By James M. Taylor

An ominous carbon audit of the U.S. tax code has been initiated, along with several expensive “green pork” programs, as part of the bailout legislation passed by Congress on October 3 and later signed by the president.
There's more to directions than EAST and WEST.

THERE'S MORE TO POLITICS THAN LEFT AND RIGHT.

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

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That’s where the World’s Smallest Political Quiz comes in. It’s a better “map” of politics. Answer 10 questions about personal and economic issues, and the Quiz pinpoints your political identity on an innovative “Diamond Chart” that includes conservative and liberal — and libertarian, statist, and centrist. The World's Smallest Political Quiz has been praised by the Washington Post, and more than 9.4 million people have taken it online. What’s your real political identity? Take the Quiz. For each statement below, circle A for agree, M for maybe/not sure, and D for disagree. Then find your position on the chart.

How do you stand on PERSONAL issues? 20 10 0

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

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

How do you stand on ECONOMIC issues? 20 10 0

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

ECONOMIC SCORING: take 20 for every A, 10 for every M, and 0 for every D: __________

Find Your Place on the Chart

Mark your PERSONAL score on the lower left scale; your ECONOMIC score on the lower right. Then follow the grid lines until they meet at your political position. The chart shows the political group that agrees with you most. LIBERALS tend to value personal freedom. CONSERVATIVES tend to value economic freedom. LIBERTARIANS value both. STATISTS are against both. CENTRISTS tend to hold different values depending on the issue.

TO LEARN MORE ABOUT THE QUIZ, VISIT: www.TheAdvocates.org

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

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

Eight years after MacDougal’s suggestions were implemented, Illinois now stands well ahead of California, New York, and other big-city states, with a spectacular 86 percent reduction in the welfare rolls since reform implementation in 1996, second only to Wyoming among all 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.
New Jersey Cigarette Tax Hike Reduces Revenues Again

For second straight year, state receives less revenue after hiking rate

By Gregg M. Edwards

For the second consecutive year, New Jersey has unintentionally shattered the conventional wisdom on cigarette tax increases, that higher taxes serve the dual and seemingly opposite purposes of reducing and exploiting cigarette consumption.

Higher taxes and cigarette prices prompt some smokers to quit. But most smokers, so the wisdom goes, accommodate higher prices. The total number of smokers shrinks while government reaps higher tax revenues from the remaining smokers.

New Jersey’s experience, however, proves this dynamic has its limits. Last year New Jersey became the first state to see an actual reduction in cigarette tax revenues in the same year the tax rate increased.

In fiscal year 2007, the year the tax rate was increased, the cigarette tax raised $22 million less than the previous year. Conventional wisdom was proven wrong: A tax increase doesn’t result inevitably in a revenue gain.

Revenues Down Again

Conventional wisdom also holds that while total cigarette sales might fall in the first year of a tax hike, they will stabilize or rebound in the succeeding year. That assumption has been proven wrong, too. In the second year following New Jersey’s most recent tax hike, total sales continued to decline, as did tax revenues. So, as a result of a tax increase, New Jersey actually lost almost $24 million in revenues.

The anti-smoking hysteria that infects many high-tax advocates blinded them to economic realities. They believed only a small portion of smokers were price-sensitive. In fact, many smokers are price-sensitive. Some quit, but more opt to shop in cheaper venues.

Bricks-and-mortar New Jersey cigarette sellers are losing purchasers to stores in other states, the Internet, and even the black market. Since these venues don’t collect New Jersey taxes (or any taxes at all in some cases), the state is losing revenues.

Four Hikes in Seven Years

Most New Jersey policymakers also were seduced by anti-smoking ideology. Consequently, they refused to acknowledge the precipitous drop in sales that coincided with four tax hikes in seven years. During that period, the national demand for cigarettes dropped by about 18 percent. In New Jersey, demand decreased by a whopping 47 percent.

“In fiscal year 2007, the year the tax rate was increased, the cigarette tax raised $22 million less than the previous year. Conventional wisdom was proven wrong: A tax increase doesn’t result inevitably in a revenue gain.”

Black Market Buyers

It’s outrageous that an organization dedicated to discouraging smoking among minors promotes a tax policy that makes cigarettes more accessible to teenagers. The cigarette black market, which is a byproduct of New Jersey’s high tax, caters to minors searching for cheaper cigarettes and sellers who don’t ask to see proof of age.

The anti-smoking lobby may be well-meaning, but its tax agenda is counterproductive. Its advocacy of a high cigarette tax is exporting New Jersey tax revenues to other states.

High taxes also are undermining anti-smoking efforts and jeopardizing the welfare of New Jersey residents. The cigarette black market not only makes it easier for teenagers to buy cigarettes, it provides a relatively easy source of income for organized crime and urban gangs.

Legitimate Markets

These problems could be reduced or eliminated by lowering the cigarette tax. Smokers would resume buying cigarettes from legitimate New Jersey retailers. Tax revenues certainly would increase. Less-expensive cigarettes also would undermine the black market.

Unwilling to acknowledge the failure of its high-tax policy, the anti-smoking lobby probably would claim a tax reduction would encourage smoking. But the tide against smoking is powerful. An economically realistic tax would not recruit new smokers. If the anti-smoking lobby believes otherwise, then it lacks faith in its message.

Gregg M. Edwards (gmedwards1@verizon.net) is president of the Center for Policy Research of New Jersey. This article originally appeared in the October 12 edition of the Asbury Park Press. Reprinted with permission.

Correction

The September 2008 edition of Budget & Tax News erroneously reported that a new eminent domain law in South Dakota allows railroads to take land immediately upon filing a condemnation lawsuit that is challenged by land owners. Language added to the bill delays the taking of land until after a hearing officer decides whether to allow condemnation. That decision must be made within 90 days of a railroad’s filing of a condemnation suit. Budget & Tax News regrets the error.

New Jersey wasn’t losing smokers; it was bleeding cigarette purchases.

By 2006 it was clear cigarette sales had reached a tipping point. Another tax increase, even a modest one, likely would cause sales to drop to the point that they would negate the value of the tax increase. When lawmakers enacted New Jersey’s most recent tax increase, they dismissed the possibility that it would trigger a revenue decline. Taxing smokers was too tempting and too easy to be derailed by the countervailing threat of reduced revenues.

Anti-smoking zealots stubbornly cling to conventional wisdom regardless of the evidence. For example, the Campaign for Tobacco-Free Kids suggested New Jersey lost revenue because its last tax increase was too small.

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Fall Election Features Bumper Crop of Ballot Initiatives for Tax Cuts, Hikes

By Kristina Rasmussen

While presidential candidates John McCain (AZ) and Barack Obama (IL) were getting the lion’s share of attention this fall, voters had numerous choices to make on state and local measures further down the ballot.

A comprehensive review of state and local taxpayer measures by the nonpartisan National Taxpayers Union identified 95 ballot questions in 34 states of interest to taxpayers.

The year 2008 could be especially important for the taxpayer movement, as numerous strong tax limitation measures made the ballot across the country. Many tax hikes also have been placed before the voters.

State Tax Limits Proposed

Here are some of the proposed tax limitation measures:

- **Massachusetts’ Question 1** would reduce the state individual income tax from 5.3 percent to 2.65 percent beginning in 2009, with complete repeal in 2010. On average, taxpayers would save $3,700 a year once the income tax fully phases out.

- **North Dakota’s Statutory Measure No. 2** would lower the state corporate income tax by 15 percent and cut the state personal income tax in half (with a few exceptions) beginning in 2009. North Dakota is projected to have a $1.3 billion budget surplus this fiscal year, and this measure could save taxpayers more than $415 million over the next two years.

- **In Arizona, Proposition 100** would prohibit state and local governments from imposing a tax when property is bought, sold, or transferred. This type of tax is popular with some elected officials because taxpayers likely won’t notice it until they make a property transaction. By that time, the taxpayer has little choice but to shoulder the burden of hundreds or even thousands of dollars.

- **Arizona voters also will consider Proposition 105,** which would place a strong majority vote requirement on tax or spending hike plans. Specifically, a vote of support from a majority of qualified voters would be necessary to pass an initiative imposing higher taxes or spending.

- **Maine’s Question 1** would repeal new taxes on malt beverages, liquor, wine, and soft drinks, and it would repeal a fixed fee that is charged to health insurance companies on paid claims. The new laws were enacted by the state legislature in April 2008 to help fund the state’s Dirigo Health program, which has experienced large financial shortfalls.

- **Oregon’s Measure 59** put a “prohibition on double taxation,” making all federal income taxes fully deductible on state income tax returns beginning in 2010. Oregonians currently can deduct $5,600 or less of federal taxes. This measure would save taxpayers an estimated $1.3 billion over the next two years.

Electoral Threats on Ballots

It’s not all good news for proponents of limited government, however.

In Nevada, citizen activists labored mightily through an on-again, off-again ballot drive for property tax limits while harassed by legal challenges from opponents. Question 5 would have limited property taxes to 1 percent of a property’s base value, and the base assessment, with certain exceptions, would never increase more than 2 percent annually.

The proposal strongly resembled California’s landmark Proposition 13, which in 1978 touched off the modern nationwide taxpayer revolt. Question 5’s supporters were in the middle of appealing to the State Supreme Court a ruling on a Nevada State Education Association lawsuit against the measure when the secretary of state instructed counties to begin printing election ballots without Question 5.

In perhaps the most serious assault on taxpayers, Colorado’s Amendment 59 would effectively undo the state’s Taxpayer Bill of Rights. The TABOR restricts the annual growth of state tax revenue to inflation plus population growth and requires any funds collected in excess of this formula to be returned to taxpayers.

Amendment 59 would eliminate the tax refunds from TABOR and instead funnel that money into a state education fund. It also would repeal Amendment 23, which requires the state to spend increasing amounts on public schools. Though taxpayer advocates see Amendment 23 as problematic, they believe reforms should focus on directly addressing its minimum-spending requirement instead of scrapping TABOR.

