experience on boards of education, such as reducing bloated administrative staffs and overuse of outside contractors.

Barbara Carpenter, president of the West Hartford Education Association, voiced a strong concern regarding burdens the federal “No Child Left Behind” law places on teachers and administrators.

Binding arbitration was cited by most panel members as another source of rising school budgets. Initially designed to prevent teacher strikes, binding arbitration now limits flexibility in negotiating teacher contracts that could lead to greater efficiency, better educational results, and lower costs to taxpayers, many panelists agreed.

Could Save $58 Million

One outside-the-box idea that received some attention was the Yankee Institute’s “Free College for High School Students” proposal, introduced in 2007. It would give high school students who meet their graduation requirements in three years a full community college scholarship. Most panelists said they had trouble envisioning its benefits.

A Yankee Institute study discussing the proposal described how much Connecticut towns could save by paying their students to graduate in three years. Per-pupil costs for high school in Connecticut range from a low of $9,000 in distressed cities such as Bridgeport to nearly $18,000 in wealthier suburbs. According to the study, if 25 percent of the state’s secondary students received a full community college scholarship (or $5,000 cash equivalent) for finishing high school early, more than $58 million would be left over annually to reduce property taxes.

“While Connecticut taxpayers are spending more than $13,000 per year on every child in public school—well above the national average—many kids continue to slip through the state’s public schools without receiving a quality education,” said panelist Dan Lips, an education analyst at The Heritage Foundation in Washington, DC.

“State and local policymakers need to implement reforms to encourage innovation in our public schools and give children the opportunity to attend an effective school. Across the country, reforms like teacher merit pay and school choice are attracting greater bipartisan support because they are working in the classroom.”

“The forum itself was a great idea. People need to understand how their taxes are being spent, and a presentation of this kind helps to illuminate the issue.”

Dan Lovallo
Radio Host
The Talk of Connecticut

Yankee Institute member Gerald Mayfield of Greenwich was impressed by the broadcast debate. “Although unable to listen to the debate live, I was able to download and listen on my iPod. I was particularly impressed with several aspects of the debate. The wide range of viewpoints and competence of the participants, the ability to keep the level of discussion respectful and on an informative level, the willingness to address difficult and potentially divisive issues, and the moderators’ skills [in] managing the debate,” he said.

Mary F. Crean (mfcrean@comcast.net) is chief development officer at the Yankee Institute for Public Policy.

Impressive Line-Up of Panelists

Participants in the school funding and property tax debate sponsored by the Yankee Institute for Public Policy and The TALK of Connecticut radio network included:

- Connecticut’s Speaker of the House, Democrat James A. Amann
- House Republican Leader Lawrence F. Cafero, Jr.
- Lee C. Erdmann, chief operating officer for the City of Hartford
- Mayor Michael J. Jarjura of Waterbury
- Town Council Chairman John N. Barry of Southington
- First Selectman Barbara Henry of Roxbury
- Barbara B. Carpenter, president of the West Hartford Education Association
- Brian Clemow, binding arbitration expert from Shipman & Goodwin, LLP
- Dan Lips, education analyst at The Heritage Foundation in Washington, DC
In March 2008, 500 hundred scientists, engineers, and scholars from the U.S. and around the world converged on New York City to discuss the science and economics of global climate change. Presenters at this unprecedented conference suggest the modern warming is moderate and partly or even mostly a natural recovery from the Little Ice Age; that the consequences of moderate warming are positive for humanity and wildlife; that predictions of future warming are wildly unreliable; and that the costs of trying to “stop global warming” exceed hypothetical benefits by a factor of 10 or more.

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- **S. Fred Singer, Ph.D.**  
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  Science and Environmental Policy Project

- **Vaclav Klaus, Ph.D.**  
  President  
  Czech Republic

- **Marc Morano**  
  Communications Director  
  U.S. Senate Committee on Environment and Public Works

- **Roy W. Spencer, Ph.D.**  
  Principal Research Scientist  
  University of Alabama - Huntsville, U.S.

- **Tim Ball, Ph.D.**  
  Former Professor of Climatology  
  University of Winnipeg, Canada

- **Vincent Gray, Ph.D.**  
  Executive Director  
  New Zealand Climate Coalition

- **Patrick Michaels, Ph.D.**  
  Professor of Environmental Sciences  
  University of Virginia

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