“Massachusetts’ Question 1 would reduce the state individual income tax from 5.3 percent to 2.65 percent beginning in 2009, with complete repeal in 2010. On average, taxpayers would save $3,700 a year once the income tax fully phases out.”

More Tax Hikes Proposed

Quite a few other tax hike questions have made their way onto state ballots, including the following:

- In Minnesota, a constitutional amendment would increase the state sales tax by three-eighths of 1 percent, with the new revenues dedicated to additional spending on natural resources and the arts. If approved, it’s estimated the amendment will cost taxpayers $111 billion over its 25-year lifespan.

- Colorado’s Amendment 58 would raise taxes on oil and natural gas production. Supporters suggest this punitive tax will somehow redress record profits of oil and gas companies, but the ultimate effect of the measure would be to double the tax rate on oil and gas production in Colorado.

- Also in Colorado, Amendment 51 would hike the state sales tax by two-tenths of a cent, estimated to increase taxes by $186 million annually, to expand programs aimed at the developmentally disabled.

- Many Californians will vote on telecommunications tax increase questions put on the ballot by their localities. In most cases they will be asked to approve a local 911 tax or a utility users tax (UUT). Many of these questions will be framed as a way to increase emergency services funding or pass a “tax cut,” but most are nothing of the sort, analysts say.

Many of the existing local 911 taxes are of dubious legality because they were established without a necessary two-thirds vote from residents, so approving them now would kill future efforts to remove them on constitutional grounds.

The UUTs are linked to a federal tax that is no longer collected for most telecommunications services, so if voters approve measures to “delink” it from the federal tax, they’ll effectively be cementing the imposition of an unnecessary and potentially illegal tax on their service.

In Oregon, Measure 56 would change the state constitution to weaken the “double majority” rule preventing a tax hike from taking effect unless 50 percent of registered voters turn out and 50 percent of the votes are in favor of it. The “double majority” rule has stopped many tax hikes by preventing a minority of registered voters from imposing a tax on everyone.

Initiative Process Under Attack

In perhaps the most troubling trend of 2008, the initiative and referendum (I&R) process itself has come under attack, with proposals up for consideration in Colorado, Ohio, and Wyoming making it harder to qualify I&R measures for the ballot.

Still, taxpayer activists across the country are successfully pursuing the ballot-box process, with pro-taxpayer measures already circulating for 2009 in Maine.

While the initiatives, referenda, amendments, and measures noted here comprise some of the most significant ballot questions affecting taxpayers this fall, NTU encourages voters to visit its Web site (http://www.ntu.org) before and after November 4 for detailed policy information and vote results.

Kristina Rasmussen (krasmussen@ntu.org) is director of government affairs for the 362,000-member National Taxpayers Union in Washington, DC.

U.S. Sens. John McCain (left) and Barack Obama ran presidential campaigns with massive differences in tax policy this fall—but voters’ lives ultimately could be altered by local ballot measures that received far less press coverage.
A wide variety of initiatives bearing on budgets and taxes but not explicitly raising or lowering tax rates have also hit the ballots in states across the nation. Given the unpopularity of tax hikes, some states are looking to alternative revenue sources. Borrowing and bond issuance questions (worth tens of billions of dollars in total) have made the ballot in Alaska, Arkansas, California, Colorado, Ohio, and Maine. New Jersey’s Public Question 1 would go in the opposite direction, giving residents the chance to approve future bond requests, which could help limit future indebtedness.

Moving Money Around
States are also considering a variety of measures regarding prioritization or protection of funds. Utah’s Constitutional Amendment B, the State Trust Fund Amendment, would allow a tobacco settlement trust fund to receive other forms of money, including the booming severance tax revenues gained from natural resource extraction. Three-fourths of the legislature plus the governor would have to agree to spend money from the trust fund, and it could provide a “rainy day” account preventing future tax hikes during tight budgetary times.

In Washington, Initiative Measure No. 985 would redirect existing funds (including 15 percent of state sales and use taxes on vehicles, plus certain traffic ticket fines and tolls) to traffic congestion relief. Supporters say this will provide up to $668.6 million for traffic-reduction programs over the first five years, without raising tax rates.

In North Dakota, Constitutional Measure No. 1 would create a protected, permanent “oil tax trust fund” for oil and gas taxes received in excess of $100 million. An existing “statutory” trust fund often gets raided and emptied during the legislative session because spending requires only a 51 percent vote. The stronger trust fund would require a three-fourths vote of the legislature to spend up to 20 percent of the balance.

Voter Initiatives Propose to Redirect Tax Money, Limit Lobbyists’ Power

Advocates are concerned the measure would encourage more state outlays at the expense of prudent budgeting practices.

Constraining Corruption
Numerous “good-government” reforms are up for consideration.

In South Dakota, Initiated Measure 10 would prohibit use of taxpayer funds for lobbying, bar legislators and their staffs from using their positions to secure state-contracted jobs, outlaw trading state contracts for campaign donations, and create an online database of state contracts exceeding $500.

Colorado’s Amendment 54 would end the practice of “pay to play.” Holders of contracts worth $100,000 or more that were awarded without competitive bidding would be prohibited from contributing to political parties or candidates for elected office for the term of the contract plus two years thereafter.

Colorado also will consider Amendment 47 and Amendment 49, which would respectively add “right to work” protections (preventing the mandatory joining of a union as a condition of work) and “paycheck protection” standards (prohibiting union dues from being deducted from government workers’ paychecks).

Oregon’s Measure 64 would penalize anyone who uses funds collected with public resources (including money, public employee hours, buildings, and equipment) for a political purpose (such as campaigning).

Connecticut, Hawaii, and Illinois will ask voters if they want to hold a state constitutional convention.

— Kristina Rasmussen
Upper Midwest Is Enjoying Sudden Renaissance of Economic Freedom

By Jim Waters

In news that has come as something of a surprise to economy watchers, the South is no longer the U.S. region offering the most promising trend toward economic freedom.

The new champ is the Upper Midwest—places such as South Dakota, which tops the latest U.S. Economic Freedom Index, issued by the Pacific Research Institute and Forbes magazine.

The index uses 143 variables organized into five sectors—fiscal, regulatory, judicial, government size, and welfare spending—to determine how much of a threat state government policies pose to the economic freedom of businesses and individuals.

The higher a state’s taxes, the heavier its regulation, the more activist its judges, the larger its welfare budget, and the more bloated its spending, the less economic freedom its residents have, the report observes.

‘Perfect Example’

“While southern states still tend to be above the median, the conventional wisdom is that the South is much more pro-business in its government policies than it really turns out to be when you look at it,” Lawrence J. McQuillan, the index’s lead author, said.

Instead, the report found many upper-Midwest states are making the largest strides toward increasing economic freedom and attracting an influx of capital, people, and businesses.

For example, South Dakota—which doesn’t tax corporate or personal income, personal property, business inventories, or inheritances—jumped 14 spots since 2004, when the index was last published. The state has the second-most business-friendly tax climate, according to the Tax Foundation’s 2009 Business Tax Climate Index.

“South Dakota is a perfect example that other states can focus on and learn from,” McQuillan said. “Other states can learn how to structure a tax code that’s very business-friendly and that encourages businesses and new people to move in.”

The state is becoming a magnet for technology firms and small manufacturing businesses, McQuillan said.

Catching Up

While other states in the region still rank behind many southern states, they are quickly catching up. Wisconsin, for example, trailed Virginia, Georgia, Arkansas, Alabama, and South Carolina in this latest index, but the Badger State’s leap of 20 places from its spot in the previous index was the largest in the nation. Minnesota and Illinois jumped 18 and 19 places, respectively.

But even the states making strides in the overall amount of economic freedom enjoyed by their citizens trail far behind in some sectors in the index. For example, while Wisconsin ranks ninth in the government-size sector, only one state ranked lower in the fiscal sector.

Still, what’s happening in the Upper Midwest is nothing short of an economic freedom renaissance, spurred largely by the pressure one state’s fiscal reforms puts on neighboring states to improve or lose people and capital, McQuillan said.

McQuillan points to Minnesota Gov. Tim Pawlenty’s (R) effort to improve the business climate in his state.

“He’s putting pressure on other states to follow along or be left in the dust,” McQuillan said. “It’s a good kind of competitive environment.”

“South Dakota is a perfect example that other states can focus on and learn from. Other states can learn how to structure a tax code that’s very business-friendly and that encourages businesses and new people to move in.”

LAWRENCE J. MCQUILLAN
LEAD AUTHOR
U.S. ECONOMIC FREEDOM INDEX

Migration Gaps

One of the exceptions to the economic resurgence in the region is Michigan, which ranked 34th in the latest economic-freedom index, down seven spots from its place in the 2004 edition.

Michigan trails only Rhode Island in outbound migration, according to Michael LaFay, fiscal policy director of the Mackinac Center for Public Policy, a think tank based in Michigan. Migration rates are a function of relative economic opportunity, LaFay said.

“Why would people leave behind everything they know and go and spend a fortune moving to a location that has equal, if not fewer, opportunities than the state where they currently reside?” LaFay said. “And it’s not only a financial move; it’s also a psychological move—they have to part with their culture.”

The economically freest states are growing much faster than those with the least freedom, the study notes. According to McQuillan’s index, net in-migration for the 20 economically freest states between 2003 and 2007 was 27.36 people per 1,000. The migration rates were only 1.17 people per 1,000 people in the most economically oppressed states. Thus Americans are “voting with their feet,” as economist Charles Tiebout described it.

Political Consequences

Low migration rates can eventually lead to a reduction in the number of representatives the state sends to Congress—which can translate into a loss of power and federal dollars.

Like California, which ranked No. 49 in McQuillan’s report, Michigan is poised to lose a seat in Congress after the next census.

“We already get back less money from the federal government than we send,” LaFay said. “Losing a congressional seat ... will mean less power and the likelihood that we will have less money for our roads.”

Guide for Recovery

However, McQuillan notes, the research provided by the index can be a guide for recovery even in Michigan.

“If Michigan improved its economic freedom by just one slot—if it went from No. 43 to No. 42—it would mean a net increase of about 10,000 people,” McQuillan said. “That’s [an influx of] badly needed consumers, investors, workers, and entrepreneurs.”

Jim Waters (jwaters@freedomkentucky.com) is director of policy and communications at the Bluegrass Institute for Public Policy Solutions in Bowling Green, Kentucky.

In Other Words

“State lawmakers are fond of talking about openness and transparency in government, but generally come up short when it comes to taking positive legislative action.

“This year was an exception when the House and Senate passed Senate Bill 6818, which requires the state to make available to the public detailed information about state spending. State officials have until Jan. 1, 2009, to assemble line-by-line state spending data and make it available to the public via a Web site.

“It’s a great step forward to a more open and transparent government. Now it’s time for lawmakers to shift their focus to the revenue side and give the public the same kind of detailed information about the taxes they pay to support government programs.”

House Editorial

The Olympian (Olympia, Washington)

October 2, 2008
Chicago Privatizes Midway Airport in $2.5 Billion, 99-Year Lease Deal

By Steve Stanek

The city of Chicago will receive $2.5 billion for a 99-year lease of Midway Airport on the city’s South Side, making it the first major commercial airport in the United States to go private.

Despite turmoil in U.S. and overseas stock and credit markets, the bids for the lease “were strong,” said Lisa Schrader, Chicago’s deputy chief financial officer.

“We were very pleased with the bid, particularly considering the turmoil we’ve been seeing in the financial markets,” Schrader said. “We believe it will be a transaction that benefits all stakeholders—the traveling public, the airlines, the city. It will allow us to invest in a substantial infrastructure program.”

Plans for that program are still being developed.

“The mayor [Richard M. Daley] feels strongly that city governments have to be creative in these economic times,” Schrader added. “That’s why the city pursues these deals.”

Chicago’s Done it Before

In 2006 Chicago closed a $550 million lease of underground parking garages to investors led by Morgan Stanley, and in 2005 it completed a $1.8 billion lease of the Chicago Skyway, a nearly eight-mile stretch of highway linking the city’s Dan Ryan Expressway with the Indiana Toll Road.

By a 49-0 margin the Chicago City Council in October approved the airport lease with Midway Investment and Development Corporation (MIDCo), an entity made up of Citi Infrastructure Investors, Vancouver Airport Services (YVRAS), and John Hancock Life Insurance Company.

Approval by the Federal Aviation Administration is also required. Schrader said the city expects FAA approval by the end of the year.

Scores of major airports in Canada, Europe, and Asia already have private ownership or operations. YVRAS has been privatizing airports in Canada and overseas since the 1990s and now operates 18 airports in seven countries.

“This contract marks a milestone in the growth of our company,” Larry Berg, CEO of the Vancouver Airport Authority, said in a press release. “And it is a clear example of how we can leverage our success at home to develop the best airports in the world.”

Will Wipe Out Debt

The city plans to use about $1.2 billion of the lease money to retire debt on the airport, netting the city a gain of more than $1 billion.

“We believe it will be a transaction that benefits all stakeholders—the traveling public, the airlines, the city.”

LISA SCHRADER
DEPUTY CHIEF FINANCIAL OFFICER
CITY OF CHICAGO

Responding to complaints of lease critics who fear prices at the airport will go up, Schrader said some prices may increase, but not all.

“The reality is that a private operator is motivated to increase traffic,” said Schrader. “We believe passengers will see a wider range of services, quality shopping, things people will like.”

Expert Expects Upgrades

Those enhanced services may cost more, agreed Robert Poole, a nationally known transportation expert at the Los Angeles-based Reason Foundation.

“Travelers at Midway can expect facility upgrades and better services—for which they may have to pay more,” Poole said. “Given Midway’s landlocked location and limited ability to expand the number of flights, it will have to figure out ways to generate more revenue per passenger using the airport.

“Simply jacking up prices for parking and food/beverage/gift offerings will tend to drive people away—to O’Hare, to trains, or to driving, depending on the trip. So they need to figure out ways to add value,” Poole said.

Poole said some of those ways could include offering “reserved parking spaces for some portion of parking, better opportunities to spend money on desired food and drink, and other products and services.”

Leis Valentine, vice president of the Civic Federation, a nonpartisan government research organization in Chicago, said the organization supports the Midway lease because “the Civic Federation supports privatization of non-core government assets. Airports, toll roads we consider to be good candidates for privatization.

“It’s important, though, that government exercise oversight over the vendors to ensure operations are done safely and effectively,” Valentine said. “We also believe it’s important there be a competitive marketplace. In this case it appears there was.”

The dominant air carrier at Midway Airport is Southwest Airlines. Company spokesperson Brandy King said the lease “probably will mean lower and more predictable airport charges for us. That helps us keep costs down for customers.”

New Web Site, Organization Aim to Empower Taxpayers

By Sandra Fabry

With the launch of the Center for Fiscal Accountability Web site, taxpayers, lawmakers, and activists have a new resource to make government more accountable.

The center, a new project of Americans for Tax Reform, works to promote transparency, accountability, and fiscal restraint in government.

The Web site (http://www.fiscalaccountability.org) was launched in September and provides state-by-state information on efforts to improve transparency and accountability in government finance, as well as daily news updates, commentary, and advocacy tools.

“Over the past two years, we have seen much progress in the area of fiscal accountability, especially when it comes to creating searchable Web sites for government expenditures that are empowering taxpayers to become fiscal watchdogs,” said Grover Norquist, president of Americans for Tax Reform.

“The Web site ... provides detailed state-by-state information on efforts to improve transparency and accountability in government finance, as well as daily news updates, commentary, and advocacy tools.”

Advocacy, Clearinghouse

The Center for Fiscal Accountability sees its role not only as an advocacy organization but also as a clearinghouse for information. The organization works with lawmakers, members of the executive branch, taxpayer activists, and think tanks to make government more accountable and highlight and help to eliminate fraud, waste, and abuse through projects such as Cost of Government Day and Tax Bites.

“The Center for Fiscal Accountability strives to be a valuable resource for taxpayers who have grown weary of spend-too-much policies,” said Norquist.

“The information and tools available on the site will arm them with the ammunition they need to tell their elected officials to open up government’s books,” Norquist said. “Anyone who thinks government must be accountable to taxpayers should bookmark this Web site.”

Sandra Fabry (sfabry@atr.org) is government affairs manager at Americans for Tax Reform and executive director of ATR’s Center for Fiscal Accountability.

INTERNET INFO

Center for Fiscal Accountability: http://www.fiscalaccountability.org

Steve Stanek (stanek@heartland.org) is a research fellow at The Heartland Institute and managing editor of Budget & Tax News.
New Jersey Has Nation’s Worst Business Tax Climate

By Josh Barro

The Tax Foundation’s 2009 State Business Tax Climate Index, the sixth annual report ranking the 50 states on the business-friendliness of their tax codes, finds New Jersey has the worst business tax climate in the nation—for the second year in a row.

The organization released the index in October in Trenton, New Jersey, to highlight the Garden State’s earning the worst overall score.

Like most states with poor scores, New Jersey applies high tax rates to narrow tax bases under complex rules that distort the state’s economy. States with high scores apply low tax rates to broad tax bases, and they often do not impose one or more of the major taxes.

Each of this year’s 10 top-scoring states refrains from imposing a corporate income tax, personal income tax, or sales tax.

Lawmakers Have Control

The index ratings are based on tax rates and statutes, not tax collections. Everything rated is directly under legislative control, and legislators are fully empowered to determine their own scores.

The index also shows what legislative changes would improve states’ standing, and by how much.

In addition, the index shows in real time when states improve or worsen their tax climates.

“The Tax Foundation maintains the index to show legislators what they can do to improve their states’ tax codes and increase their appeal to businesses.”

For example, for fiscal year 2009 Maryland raised its personal income tax, retail sales tax, corporate income tax, and cigarette tax, all by substantial margins. As a result, the state fell from 24th on the 2008 index to 46th this year.

Utah, Rhode Island Improve

On the brighter side, Utah and Rhode Island implemented positive tax reforms, both moving to flat personal income taxes (an optional one, in Rhode Island’s case).

Utah improved five spots from 16th to 11th, and Rhode Island improved three, from 49th to 46th.

Kansas and Pennsylvania also benefited, by reducing their corporate franchise taxes, and Louisiana’s score rose because the state repealed its gift tax.

Solutions Offered

At the Trenton briefing, Tax Foundation analysts recommended actions legislators could take to improve New Jersey’s business tax climate.

Those recommendations include broadening the sales tax base, currently the third-narrowest among the 45 states that levy a sales tax. This narrow base, which excludes goods from food and clothing to Bibles and coffins, requires New Jersey to levy a 7 percent rate to generate adequate revenue. This ties New Jersey for the highest sales tax rate among states without local sales taxes.

The organization also recommended the state reconsider its onerous realty transfer taxes, reduce tax complexity, cut tax rates, and apply those lower rates to broader bases.

Josh Barro (barro@taxfoundation.org) is a staff economist at the Tax Foundation, a nonpartisan research group based in Washington, DC.

City of Pittsburgh Lowballs Garbage Collection Charges for Wilkinsburg

By Eric Montarti

In the spirit of municipal cooperation and to prove the city is an efficient service provider, Pittsburgh last year began collecting residential garbage in the Borough of Allegheny, a municipality adjoining the eastern part of the city.

Pittsburgh is charging Wilkinsburg households an average of about $120 a year, while charging its own households about $200.

Originally a one-year deal, the contract was extended to run through the end of 2010. The borough of 6,000 households will pay Pittsburgh about $722,000 annually. Pittsburgh officials estimate the contract will save homeowners about $500,000 over what the private collection company that used to haul trash for Wilkinsburg planned to charge.

Different Charges

Pittsburgh residents want to know why the city is charging people in another municipality less than it charges them.

The Allegheny Institute’s report on “The True Cost of Garbage Collection in Pittsburgh,” released in July, aimed to find out just that, inquiring into the factors Pittsburgh used in constructing its bid for trash collection.

Delving into the 2008 budget, financial forecasts, and industry data, we were able to estimate the cost of garbage collection in Pittsburgh is around $23 million when considering refuse’s share of the operating budget, fringe benefits, workers’ compensation, fuel, and a capital fleet cost.

With 115,000 households in the city, the annual household cost in Pittsburgh is $202, about 68 percent higher than what the city is charging Wilkinsburg.

Big Subsidy

The implications are clear: City taxpayers are subsidizing the venture. If Pittsburgh’s household cost were applied in Wilkinsburg, the bill would be closer to $1.2 million instead of $750,000. That means city taxpayers are making up the $400,000 difference.

At the true cost, the city’s bid would have been more than that of the private operator, who must pay taxes and try to make a profit.

In 1996, Competitive Pittsburgh, a task force charged with studying ways to improve the city’s finances and promote “excellence in city government,” found the city’s garbage collection is an inefficient operation that is lower on performance indicators than both private and other municipal operators.

Since then, quarterly oversight reports issued by the state confirm that conclusion.

Plans for More

Pittsburgh Mayor Luke Ravenstahl (D) views the Wilkinsburg garbage collection deal as the launching pad for other city services (building inspection, animal control, etc.) to be offered to smaller Allegheny County municipalities.

Ravenstahl told the Pittsburgh Post-Gazette, “I really believe that we need to be doing this type of thing. You all know, as I do, that the cost of delivering government continues to rise.”

That’s a troublesome trend if the city is deliberately underbidding other providers or simply taking a loss to get its foot in the door. If the city manages to find other interested buyers and does not include all of the vital cost factors of the service, city taxpayers will see larger bills while Pittsburgh officials falsely claim they are making money for them.

Eric Montarti (eric@alleghenyinstitute.org) is a policy analyst at the Allegheny Institute for Public Policy, a policy research group in Pittsburgh.
Kansas Cigarette Tax Proposal Pays No Attention to Realities of Economy

By Jonathan Williams

Politicians continue to take aim at “Big Tobacco” in the search for additional tax revenues, as Kansas Gov. Kathleen Sebelius (D) recently announced plans to put a 50 cents per-pack cigarette tax increase “right back on the table.”

Not to be outdone, the Kansas Health Policy Authority subsequently proposed hiking the tax by 75 cents a pack, to pay for new spending on government health care programs.

Unfortunately for the governor and the authority, hiking taxes on smokers is one of the least-effective ways to raise long-term revenue.

Avoiding High-Tax Areas
Raising cigarette taxes always looks attractive to lawmakers on paper, as revenue forecasters often show a windfall of projected receipts. In the real world, however, people respond to incentives, and cigarette taxes have been shown to encourage smokers to avoid high-tax jurisdictions.

“[H]iking taxes on smokers is one of the least-effective ways to raise long-term revenue.”

As state after state has learned, the promise of substantial cigarette tax revenue often goes up in smoke.

In Maryland, for example, lawmakers last year doubled the state’s cigarette tax to $2 a pack to pay for additional health care and balance the budget. They expected a revenue boom to help fix their state’s unstable finances.

They were sorely disappointed. Cigarette sales are down 25 percent in the state—nearly 30 million fewer cigarettes have been sold in Maryland since the tax increase took effect this year. The cigarette tax, supposedly the panacea for the state’s budget woes, has come up short.

“The cost difference with a bordering state has made it profitable for Maryland drivers to venture down Interstate 95 into the Old Dominion, saving $1.70 a pack in cigarette taxes alone. Maryland has responded with hopeless investigations and searches of suspected “tax evaders” on the border.

Missouri’s Low, Low Tax

Only a few states have lower cigarette taxes than Virginia. Unfortunately for Sebelius and the other cigarette tax-hikers in Kansas, neighboring Missouri is one of them. The Show-Me State levies a tax of only 17 cents per pack of cigarettes, the second-lowest cigarette tax in America.

With such competitors sitting just across Kansas’ border, every policymaker in Topeka should understand policy changes are not created in a vacuum. Every time a state changes tax policy, it directly and immediately influences the choices of businesses and individuals—in this case, smokers.

If the Kansas Health Policy Authority is successful and Kansas lawmakers adopt the proposed 75 cents per pack cigarette tax increase, the tax would increase to $1.54 per pack. The tax cost per pack of cigarettes would be $1.37 lower in Missouri, and Kansas’ tax would be higher than in any bordering state.

Even state House Minority Leader Dennis McKinney (D-Greensburg) has publicly acknowledged the difficulty of Kansas competing with Missouri if the tax increase passes.

Border State Competition

As lawmakers in Maryland have painfully learned, states cannot expect cigarette taxes will raise enough revenue to solve budget problems or expand health care coverage. States cannot expect smokers to ignore the incentive to purchase their cigarettes in bordering states, especially when the cost difference is very high. The thousands of residents in Johnson County would be only a short drive away from significant savings on tobacco products.

Unfortunately, with politically charged topics such as these, it is easy for some public policy leaders to lose sight of basic economic realities. However, it is clear Kansas’s proposed tobacco tax increase will fail to raise the expected revenue. Consumers will have a greater incentive to purchase their cigarettes across state lines, and today they can evade the increased taxes in the comfort of their own home, through the Internet.

Politically, cigarette taxes are an easy sell because they target a small fraction of society and involve a socially unpopular activity. Nonetheless, cigarette taxes are strikingly bad public policy.”

“Politically, cigarette taxes are an easy sell because they target a small fraction of society and involve a socially unpopular activity. Nonetheless, cigarette taxes are strikingly bad public policy.”

Jonathan Williams (jwilliams@alec.org) is an economist and director of the Tax and Fiscal Policy Task Force of the American Legislative Exchange Council.
The Bailout: What the Experts Are Saying

"Even if [Treasury Secretary Henry] Paulson unexpectedly turns out to be as pure as driven snow ... the amount of confusion that he has been empowered to inject into the world’s financial markets defies comprehension. With $700 billion to throw here, there, and everywhere, for good reason or no reason, with no real accountability and no bottom line—if he can’t make himself the God of Chaos by exercising these powers, then nobody on this planet can create chaos. The potential for malinvestments, general misallocation of resources, and sheer financial tomfoolery confounds the mind.”

Robert Higgs
Senior Fellow in Political Economy
Independent Institute

"There shouldn’t be a ‘bailout’ of specific firms. It would only encourage more risky behavior and divert more business effort toward lobbying. Insolvent firms and individuals should go through existing bankruptcy procedures. Bank depositors should be protected up to the amounts specified by the FDIC.

“The Federal Reserve should provide credit to the banking system, as needed, by buying government securities.”

John Semmens
Economist
Laissez Faire Institute

“This is simply government trying to reward its friends by seeing they don’t get hurt. It also is a grand intent to deflect blame, particularly before the election, to greedy speculators instead of foolish policies.

“No matter what policies are taken, including nothing, this crisis will pass, either with short-term pain, if we are lucky, or with long-term pain similar to the Great Depression if we let government have its way. But pain is unavoidable. I am willing to take almost any kind of pain to take back my America.”

David H. Padden
Founder and Chairman Emeritus
The Heartland Institute

After surveying media coverage leading up to the two congressional votes on the federal bailout of the mortgage industry, Congressional Quarterly Managing Editor Daniel J. Parks wrote a stinging rebuke of most financial reporting of the credit crisis and the federal government’s response.

“[Y]ou would think there is universal agreement among economists that an immediate, enormous government intervention in the markets is the only way to stave off a recession, and perhaps even a depression,” Parks wrote. “This is simply false. Many economists reject the notion that something must be done immediately and have called for more careful consideration of a wider range of options. Some even reject the premise that any bailout action will make much of a difference.”

The following comments from economists, financial experts, and public policy analysts around the country confirm Parks’s statement and cast doubt on the actions the government has taken.

“The current Treasury Plan to bail out the banks by purchasing the ‘toxic’ mortgage loans has been deemed necessary to ‘unfreeze’ the credit market. The cost has been estimated by the Treasury to be at least $700 billion and as much as one trillion dollars. But what guarantees that the banks will loosen up and return to the pre-crisis level of borrowing and lending? It seems to me that banks will be very careful to avoid climbing back on the limb that nearly got sawed off. Credit will remain tight, and loans will be offered only to the safest borrowers and at higher interest rates.

“This, added to the huge tax increase and more inflation from the Fed, is a prescription for replacing the depression of 1937-38 with the downturn of 2008 as the sharpest in U.S. history.”

Jim Johnston
Senior Fellow
The Heartland Institute

“Substituting social engineering (such as executive compensation caps) and socialized losses for market discipline (taking your lumps on bad investments, reaping the rewards of good ones) is no way to restore soundness to credit markets and no way to encourage responsible lending practices, now or in the future.”

Alexei Marcoux
Associate Professor of Business Ethics
Graduate School of Business
Loyola University Chicago

“My first reaction is that this is all immoral, because the problem is in financial markets. The same people who have been making enormous bonuses, reaping tremendous rewards, have made tremendous mistakes. And now your average taxpayer is bailing them out. People who have not benefitted, who have a hard time filling their gas tanks, are going to be paying for this.

“As an economist, I know these bailouts don’t work. Rewarding people who have made such gargantuan mistakes and punishing people who haven’t made these mistakes sends wrong signals. And it doesn’t clean up the financial mess. Bankruptcies, consolidations, mergers, and buyouts are the ways to unwind this mess. Bailouts encourage people not to act.”

Mark Thornton
Economist, Senior Resident Fellow
Ludwig von Mises Institute

“First, when the public hears that the government must save the economy from capitalism run amok, it loses faith in our free-market system. In other words, the huge Treasury proposal has accelerated the momentum toward political populism.

“Second, it seems clear that much of the current crisis has been exacerbated by mark-to-market accounting, which has created massive and unnecessary losses for financial firms. These losses, caused because the current price of many illiquid securities is well below the true hold-to-maturity value, could have been avoided. The current crisis is actually smaller than the 1980s and 1990s bank and savings and loan crisis, but is being made dramatically worse by the current accounting rules.”

Brian Wesbury
Chief Economist
First Trust Advisors
Trouble in Finance Sector Is Actually a Positive Purge of Financial Sins

The unwinding of financial “innovation” (innovations based on financial “sins,” such as use of seriously flawed risk models and misallocation of economic resources) accelerated in the third quarter, resulting in the phenomenal collapses of IndyMac, Fannie Mae, Freddie Mac, Lehman Brothers, AIG, Merrill Lynch, Washington Mutual, and Wachovia, and the rapid erosion of the Wall Street investment banking model.

Additional victims included hedge funds, which have experienced a 79 percent decline in flows. According to The Wall Street Journal, many hedge funds have failed to live up to their promises—nine out of 10 are not able to collect performance fees due to a lack of performance. Thirty-five hundred have closed so far this year.

The “Great Unwind” is driving a mass extinction of those who are guilty of financial sins and responsible for huge misallocations of capital.

“The market is not anyone’s friend. It does not exist to serve investors or deliver them a required return in order to fund their retirement or other liabilities. The market serves as a clearing function, where buyers and sellers meet and transact.”

Capital Markets’ Role Misunderstood

The market is not anyone’s friend. It does not exist to serve investors or deliver them a required return in order to fund their retirement or other liabilities. The market serves as a clearing function, where buyers and sellers meet and transact.

Market prices reflect terms balancing the wants of buyers with the needs of sellers. Thus changes in market prices reflect changes in the balance of wants and needs.

Investors sell the use of their capital. Borrowers buy the use of that capital. Neither the buyer nor the seller can independently control the terms of exchange.

3. Sustaining Price Transparency

Price discovery requires transparency. When poor credit was alchemized into quality credit through the creation of SIVs and CDOs, price discovery was undermined, and regulators, or market participants, did not easily see the warning signals.

Risk premiums disappeared, so participants had a false sense of security. Those “innovative” financial products undermined the market price signaling and feedback loops required to direct the allocation of capital efficiently, until the entire financial system was at risk.

4. Investing to Own

“Investors” became enamored with the new products that Wall Street peddled to help them buy, sell, trade, and manage risk instead of investing to own. Historically, default rates became a substitute for old-fashioned credit analysis. Thematic baskets of stocks (ETFs and index funds) became a substitute for old-fashioned equity analysis.

Lack of due diligence and analysis drove a massive misallocation of capital into investment structures that investors simply did not understand, but nevertheless invested in and borrowed against.
Bailout
Continued from page 1

dvides economic research to individual and corporate investors. “The traditional money and banking book that tells how things are supposed to work—throw it out. The Federal Reserve—it’s supposed to have reserves—has looted out so much money the net effect is its reserves are negative. It’s totally out of control.”

Fed May Buy Into Banks
Confirming Conrad’s point, the Treasury Department announced it would spend an unspecified amount to buy ownership stakes in U.S. banks. That announcement came one day after the government announced plans to spend an unspecified amount to buy short-term corporate debt, all in an effort to keep credit flowing.

Though the amount of money that could be spent was not specified, Treasury and Federal Reserve officials said about $1.3 trillion of short-term debt could qualify.

In addition to using unprecedented powers to prop up financial institutions and other private corporations, federal officials must Mull a request for billions of dollars in bailout money from California, the largest state in the nation and by itself the world’s eighth-largest economy, and from Massachusetts. Both states later secured short-term loans in the private market, but government analysts still fear federal bailouts of states could be possible.

Economists and public policy experts say approval of the requests could lead to a flood of bailouts for states across the nation.

“The government has gone wild, much wilder than anybody thought it would.”

BUD CONRAD
CHIEF ECONOMIST
CASEY RESEARCH

Golden State Wants $7 Billion
California Gov. Arnold Schwarzenegger (R) announced his state’s request for the federal government to buy at least $7 billion of state government debt on October 3, the same day lawmakers approved and President George W. Bush (R) signed a bill allowing the federal government to spend $700 billion to buy bad debt from banks in a program critics call “cash for trash.”

More than $100 billion in unrelated tax breaks, subsidies, and other spending were attached to the bill.

Schwarzenegger said California needs the federal government to buy the state’s debt because the private market is not buying it. The short-term debt would be used to fund schools, state health care programs, and other services.

Massachusetts quickly followed with a similar request after dropping a proposed $750 million debt issue because of bad market conditions.

Revenue Declines Expected
The Nelson A. Rockefeller Institute of Government confirmed the problems in its quarterly state tax revenue report released in October. It predicts “the damage is just beginning” in state budgets, because tax revenues can be expected to decline as the economy weakens. Adjusted for inflation, state revenues rose about 1.5 percent over the prior year, according to the report.

Arizona, California, Florida, Michigan, and Rhode Island have the worst fiscal situations, according to the report, and the study predicts Connecticut, New Jersey, and New York will soon be in similar financial straits because they rely heavily on the faltering financial services industries. Those industries generate significant amounts of corporate taxes and personal income taxes from employees in those states.

While the Rockefeller Institute blames declining tax revenues for the problems states are having, others blame overspending.

Spending Surges Blamed
One such critic is Sheila Weinberg, founder and chief executive of the Institute for Truth in Accounting, in Northbrook, Illinois. Truth in Accounting advocates more transparent and accurate government financial reporting.

Weinberg notes California has raised spending about 40 percent in four years and cites a huge school construction program in Massachusetts in 2005 as causes for those states’ financial problems.

“Massachusetts really took a hit in 2005 for a massive outlay for construction of schools, and they have not been able to recover,” Weinberg said. “Even though they said they balanced the budget in 2005, their GAAP [generally accepted accounting principles] number was $5 billion in the red.

“Our research into California shows that they have used lot of accounting maneuvers to pretend they have balanced the budget. They’ve moved tax receipts from one year to the next, that kind of thing,” Weinberg said.

She said this year’s California budget includes a plan to borrow $5 billion from future lottery earnings, but the plan must be approved by voters before it can be implemented, she noted.

“If voters don’t approve it, the state will have to do midyear cuts,” Weinberg said.

“What’s happened in California and other states is that during good economic times they don’t save,” Weinberg explained. “They expand the government, and when revenues start to be a problem, they have to cut services, and it’s hard to cut after you promise them. States should be running rainy day funds” to provide a financial cushion for lean years, she said.

Started Year with Deficits
Economist Jonathan Williams, director of the Tax and Fiscal Policy Task Force of the American Legislative Exchange Council, said about 30 states reported budget deficits for fiscal 2009, which began July 1, and other states are reporting new deficits as the budget year advances.

Williams said he worries especially about the impact of government pension funds on state finances. Some states, notably Illinois, already are woefully underfunded, and falling stock and bond markets will further erode assets as liabilities climb, hurting the funding of all state government pension plans.

“If they don’t get good returns on pensions, I think we could have massive lobbying efforts by states begging for federal assistance,” Williams said.

“This could be really bad,” Williams continued. “It is dangerous for states to be pursuing this kind of bailout. I was just talking with Amity Shales [author, economics historian, and syndicated columnist for Bloomberg News] about how states lose in times of crisis.

“No money goes [out] from Washington without strings attached. Whether it is a week or month or year or 10 years down the road, states will pay dearly for that money.

“And that means citizens will pay.”

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

President George W. Bush led the charge for the $700 billion government bailout package Congress approved in early October.
Feds’ Mental Health Parity Bill Becomes $700 Billion Economic Stabilization Act

By Jeff Emanuel

A relatively unheralded part of the $700 billion Troubled Asset Relief Program passed by Congress in October is a provision for “mental health parity,” which requires businesses with more than 50 employees that offer mental health insurance to workers to cover mental health at the same level as physical health. President George W. Bush signed the bill into law on October 3.

The mental health parity bill, HR 1424, was originally named the “Paul Wellstone Mental Health and Addiction Equity Act,” after the late Sen. Paul Wellstone (D-MN), who fought for mental health parity during his legislative career.

That legislation, which was passed by the House of Representatives in March, does not require employers to offer mental health coverage but requires parity if that coverage is offered.

Vehicle for Bailout

The Senate made HR 1424 the vehicle for the larger bailout package to avoid running afoul of the constitutional requirement that all financial legislation originate in the House, and to provide an incentive for House Democrats who originally voted against the bailout legislation to change their opinions.

“Businesses might simply drop mental illness coverage from their insurance policies, meaning employees will have less access to mental health benefits—all because the federal government thought they could use more regulation to ‘fix’ something that isn’t broken.”

Paul Gessing, President
Rio Grande Foundation

The Mental Health and Addiction Equity Act was extremely popular among House members, particularly Democrats. It garnered 274 cosponsors and 221 Democrat votes in its favor this past spring.

The legislation, which will take effect on January 1, 2010, requires the U.S. Department of Labor to submit biannual reports to Congress on group health plan compliance.

Big Downside Identified

Andrew Sperling, director of legislative advocacy for the National Alliance on Mental Illness, called the parity legislation “the culmination of a 15-year effort” in a press release.

Other experts say the new parity law means more businesses will increase their insurance premiums or drop their insurance altogether, resulting in an increase in the number of uninsured.

“For further,” Gessing added, “businesses might simply drop mental illness coverage from their insurance policies, meaning employees will have less access to mental health benefits—all because the federal government thought they could use more regulation to ‘fix’ something that isn’t broken.”

Jeff Emanuel (j emanuel@heartland.org) is a research fellow for health care policy at The Heartland Institute and managing editor of Health Care News.

Carbon

Continued from page 1

Section 117 of the legislation directs the National Academy of Sciences to “undertake a comprehensive review” of the federal tax code, the bailout legislation, and the National Academy of Sciences to “undertake a comprehensive review” of the federal tax code, the bailout legislation, and the National Academy of Sciences to “undertake a comprehensive review” of the federal tax code, the bailout legislation, and the National Academy of Sciences to “undertake a comprehensive review” of the federal tax code, the bailout legislation.

While the $700 billion bailout legislation has been billed as a necessary, if extremely expensive, government intervention to fend off a potential economic catastrophe, the carbon audit and supplementary green pork provisions promise to drain economic activity instead of stimulating it, analysts say.

More Expensive Fuels

Carbon dioxide emissions are a byproduct of industrial activities that use expensive fossil fuels. Economists agree that the only way to reduce emissions significantly is to make fossil fuels more expensive.

A carbon audit with a long-term goal of forcing consumers to pay more for the same energy they purchase cheaply today is a surefire way to further punish the American economy, said economist Sterling Burnett, a senior fellow of the National Center for Policy Analysis.

“Congress can mandate all the audits they want, but they can’t change the laws of economics,” Burnett said. “The Europeans have tried the same types of carbon restrictions, and their economies have been paying a terrible price as a result. They are now backing away from greenhouse gas limits as fast as they can, for good reason.

“Yet we are now diverting attention away from the core economic problems that led to such bailout legislation, and instead directing analysts to figure out how we can emulate Europe’s failures,” Burnett continued.

More Subsidies

In addition to a comprehensive audit of the federal tax code, the bailout legislation extends favorable tax treatment to wind, solar, and other inefficient renewable fuels.

The bailout legislation is thus directing resources away from taxpayers into the pockets of the economically non-competitive renewable power industry, which already is subsidized by federal taxpayers to the tune of more than $23 per megawatt hour of electricity produced.

“Only Congress could take a bill it considered too bad to pass, get a worse bill back, and then pass it with great fanfare a week later,” Burnett said. “They took a bad bill, made it 300 pages longer, and littered it with green pork and pet projects that have absolutely no stimulus effect on the economy.”

Burnett added, “Subsidizing inefficient technology that cannot economically compete is not a stimulus—it is a drain on economic resources. If we are teetering on the verge of an economic catastrophe, these provisions will be more likely to push us over the cliff than to pull us away from the abyss.”

James M. Taylor (taylor@heartland.org) is a senior fellow of The Heartland Institute and managing editor of Environment & Climate News.
By Jason Mercier

Against the backdrop of a project- ed $2.7 billion state budget deficit, Washington State Auditor Brian Sonntag has been busy making recommendations that could save taxpayers $240 million over five years while improving services.

Acting with new investigative author- ity, provided by voters when they passed Initiative 900 in 2005, Sonntag’s office has conducted nine performance audits identifying 434 areas for improvements.

According to Sonntag’s office, the audits “point the way toward millions in savings of taxpayer dollars, and they recommend ways to transform government operations and to make significant improvements in services to citizens.”

$3 Billion Impact

In addition, Sonntag notes his “audit of Puget Sound traffic congestion pointed to $3 billion in economic impacts to citi- zens and businesses and to the environ- ment—provided all the audit recommenda- tions are put in place.”

Based on the savings identified, the auditor believes his efforts have been well worth the cost. “Considering the $8 million cost of conducting the audits, the findings and recommendations repre- sent a healthy return on investment,” said Sonntag.

Among the performance audits con- ducted to date:

- Department of General Administra- tion Motor Pool—identified potential savings: $2.3 million over five years.
- Department of Transportation (Washington State Ferries)—identified potential savings: $50.2 million over five years.
- Educational Service Districts—identi- fied potential savings: $23.5 million over five years.

“The State Auditor’s Office reports 247 of the 434 recom- mendations thus far have been implemented. That’s 57 percent to date.”

- Sound Transit’s Link Light Rail— identified unnecessary spending: $5.1 million.
- Department of Transportation (Con- gestion Management)—identified potent- ial benefit: $3 billion over five years in economic impact to citizens and business- es plus environment impacts.
- Department of Transportation (Administra- tion & Overhead)—identified poten- tial savings: $18.1 million over five years.
- Port of Seattle Construction Management—identified unnecessary spending: $97.2 million.
- Department of Transportation (High- way Maintenance and Construction Management)—identified savings and unnecessary costs: $41.9 million.

57 Percent Implemented

Although the savings identified are impressive, the key to success with performance audits is whether the recom- mendations are actually implemented.

It appears Washington government offi- cials are taking this to heart.

The State Auditor’s Office reports 247 of the 434 recommendations thus far have been implemented. That’s 57 percent to date.

Mindy Chambers, spokeswoman for the Auditor’s Office, noted the legislature is still considering many of the remain- ing recommendations in the state’s bud- get process, as required by I-900.

“The full effect of this has yet to be seen,” Chambers told the Everett Herald.

“The recommendations are supposed to become part of the budgeting process. They’ll have to come back and look at

Jason Mercier (jmercier@washington policy.org) is director of the Center for Government Reform at the Washington Policy Center.

Florida High Court Issues Ruling Dividing Taxpayer, Business Groups

By Nick Baker

The Florida Supreme Court has decid- ed not to allow the state’s voters to decide whether to cut property taxes 25 percent and increase the sales tax and other taxes. It removed from Florida’s November general election ballots a pro- posed referendum that would have made Florida a “taxpayer’s paradise.”

‘Trojan Horse’

Dominic Calabro, president of Florida TaxWatch, praised the court’s decision, saying the amendment did not adequately inform voters of the changes to the state constitution.

“ Amendment 5 was a fiscal Trojan Horse that would not have provided any assurance that education funding would have been ‘held harmless’ past 2010-2011,” Calabro said. He added Florida TaxWatch would work with lawmakers for “meaningful tax and spending reforms.”

Florida Chamber of Commerce Presi- dent Mark Wilson also opposed Amend- ment 5, and he urged legislators to take up the issue of property tax reform.

“We look forward to continuing the fight along with Gov. [Charlie] Crist [R] and the legislature to finish the work on property tax relief,” Wilson said.

The Associated Industries of Florida likewise opposed the amendment. “Thank- fully, we now have until 2010 to find the

‘Relief for Everyone’

Some business groups, such as the Florida Association of Realtors, favored Amend- ment 5.

“It’s kind of an across-the-board tax relief for everyone,” the group’s president, Chuck Bonfiglio, said before the court’s ruling. “We see it as one of the most far-reaching tax-reform initiatives this state has ever seen.”

The court’s ruling has angered some taxpayer advocate groups that believe the legislature has been complacent in reforming the state’s property tax system. They remain undeterred by the ruling, and some have vowed to press on with gathering signatures for a similar amend- ment for the 2010 ballot.

Grassroots organizations, including the Manatee County Coalition Against Runaway Taxation, are meeting to plan their next moves. The group says it will continue to apply pressure to Crist and legislators to reform a property tax system that unfairly burdens busi- ness owners and part-time residents.

Florida Gov. Charlie Crist and other lawmak- ers have until 2010 to find a new property tax reform solution.

Nick Baker (nhbaker2006@gmail.com) writes from Chicago.
Government Unions Expanding Power
By Redefining People as State Workers

By Scott Dilley

Politics, money, and power always make for good intrigue, and government labor unions involve all three. So notes The State of Labor 2008 report by the Evergreen Freedom Foundation, which reviews the inherent costs involved in collective bargaining, collective bargaining expansion in key states, and potential solutions for rolling back the costly expansions.

The report shows public-sector labor unions are trying to use almost any government subsidy to a private business as a pretext for forcing unionization of those business owners and their workers as public employees.

“By redefining private workers as public employees, unions can increase in size, power, and influence, at the expense of taxpayers,” said Sonya Jones, director of labor policy for EFF and a principal writer of the report.

“The purpose of this year’s report is to raise awareness of the stranglehold unions have on state governments and the detrimental effect of those relationships to taxpayers,” Jones added.

Day Care, Foster Care, More
Targets include day-care providers, in-home health care workers, foster parents, and others. These private businesses and their workers in several states are being forced to join a union and pay dues or fees for representation services they did not ask for and may not want.

That is turning private-sector workers into de facto state employees, the report notes, potentially costing taxpayers billions of dollars. These expansions allow money from public sources to be funneled as dues to union middlemen, who then turn around and ask the public for more money, the report shows. Taxpayers are then on the hook for these increases in program costs and worker pay and benefits.

“By redefining private workers as public employees, unions can increase in size, power, and influence, at the expense of taxpayers.”

SONYA JONES
DIRECTOR OF LABOR POLICY
EVERGREEN FREEDOM FOUNDATION

The hidden costs of collective bargaining often go unnoticed, the report notes. Contributing writer Phil Maymin, a scholar with the Yankee Institute for Public Policy, debunks the rationale behind three common justifications for public-sector collective bargaining. Even unionized government workers will not ultimately benefit from collective bargaining, Maymin said.

Instead, Maymin believes “the only winners in public-sector bargaining are the public-sector bargainers” and concludes “the economic impact of public-sector bargaining is far too enormous to possibly justify.”

Washington State’s Costs Climb
The costs of bargaining have contributed to increases in state payroll and benefit expenditures in Washington state, the report notes. Between 2004 and 2007, spending on state salaries (excluding K-12 education) increased from $1.9 billion to $2.2 billion, in part because of changes in state law strengthening government worker collective bargaining. State spending on employee health benefits increased $100 million during the period.

During those same years, public-sector labor unions spent more than $1.1 million on direct campaign contributions to candidates for governor and the state legislature. These figures do not include “soft money” given to political party committees or spent on independent expenditures.

Democratic candidates received 81 percent of these contributions and responded by working with some Republicans to pass at least eight bills expanding collective bargaining rights.

The state’s legislators granted collective bargaining rights to family child-care providers, adult care homes, and graduate students at public universities. They also removed public access to collective bargaining negotiations between ferry worker unions and the state, allowed long-term care workers to bargain with the state for training money, attempted to grant bargaining to certain foster parents, and effectively ended protections against union use of member money for political purposes.

“The report suggests four actions legislators can take to curb the influence and expense of public-sector unions.”

Colorado Euphemizes Bargaining
Ben DeGrow, a policy analyst at the Independence Institute in Colorado, has documented similar growth of public-sector collective bargaining in Colorado.

An executive order by Gov. Bill Ritter (D) does not use the term “collective bargaining.” Instead, it authorizes “employee partnerships” that, DeGrow concludes, “meet the classic definition of collective bargaining.”

In response, proponents of worker freedom have moved to place a right-to-work constitutional amendment on the state’s November ballot.

Open Bargaining
Jones believes the best way to prevent abuse and truly reform labor policy is to end compulsory unionism and ensure a free market in labor representation. The report suggests four actions legislators can take to curb the influence and expense of public-sector unions.

State legislators should apply open-meetings laws to collective bargaining negotiations, ensure union workers have access to their unions’ financial statements, enact stiff regulations protecting the paychecks of workers from unwanted union political spending, and prohibit public employee strikes, the report recommends.

“Taxpayers and legislators need to start questioning the financial stranglehold the collective bargaining process has on public budgets. As governments spend more money on higher wages for more workers, there is less money available for states to operate, maintain current projects, and fix or repair failing infrastructure,” concluded Jones.

Since many of these options are not currently available to taxpayers, the only public influence is through registering approval or disapproval of such policies at the ballot box, Jones notes.

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

In Other Words

“The global economic meltdown is creating a budget deficit in Pennsylvania of at least $1 billion, so let’s get busy cutting back in Harrisburg. …”

“When the budget ax falls, the first place legislators should look to cut is their own leaders’ slush funds. Republican and Democratic leaders in the House and Senate have been hoarding taxpayer dollars for years. …”

“Lawmakers should make these cuts before slashing other programs or raising taxes.”

“Cut to the bone? Please. There’s still some fat on this pig.”

House Editorial
Philadelphia Inquirer
October 12, 2008

**Election Results Will Have Massive Consequences for Workers’ Rights**

Shortly before Election Day, *Budget & Tax News* Contributing Editor Sandra Fabry sat down with Brian M. Johnson, executive director of the Alliance for Worker Freedom, to discuss organized labor and how the national election results might affect American workers.

The Alliance for Worker Freedom is a nonpartisan organization dedicated to combating anti-worker legislation and promoting free and open labor markets. Established in 2003, AWF engages in research, educational efforts, and lobbying to ensure workers’ rights are protected on Capitol Hill and in the states. The organization publishes annual *Index of Worker Freedom*.

**Sandra Fabry:** With the economy as perhaps the number one issue in the presidential race, labor issues seem to be receiving less attention than expected. What should people know about the candidates’ positions on this issue?

**Brian M. Johnson:** This election will have far-reaching consequences for the American worker, and the contrasts between the two candidates are stark. Sen. [Barack] Obama would pander and cave to union demands and pass card check [removing workers’ right to a secret ballot on whether to unionize], and unionization rates would skyrocket. Sen. [John] McCain won’t, and unions would not be given preferential or special treatment by the government.

**Fabry:** Could you say why an Obama presidency, in your opinion, would be so helpful for unions? And could you elaborate on what card check would do?

**Johnson:** I think there is hope, but I tend to be more optimistic than some. On the state level we have had some good victories this year, and there are some promising ballot initiatives that, if passed, will pave the way for some good federal legislation, I hope. We defeated binding arbitration collective bargaining in Iowa with a Democrat house and senate and governor. We were able to place enough pressure on Gov. [Chet] Culver that he did the right thing and vetoed it.

This kind of result from a seemingly hopeless state, given the political climate, leaves me optimistic. Not to mention various right-to-work and paycheck protection ballot initiatives in Colorado and Oregon. And the unions keep shrinking, so that helps.

**Fabry:** You said unions “keep shrinking.” I have heard two sides of this: Unions are powerful and underestimated, on one hand, and unions are not relevant in today’s society, on the other hand. What side are you on?

**Johnson:** Neither. Those are both vague points. Unions are powerful, yes. They plan to spend $300 million on the presidential election. That sounds powerful to me, and I don’t think anyone underestimates the kind of power $300 million brings.

On the other hand, unionization in terms of numbers is down. Total union membership in the United States is around 12 percent, down from 35 percent in the 1950s. Private-sector union membership is down to 8 percent today from a high of 24 percent in 1972.

**Fabry:** I often hear that union membership rates are up, especially from last year.

**Johnson:** Marginally they are, but it’s only in one sector and it’s not enough to matter. Public-sector government unions are around 35 percent, up about one-tenth of a percentage point from last year. But if you look at the trend since 1994, it indicates a negative slope, meaning a decline. So all around their numbers are dwindling; that too helps my optimism.

**Fabry:** Something that I have worked on a lot at the Center for Fiscal Accountability is transparency. Does this issue cross the union-battling radar?

**Johnson:** Of course, and this is instrumental in allowing worker freedom. Private-sector unions are required by the Labor-Management Reporting and Disclosure Act (LMRDA) to report financial disclosure forms to the U.S. Department of Labor. All of those forms are accessible on UnionReports.gov, at least for now.

We’ll see if they’re still up after January [when a new president and federal lawmakers would be sworn into office]. Why not have local public-sector unions report their financial disclosures to the state? That way the government union members could go online and search the forms and see where their money is going. As you know, transparency equals accountability.

**INTERNET INFO**

The Alliance for Worker Freedom’s *Index of Worker Freedom*: [http://www.workerfreedom.org](http://www.workerfreedom.org)

The Center for Fiscal Accountability: [http://www.fiscalaccountability.org](http://www.fiscalaccountability.org)
SEIU Pledges Reform as Investigation into California Local Union Continues

By Scott Dilley

The head of California’s largest labor union local has been placed on leave following a Los Angeles Times investigation revealing financial improprieties at the union.

Tyrone Freeman, considered a rising star in organized labor and a protégé of Service Employees International Union (SEIU) President Andy Stern, disputed the findings by the Los Angeles Times and a subsequent SEIU probe. The newspaper’s reports appeared in a series of more than a dozen articles beginning in August and running into mid-September.

The local, the United Long-Term Care Workers, represents 160,000 home care and nursing home workers. It has been placed under the trusteeship of the union’s parent affiliate, SEIU, which took the action shortly after the initial newspaper article appeared August 9.

Union Leaders Disciplined

Two other local leaders have been placed on paid leave, and several staffers, including Freeman’s top aide, have been fired.

“Whether we’re talking about a union of private or public workers, the principle is the same. Union financial dealings must be transparent,” said Sonya Jones, director of labor policy at the Evergreen Freedom Foundation, a nonpartisan public policy organization in Washington state.

“States should examine existing federal standards and consider extending similar disclosure requirements to cover public-sector unions. Union members and the general public deserve to know that union leaders are not mishandling funds,” Jones said.

More Corruption Found

Immediately after the initial Los Angeles Times story, SEIU asked a former California attorney general to review the local’s finances. Following that review, two SEIU trustees issued their own nine-page report detailing seven corruption charges against Freeman.

According to the report, $650,000 from the local went to a video production business owned by Freeman’s wife. Also, Freeman allegedly directed $100,000 annually from a related charity to his mother-in-law’s day-care business. The investigation found the sum of money was unwarranted based on the number of children cared for.

In addition, Freeman allegedly directed a different union local and a local housing corporation, from which he improperly drew $5,000 for himself each month.

Freeman billed the union for $8,100 in expenses during his own wedding in Hawaii, and he spent about $13,000 at a Beverly Hills cigar lounge. Freeman reimbursed the union $9,800 after the Los Angeles Times reported those expenditures.

Other charges include improper documentation of expenses, concealment of facts from the local’s executive board, and a health insurance scam.

Freeman allegedly directed the local union to pay for his wife’s medical insurance while he kept his ex-wife on his policy. Instead of paying for coverage for his ex-wife with his personal funds, he wanted the union to pay for his insurance, his wife’s, and his ex-wife’s. Freeman also did not file required disclosure forms until the Los Angeles Times revealed his failure to do so.

“Union members and the general public deserve to know that union leaders are not mishandling funds.”

SONYA JONES
DIRECTOR OF LABOR POLICY
EVERGREEN FREEDOM FOUNDATION

Calls Self Scapegoat

Freeman responded by saying the union is scapegoating him to protect its image. He defended the payments to his wife’s video firm as expense reimbursements and claims she did not profit from them.

SEIU has turned over its internal audit findings to federal authorities, including a congressional committee and the U.S. Department of Labor, which are investigating the situation for possible criminal violations.

In response to this and other scandals, SEIU is setting up an ethics commission to establish tougher rules for all its union officials. Stern is asking all local unions and state councils “to immediately adopt as their minimum standards the international union’s code of ethics, which deals with conflicts of interest, self-dealing, and gifts.”

According to The New York Times, Stern wants new standards in place by January that “articulate bright lines of right and wrong, and we want to enforce them.”

String of Scandals Hits Locals

The incident involving Freeman is the latest in a string of financial missteps by union locals.

The president of a local representing 77,000 county employees in Los Angeles stepped aside after allegations her local paid her boyfriend thousands of dollars. SEIU has threatened trusteeship on a 130,000-member local in northern California, and the president of a 55,000-member local in Michigan was forced to step aside due to allegations of financial mismanagement.

The Los Angeles Times investigation of Freeman relied in part on union financial disclosure forms required by federal law. SEIU must file those forms because it represents some workers in the private sector. The federal requirements are intended to enable union members to know about union expenditures and for the public to provide appropriate oversight.

Scott Dilley (sdilley@effwa.org) is a labor policy analyst at the Evergreen Freedom Foundation in Olympia, Washington.
Road Funding Problems Make Partnerships Attractive

By Brien Farley
September’s emergency transfer of $8 billion from the U.S. Treasury to the depleted Federal Highway Trust Fund was enough to restore its solvency for now. Many, however, saw the action as proof-positive that America’s method of funding its transportation infrastructure is obsolete.

“The current approach may have made sense 50 years ago,” said U.S. Secretary of Transportation Mary Peters in a statement to Congress concerning the transfer. “But it is ineffective and unsustainable when we are trying to reduce congestion and encouraging Americans to embrace more fuel-efficient cars.”

Highway Robbery
State and federal fuel taxes are the primary source of revenue for transportation infrastructure projects, with additional funding supplied through tolls, fees, and borrowing.

The system is no longer working, according to the Reason Foundation, a libertarian public policy research organization.

“We’re stuck in traffic today because we’re using the pay-as-you-go system,” said Reason’s director of government reform, Leonard Gilroy. “For transportation infrastructure that system is just stupid.”

Gilroy points out increasingly fuel-efficient cars and decreasing vehicle miles traveled because of high gas prices are starving the current funding system. In addition, he said, the system’s design breeds inefficiency.

“It’s basically a socialist redistribution scheme,” said Gilroy. “The bulk of gas tax revenues come from high-traffic metro areas. That money gets sent to Washington, DC. What doesn’t get earmarked gets sent to other states and funneled through a similar process. It’s precisely backwards on all fronts. You’re taking money from where you need it and sending it where you don’t. It’s a Robin Hood system that’s not going to get you the infrastructure you need where you need it.”

“An impressive number of private equity funds are dedicated to investments in infrastructure,” explained transportation expert C. Kenneth Orski, publisher of Innovation Briefs, a widely read transportation newsletter.

“In aggregate, they are estimated to have raised over $120 billion,” Orski said. “After leveraging the estimated equity capital pool through bank loans and the capital markets, the infrastructure funds could support investments in the range of $340 to $600 billion.”

“It’s not just about the money,” added Leonard Gilroy, director of transportation studies, Robert Poole, agrees.

“The centralized, politicized tax-and-grant system has failed over the years, as it’s become ever more politicized and centralized. The fuel tax was supposed to be a pure user tax but has become more and more an all-purpose public works tax, in which political priorities far outweigh economic priorities,” explained Poole.

“The current system not only produces too little money but spends it on the wrong things, in the wrong places,” Poole continued. “We desperately need a far more market-driven system, using prices to balance demand with supply but also using return on investment criteria to decide what projects to invest in. That’s a night-and-day difference from the current system.”

Performance Guarantees
For quality assurance, performance requirements, incentives, penalties, and other such aspects are typically detailed in the agreement.

“Delivery and outcome expectations are set in the contract, and firms are obliged to make it work,” Gilroy explained. “You’ll never have private-sector firms building low-quality projects, because they build it and they run it, so they’re going to build it right. It’s in their interest to minimize life-cycle costs.”

“The incentives of today’s politicized highway funding system are to short-change maintenance,” added Poole. “With toll projects it’s just the opposite. To attract people to a toll road, you have to maintain it to better standards than competing ‘free’ roads.”

Showdown in Washington
In 2009 Congress will debate another six-year reauthorization of the federal surface transportation program. Poole expects fireworks.

“There will likely be a major battle next year in Congress over PPPs,” Poole said. “The Policy and Revenue Commission actually called for expanded use of tolling and PPPs, but they also called for federal regulation and tripling the federal fuel tax, which would undercut tolling and PPPs.”

“The opposition won’t succeed,” Gilroy said. “There are too many people deriving value out of this. You’ve got politicians from both sides of the aisle begging for this, not to mention countries willing to pour hundreds of billions of dollars into our economy.”

“It’s inevitable. The value the private sector brings far outweighs any public-sector issue you might have,” Gilroy concluded.

Brien Farley (brien.farley@gmail.com) writes from Genesee, Wisconsin.

Technology Draws Increasing No. of Motorists to Toll Roads
Before the Highway Trust Fund’s establishment in 1956 to finance building of the nation’s Interstate Highway System, tolling was the predominant source of revenue for America’s roadways.

With advancements in technology such as “open-road tolling” (tolling cars without requiring them to stop) and “dynamic pricing” (higher prices during peak usage hours), the appeal of tolled infrastructure is making a comeback among motorists and investors.

“An entity that designs, builds, operates, and maintains a toll road for 50 years has stronger incentives than a state DOT—living on annual appropriations—to design and build the road for long life, which minimizes life-cycle costs,” said Poole.

“The current system is obsolete. In aggregate, they are estimated to have raised over $120 billion,” Orski said. After leveraging the estimated equity capital pool through bank loans and the capital markets, the infrastructure funds could support investments in the range of $340 to $600 billion.”

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Tax Transparency Set to Become Next Focus of Open Government Reforms

By John Barnes

A budget transparency movement is sweeping across the nation as government reform groups demand state and local officials make it easier for taxpayers to find information on government spending.

Several states have already enacted searchable budget Web sites to provide taxpayers with details on government decisions about how to spend their money.

“We at the Center for Fiscal Accountability are thrilled to have seen five governors take executive steps to create searchable Web sites for government expenditures, along with 12 state legislatures passing legislation to this effect. Six of these sites created by legislation or executive action are already live and are providing taxpayers with a valuable tool to track their tax dollars,” said Sandra Fabry, government affairs manager for Americans for Tax Reform.

“In addition, there are eight states in which state constitutional officers have taken their own steps to increase spending transparency, ranging from posting their own office’s expenditures online to creating more comprehensive, searchable Web sites for state government spending,” added Fabry.

“The Department of Revenue considers the Web to be a great way to communicate with taxpayers and the public, and it supports the concept of a searchable database of state and local taxes by location.”

MIKE GOWRYLOW
DEPARTMENT OF REVENUE
WASHINGTON STATE

Tax Rates Targeted
With its proposal for a searchable budget Web site adopted unanimously by lawmakers earlier this year, the Washington Policy Center in Seattle believes the next step is to provide the same level of transparency for state and local tax rates.

This August the center released its proposal, the “Taxation Disclosure Act,” for an online, searchable database of all tax rates in the state.

The goal of the act is to help citizens and businesses learn about how much officials in each taxing district add to a citizen’s total tax burden. A typical home in Washington state, for example, can be located in as many as 10 different taxing districts. There are currently 1,783 taxing districts in the state.

“How have you ever wondered what your total state and local tax bill is, but struggled to calculate government’s take of your income? So have we,” said Jason Mercier, government reform director at Washington Policy Center and author of the proposal. “This is why we think it is time to create an online, searchable database of all tax rates for each taxing district so citizens and business owners can answer this question.”

All Tax Rates Online
If adopted by state officials, the proposed reform would set up an online database where users could find their state and local tax rates, such as property and sales taxes, by entering their ZIP code or street address or by clicking on a map showing individual tax district boundaries. An online calculator would let citizens see their total tax burden and know which of their elected officials are responsible for which parts of it.

The proposal has already received favorable reviews from influential policymakers and opinion leaders in the state.

Bipartisan Support
State Sen. Eric Oemig (D-Kirkland) is the lead sponsor of the searchable budget Web site bill (SB 6818) and a member of the Senate Ways and Means Committee.

He said, “Requiring an itemized price list is not asking too much. Some jurisdictions already do a great job providing tax information. Putting it in one place so consumers can find it should not be optional.”

Highlighting the bipartisan support of the recommendation, ranking Senate Ways and Means member Sen. Joseph Zarelli (R-Ridgefield) said, “People are still rightfully concerned about the growth of property taxes even though the legislature reinstated the Initiative 747 [property tax] limit. Having the details of their tax bills at their fingertips can only help them decide, and tell their legislators, what sort of relief they want.”

Wide Appeal
The Washington State Department of Revenue has also responded favorably to the proposal for an online, searchable database of all tax rates in the state.

“The Department of Revenue considers the Web to be a great way to communicate with taxpayers and the public, and it supports the concept of a searchable database of state and local taxes by location. In fact, it already has been moving toward that goal as resources permit,” said department spokesperson Mike Gowrylow.

One of the state’s major daily newspapers also endorsed the proposal for a searchable tax Web site.

“The center’s Jason Mercier, who wrote the new proposal and helped inspire the spending Web site, called complete, searchable online taxing a ‘natural next step’ for the state in its efforts to be more transparent about financial issues. Like the spending idea, this plan ought to have bipartisan appeal,” wrote editors at the Seattle Post-Intelligencer in endorsing the proposal.

“Taxpayers should not have to hire a lawyer to understand what taxes they are subject to and who is collecting and spending their money.”

JASON MERCIER
GOVERNMENT REFORM DIRECTOR
WASHINGTON POLICY CENTER

“Whether one tends to think we have too few services or too many taxes, there is broad common ground on the value of accurate information for making good decisions,” the editorial noted.

The paper added, “Lawmakers and the governor should move quickly next year to take another big step forward in our high-tech state’s use of technology to improve public understanding of the public’s business.”

Mercier said, “We are hopeful that policymakers will see this as an opportunity to make taxation more transparent and help citizens learn more about what government decisions mean to their pocket books.”

Help Available
The Washington Policy Center is willing to help other states move forward with this reform.

“Whether your state has already enacted a searchable budget Web site or is still considering this common-sense reform, there is no reason not to extend this vital level of transparency to the tax side of the ledger,” said Mercier. “Taxpayers should not have to hire a lawyer to understand what taxes they are subject to and who is collecting and spending their money.”

John Barnes (jbarnes@washingtonpolicy.org) is communications director at the Washington Policy Center in Olympia, Washington.
In March 2008, 550 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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